

N.B. Investors viewing this analysis on a delayed basis may want to know that as of November 28 we project distributions in December and January of \$0.18 and \$0.30 a unit respectively rather than \$0.23 and \$0.25 detailed on page 2. KHW

Rating: Hold
S&P 500: 1162

San Juan Basin Royalty Trust **High Winter Distributions Ahead**

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 9/30/05 (US\$m)</i>	169
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	99
<i>Price (US\$/sh)</i>	30.67	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/4/04	<i>Adjusted Reserves/Production NTM</i>	12.5
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	8.5
<i>Market Capitalization (US\$m)</i>	1,430	<i>PV/Ebitda</i>	7.5
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$m)</i>	1,430	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	5.04
<i>Present Value (PV) (US\$m)</i>	1,260	<i>Present Value Proven Reserves(US\$/boe)</i>	13.57
<i>Net Present Value (US\$/unit)</i>	27	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.26
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	3.27
<i>McDep Ratio - EV/PV</i>	1.14	<i>Price/Earnings Next Twelve Months</i>	9
<i>Distribution Yield (%/year)</i>	10.7	<i>Distribution Next Twelve Months (US\$/sh)</i>	3.27

Note: Estimated cash flow and earnings tied to one-year futures prices for natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

Our change in recommendation from Buy to Hold in early August proved to be premature as we raised our estimate of present value from \$22 to \$27 since then and stock price has advanced further as well. The \$27 estimate is tied to a constant real oil price of \$35 a barrel while the average futures quote for the next six-years is about \$41. Because we think futures prices are lower than actual price may turn out to be, there may be a basis for raising present value again. Recent futures quotes also imply high distributions after the peak of winter exceeding 1% a month. Compared to operating companies, all the benefit of higher commodity price is paid to investors. There are no hedge contracts that sacrifice upside and there is no potential dilution from executive compensation.

Futures Drive Distribution Expectations Higher

Futures prices over \$8 a million British Thermal Units for December and January point to distributions over \$0.30 a unit in February and March (see table [Monthly Declarations](#)). Other variables in our calculation for each month are estimated mostly at the latest twelve months average.

Monthly estimates are aggregated in the projection for the next twelve months (see table [Distributable Income](#)). Record levels of distribution are likely should actual conditions reflect estimates.

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San Juan Basin Royalty Trust
Monthly Declarations

	<i>Jul-04</i>	<i>Aug-04</i>	<i>Sep-04</i>	<i>Oct-04</i>	<i>Nov-04</i>	<i>Dec-04</i>	<i>Jan-05</i>	<i>Feb-05</i>	<i>Mar-05</i>
Distribution (\$/unit)									
Declared	0.27	0.24	0.23	0.21					
Projected					0.17	0.23	0.25	0.31	0.35
Volume									
Natural gas (mmbtu)	3.96	3.83	3.94	4.06	3.95	4.04	3.90	4.01	4.03
Heat Content(btu/cf)	1,082	1,084	1,076	1,049	1,080	1,081	1,079	1,079	1,080
Natural gas (bcf)	3.66	3.54	3.66	3.87	3.66	3.73	3.61	3.72	3.73
Natural Gas (mmcf)	118	118	118	125	122	120	120	120	120
Days	31	30	31	31	30	31	30	31	31
Price									
Natural gas industry quotes lagged two months (\$/mmbtu)									
Henry Hub Daily/Futures	6.30	6.29	5.93	5.44	5.11	6.39	6.99	8.21	8.99
San Juan Monthly Index	5.06	4.71	5.49	5.39	4.56	5.43	5.94	6.98	7.64
San Juan Index/Henry Hub	0.80	0.75	0.93	0.99	0.89	0.85	0.85	0.85	0.85
SJT/San Juan Index	0.90	1.08	0.90	0.93	0.89	0.90	0.90	0.91	0.91
SJT (\$/mmbtu)	4.55	5.11	4.92	4.99	4.05	4.87	5.36	6.32	6.93
SJT (\$/mcf)	4.92	5.53	5.29	5.23	4.37	5.27	5.78	6.81	7.49
Revenue (\$mm)									
Natural Gas	18.0	19.6	19.4	20.2	16.0	19.7	20.9	25.4	27.9
Other	0.1	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Cost (\$mm)									
Severance tax	2.0	2.0	1.9	1.9	1.6	2.0	2.1	2.6	2.9
Operating	1.5	1.6	1.6	3.1	1.6	1.6	1.6	1.6	1.7
Total	3.5	3.5	3.4	5.0	3.2	3.6	3.8	4.2	4.5
Cash flow (\$mm)	14.6	16.2	16.1	15.4	12.8	16.1	17.2	21.2	23.5
Development	0.1	1.4	2.0	2.1	2.0	1.9	2.0	1.8	1.7
Net proceeds (\$mm)	14.5	14.8	14.1	13.3	10.9	14.2	15.2	19.4	21.8
Royalty income (\$mm)	10.9	11.1	10.6	10.0	8.1	10.6	11.4	14.5	16.3
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%
One time	(1.8)								
Distributable income (\$mm)	12.7	11.1	10.6	10.0	8.1	10.6	11.4	14.5	16.3
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Distribution (\$/unit)	0.27	0.24	0.23	0.21	0.17	0.23	0.25	0.31	0.35
<i>Latest Twelve Month Average</i>									
Heat Content(btu/cf)	1,084	1,083	1,085	1,080	1,081	1,079	1,079	1,080	1,079
Natural Gas (mmcf)	123	124	122	122	120	120	120	120	121
San Juan Index/Henry Hub	0.85	0.84	0.84	0.85	0.85	0.85	0.84	0.86	0.86
SJT/San Juan Index	0.85	0.87	0.88	0.89	0.90	0.90	0.91	0.91	0.91
Other revenue	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Operating	1.3	1.3	1.4	1.6	1.6	1.6	1.6	1.7	1.7
Development	2.0	2.0	2.0	2.0	1.9	2.0	1.8	1.7	1.6
Severance tax/revenue	10.4%	10.5%	10.4%	10.3%	10.2%	10.2%	10.2%	10.2%	10.2%

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San Juan Basin Royalty Trust
Distributable Income

	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>3/31/04</i>	<i>6/30/04</i>	<i>9/30/04</i>	<i>12/31/04</i>	<i>2004E</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>9/30/05</i>
Highlights									
Revenue (\$mm) (75%)	34.8	36.1	43.3	42.7	157.0	56.4	56.2	49.6	204.9
Cash flow (\$mm) (75%)	28.3	29.0	35.5	33.8	126.6	47.0	46.8	40.9	168.6
Per unit	0.61	0.62	0.76	0.73	2.72	1.01	1.01	0.88	3.62
Distributable Income (\$mm)	20.7	25.0	34.4	28.7	108.8	42.3	43.5	37.8	152.4
Per unit	0.44	0.54	0.74	0.62	2.33	0.91	0.93	0.81	3.27
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume									
Natural gas (mmbtu)	11.9	11.8	11.7	12.0	47.5	11.9	11.6	11.9	47.5
Heat Content(btu/cf)	1,082	1,085	1,081	1,070	1,079	1,079	1,079	1,079	1,077
Natural gas (bcf)	11.0	10.8	10.9	11.3	44.0	11.1	10.7	11.1	44.1
Natural Gas (mmcf)	119.9	120.3	118.0	122.3	120.1	120.3	120.3	120.3	120.8
Days	92	90	92	92	366	92	89	92	365
Oil (mb)	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Oil (mbd)	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Total gas & oil (bcf)	11.1	11.0	11.0	11.4	44.5	11.2	10.8	11.2	44.6
Price									
Natural gas (\$/mmbtu) (Henry Hub lagged two months)									
Henry Hub (\$/mmbtu)	5.58	5.49	6.17	5.65	5.72	8.06	8.32	7.09	7.28
Differential (%)	31	27	21	18	24	23	23	23	22
Net to SJT (\$/mmbtu)	3.86	4.04	4.85	4.64	4.35	6.21	6.41	5.46	5.67
Natural gas (\$/mcf)	4.17	4.38	5.24	4.96	4.69	6.70	6.91	5.90	6.11
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	32.47	36.06	39.71	48.00	39.06	49.44	48.26	46.91	48.15
SJT	28.06	31.72	34.93	42.22	34.91	44.20	43.14	41.93	42.85
Total gas & oil (\$/mcf)	4.18	4.39	5.25	4.99	4.70	6.71	6.92	5.91	6.12
Revenue (\$mm)									
Natural Gas	46.0	47.4	56.9	55.9	206.3	74.2	74.0	65.3	269.3
Oil	0.4	0.8	0.8	1.0	3.0	1.0	0.9	0.9	3.8
Total	46.4	48.2	57.8	56.9	209.3	75.2	74.9	66.2	273.1
Cost (\$mm)									
Severance tax	4.7	4.9	5.8	5.6	21.0	7.6	7.6	6.7	27.4
Operating	4.0	4.6	4.6	6.2	19.5	4.9	4.9	4.9	20.9
Total	8.7	9.5	10.5	11.8	40.5	12.5	12.5	11.6	48.3
Cash flow (\$mm)	37.7	38.7	47.3	45.1	168.8	62.7	62.5	54.6	224.8
Development	9.4	4.6	3.5	6.0	23.5	5.4	3.6	3.3	18.3
Net proceeds (\$mm)	28.3	34.1	43.8	39.1	145.3	57.2	58.9	51.3	206.5
Royalty income (\$mm)									
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	0.5	0.6	0.3	0.6	2.0	0.6	0.6	0.6	2.5
One-time			(1.8)		(1.8)				-
Distributable income (\$mm)	20.7	25.0	34.4	28.7	108.8	42.3	43.5	37.8	152.4
Severance tax/revenue	10.2%	10.2%	10.1%	9.8%	10.1%	10.1%	10.1%	10.1%	10.0%
Operating cost (\$/mcf)	0.36	0.42	0.42	0.54	0.44	0.44	0.45	0.44	0.47
Development/Cash flow	25%	12%	7%	13%	14%	9%	6%	6%	8%

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Present Value Relates to \$35 a Barrel Constant Real

NTM estimates determine the first year of projected cash flow that we discount to present value (see table Present Value of Oil and Gas Reserves). The calculation is set up on the basis of one barrel equivalent of reported proven reserves, 0.5 barrel developed and 0.5 barrel undeveloped. As a result, total present value, the number in the box, is also present value per barrel of proven reserves.

San Juan Basin Royalty Trust
Present Value of Oil and Gas Reserves

Volume Decline (%/yr):	12	Nymex Oil Price Post 2005 (\$/bbl)	35
Volume Enhancement (%/yr):	14	Price/Nymex Post 2005 (%):	80
Variable Cost (%):	15	Real Discount Rate (%/yr):	7.0
Capex/Cash Flow (%):	25		

Year	Basic (bbl)	Volume Enhanced (bbl)	Total (bbl)	Price (\$/bbl)	Revenue (\$)	Fixed Cost (\$)	Var. Cost (\$)	Cash Flow (\$)	Cap Ex (\$)	Free CF (\$)	Disc Factor	Present Value (\$)
Total 2005 through 2029; years ending on 9/30												
	0.501	0.498	0.999	32.55	32.52	1.49	4.88	26.15	2.51	23.64	0.57	13.40
2005	0.061	0.000	0.061	36.72	2.22	0.06	0.33	1.83	0.15	1.68	0.97	1.62
2006	0.054	0.008	0.062	28.00	1.73	0.06	0.26	1.41	0.35	1.06	0.90	0.96
2007	0.047	0.016	0.063	28.55	1.81	0.06	0.27	1.48	0.37	1.11	0.84	0.93
2008	0.042	0.023	0.065	29.11	1.88	0.06	0.28	1.54	0.39	1.16	0.79	0.91
2009	0.037	0.029	0.066	29.66	1.96	0.06	0.29	1.61	0.40	1.21	0.74	0.89
2010	0.033	0.035	0.068	30.22	2.04	0.06	0.31	1.68	0.42	1.26	0.69	0.87
2011	0.029	0.040	0.069	30.77	2.13	0.06	0.32	1.75	0.44	1.31	0.64	0.84
2012	0.026	0.045	0.071	31.33	2.21	0.06	0.33	1.82	0.00	1.82	0.60	1.10
2013	0.023	0.040	0.063	31.88	1.99	0.06	0.30	1.64	0.00	1.64	0.56	0.92
2014	0.020	0.035	0.055	32.44	1.79	0.06	0.27	1.47	0.00	1.47	0.53	0.77
2015	0.018	0.031	0.049	32.99	1.62	0.06	0.24	1.31	0.00	1.31	0.49	0.65
2016	0.016	0.028	0.043	33.54	1.45	0.06	0.22	1.18	0.00	1.18	0.46	0.54
2017	0.014	0.024	0.038	34.10	1.31	0.06	0.20	1.05	0.00	1.05	0.43	0.45
2018	0.012	0.022	0.034	34.65	1.18	0.06	0.18	0.94	0.00	0.94	0.40	0.38
2019	0.011	0.019	0.030	35.21	1.06	0.06	0.16	0.84	0.00	0.84	0.37	0.31
2020	0.010	0.017	0.027	35.76	0.95	0.06	0.14	0.75	0.00	0.75	0.35	0.26
2021	0.009	0.015	0.024	36.32	0.85	0.06	0.13	0.67	0.00	0.67	0.33	0.22
2022	0.008	0.013	0.021	36.87	0.77	0.06	0.12	0.59	0.00	0.59	0.31	0.18
2023	0.007	0.012	0.018	37.42	0.69	0.06	0.10	0.53	0.00	0.53	0.29	0.15
2024	0.006	0.010	0.016	37.98	0.62	0.06	0.09	0.47	0.00	0.47	0.27	0.12
2025	0.005	0.009	0.014	38.53	0.56	0.06	0.08	0.41	0.00	0.41	0.25	0.10
2026	0.005	0.008	0.013	39.09	0.50	0.06	0.07	0.36	0.00	0.36	0.23	0.08
2027	0.004	0.007	0.011	39.64	0.45	0.06	0.07	0.32	0.00	0.32	0.22	0.07
2028	0.004	0.006	0.010	40.20	0.40	0.06	0.06	0.28	0.00	0.28	0.20	0.06
2029	0.003	0.006	0.009	40.75	0.36	0.06	0.05	0.25	0.00	0.25	0.19	0.05

While there are many assumptions that could be discussed the most important may be discount rate, oil price and the quantity of reserves. Price escalation and discount rate interact. In this case we make the simplification of dealing in constant dollars. That assumes price escalation, cost escalation and discount rate are all net of inflation.

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On discount rate we presume that earning a 5% real return per year on an unlevered basis is a decent achievement. That compares to the 2% real return per year offered by U.S. Treasury Inflation Protected Securities. For good measure we bump that up to 7%.

While first year oil price is from the futures market we hold it constant at an arbitrary level thereafter. Because 99% of SJT's production is natural gas rather than oil, our rising expectations for real natural gas price drive oil equivalent price higher.

The assumed price listed in the upper right hand corner is the commonly quoted benchmark Light, Sweet Crude. A price of \$35 a barrel leads to present value of future cash flow from a barrel of reserves equal to \$13.40 (see box in right hand column).

Net Present Value Relates to Oil Price

We illustrate the calculation of NPV in a sensitivity table where each column is headed by a different oil price (see table Net Present Value Sensitivity). Oil price corresponds to present value per barrel which then leads step by step to the final result. The price of \$35 a barrel corresponds to our standardized present value of \$27 a share. Turn the comparison around and it is evident with a little interpolation that current stock price near \$31 corresponds to a constant real oil price of \$41 a barrel.

San Juan Basin Royalty Trust Net Present Value Sensitivity

Constant Oil Price (\$/bbl):	30	35	40	50
Present Value per Barrel (\$):	11.70	13.50	15.20	18.80
Oil and Gas Reserves (million barrels equivalent):	93	93	93	93
Present Value of Oil and Gas Reserves (\$mm):	1,090	1,250	1,410	1,750
Debt (\$mm):	-	-	-	-
Present Value of Equity (\$mm):	1,090	1,250	1,410	1,750
Shares (mm):	47	47	47	47
Net Present Value (\$/sh):	23	27	30	38

Coincidentally, six-year futures are currently \$41 a barrel. The two numbers are not strictly comparable as futures prices are supposedly in nominal dollars. Also the shape of the futures curve starts at a higher price in the early years and declines to a lower price in the later years. At the same time, the relevant futures price for SJT would be natural gas, not oil. Our discounted cash flow model presumes higher natural gas price relative to oil than does the futures market. Finally while we do not know the future, we do know that ownership of SJT represents ownership of a real resource with premium quality unencumbered by debt that is likely to continue to pay an attractive income stream.

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