

Natural Gas Royalty Trusts

A Weekly Analysis

January 16, 2003

Cold Cash

Summary and Recommendation

On about January 20 the trustees ought to announce monthly distributions that are on the rise with natural gas price. A reasonable number for **San Juan Basin Royalty Trust (SJT)** ought to be about \$0.11 per unit (see Table SJT-3). The amount for **Cross Timbers Royalty Trust (CRT)** may be about \$0.16 considering that about a third of last month's higher amount was nonrecurring. **Hugoton Royalty Trust (HGT)** ought to report about \$0.11 in line with the recent trend in distributions and natural gas price (see Chart). Now at the peak of winter the stocks have done well and traders may be looking to take seasonal profits. Yet the investment case for the next several years remains strong and we continue our recommendation of current purchase of SJT.

President Bush's tax proposal would not have much effect on the three natural gas royalty trusts. Because the trusts already escape double taxation there would be no direct impact of any likely reduction of double taxation of dividends. There may be a potential positive impact. Corporations might be more interested in acquiring the royalty trusts and continuing to distribute the income without the current double tax. We do not believe any relative negative impact would be great because we believe the three natural gas royalty trusts offer attractive value without putting any weight on the elimination of double taxation of dividends.

Kurt H. Wulff, CFA

Natural Gas and Oil Futures

January 15, 2003

	2004	2005	2006	2007	2008	2009	Six Year
Natural Gas (\$/mmbtu)							
Year ending January	5.01	4.39	3.99	3.85	3.89	3.94	4.18
Light Sweet Crude Oil (\$/bbl)							
Year ending January	28.65	24.30	23.73	23.41	23.36	23.37	24.47
Natural Gas/Oil (6:1 = 1.0)							
Year ending January	1.05	1.08	1.01	0.99	1.00	1.01	1.02

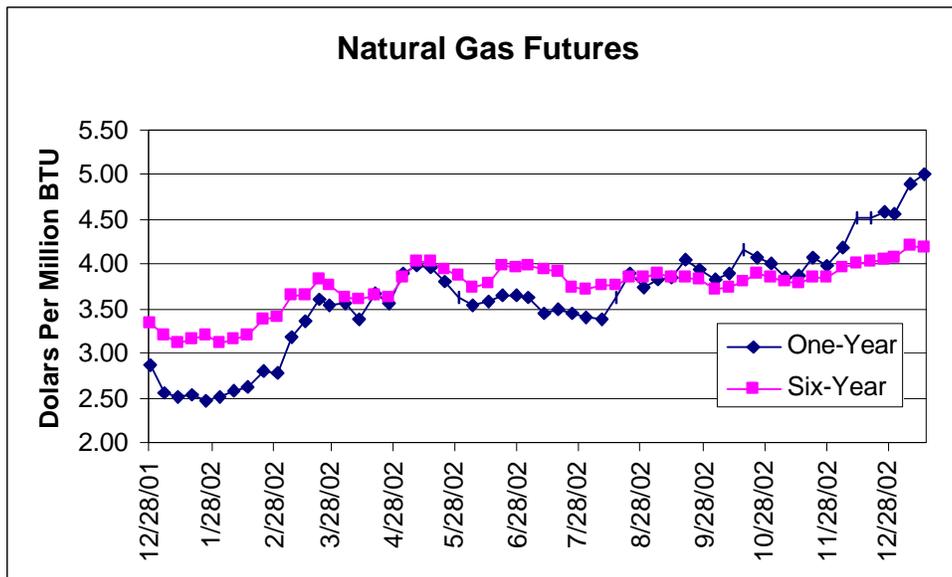
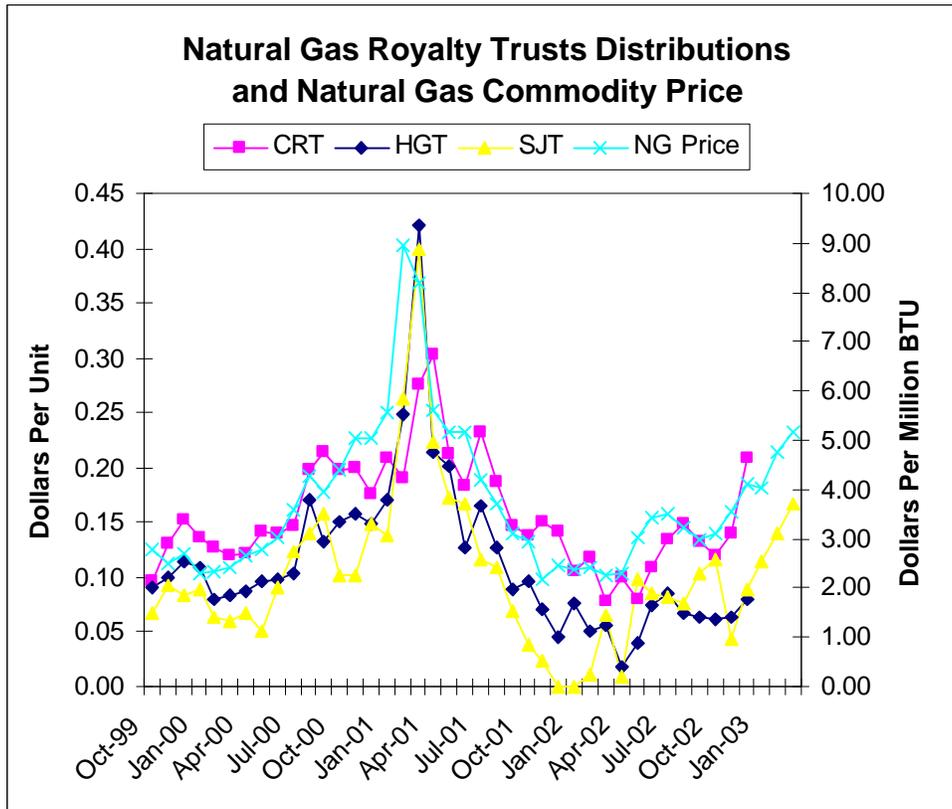
Source: Nymex, FutureSource, wsj.com, McDep Associates

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Table MEII-1
McDep Energy Income Ideas
Dividends, Debt and McDep Ratio

	Symbol/ Rating		Price (\$/sh) 15-Jan 2003	Shares (mm)	Market Cap (\$mm)	Div or Distrib. NTM (%)	Debt/ Present Value	McDep Ratio
High Greed Partnerships								
El Paso Energy Partners	EPN	S	30.75	57.0	1,750	8.8	0.64	2.61
Kinder Morgan Energy Partners, L.P.	KMP	S	35.45	135	4,800	6.9	0.47	1.80
Kinder Morgan Management, LLC	KMR	S	32.10	39.5	1,270	7.6	0.47	1.68
Enbridge Energy Partners, L.P.	EEP	S	42.20	35.0	1,480	8.5	0.64	1.67
Plains All Amer. Pipeline	PAA		25.09	50.0	1,250	8.6	0.49	1.59
Enbridge Energy Management, L.L.C	EEQ	S	37.30	9.0	340	9.7	0.64	1.56
Northern Border Partners	NBP		37.95	44.0	1,670	8.4	0.62	1.32
TEPPCO Partners, L.P.	TPP		29.68	50.0	1,480	8.1	0.56	1.29
Penn Virginia Res. Part, L.P.	PVR		22.50	15.3	340	8.9	-	1.25
AmeriGas Partners, L.P.	APU		23.97	49.4	1,180	9.2	0.51	1.15
Alliance Res. Part, L.P.	ARLP		24.55	15.9	390	8.1	0.45	1.13
<i>Total or Median</i>					16,000	8.5	0.51	1.56
U.S. Master Limiter Partnerships								
Enterprise Products Part (16%)	EPD		18.71	29	530	7.4	0.63	1.65
Dorchester Hugoton, Ltd.	DHULZ		14.56	10.7	156	10.6	(0.17)	1.29
Canadian Royalty Trusts								
Provident Energy Trust	PVX		7.27	63.5	460	19.8	0.24	1.35
Enerplus Resources Fund	ERF		18.71	75.0	1,400	12.5	0.16	1.03
Pengrowth Energy Trust	PGH		9.62	110.0	1,060	15.7	0.19	1.01
Canadian Oil Sands Trust (US\$)	COS_u.TO	B	23.62	57.3	1,350	5.4	0.13	0.64
<i>Total or Median</i>					4,300	14.1	0.17	1.02
U.S. Natural Gas Royalty Trusts								
Cross Timbers Royalty Trust	CRT		20.53	6.0	123	11.1	-	0.99
San Juan Basin Royalty Trust	SJT	B	13.69	46.6	640	12.7	-	0.81
Hugoton RoyaltyTrust (46%)	HGT		12.91	18.4	240	12.3	-	0.78
<i>Total or Median</i>					1,000	12.3	-	0.81
Additional McDep Recommendations								
Royal Dutch/Shell	RD	B	44.20	3,481	153,800	3.8	0.15	0.78
PetroChina Company Ltd (10%)	PTR	B	20.55	176	3,600	6.2	0.17	0.74
ChevronTexaco Corporation	CVX	B	68.15	1,062	72,400	4.1	0.17	0.73
Marathon Oil Corporation	MRO	B	21.71	310	6,700	4.2	0.37	0.71
<i>Total or Median</i>					237,000	4.2	0.17	0.73

Buy/Sell rating after symbol: B - Buy, N - Neutral, S - Sell

NTM = Next Twelve Months Ended December 31, 2003

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Natural Gas Royalty Trusts

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Table MEII-2
McDep Energy Income Ideas
Distribution Validity, Fees and Cash flow Multiples

	<i>Symbol/</i>		<i>Price</i>	<i>Dist/</i>	<i>Mgt</i>	<i>Fin</i>	<i>EV/</i>	<i>PV/</i>
	<i>Rating</i>		<i>(\$/sh)</i>	<i>Equity</i>	<i>Fee</i>	<i>Fee</i>	<i>Ebitda</i>	<i>Ebitda</i>
			<i>15-Jan</i>	<i>Ebitda</i>	<i>(%)</i>	<i>(%)</i>	<i>NTM</i>	<i>NTM</i>
High Greed Partnerships								
El Paso Energy Partners	EPN	S	30.75	4.3	71	6	23.4	9.0
Kinder Morgan Energy Partners, L.P.	KMP	S	35.45	1.5	44	6	15.2	8.4
Enbridge Energy Partners, L.P.	EEP	S	42.20	2.2	21	6	15.0	9.0
Plains All Amer. Pipeline	PAA		25.09	1.7	9	6	14.3	9.0
Kinder Morgan Management, LLC	KMR	S	32.10	1.5	44	6	14.2	8.4
Enbridge Energy Management, L.L.C	EEQ	S	37.30	2.2	21	6	14.0	9.0
Northern Border Partners	NBP		37.95	1.4	8	6	11.9	9.0
TEPPCO Partners, L.P.	TPP		29.68	1.2	25	6	11.7	9.0
Penn Virginia Res. Part, L.P.	PVR		22.50	1.0	2	8	10.7	8.6
AmeriGas Partners, L.P.	APU		23.97	1.1	1	6	10.3	9.0
Alliance Res. Part, L.P.	ARLP		24.55	0.7	2	8	7.9	7.0
	<i>Median</i>						<i>14.0</i>	<i>9.0</i>
U.S. Master Limiter Partnerships								
Enterprise Products Part (16%)	EPD		18.71	1.8	10	6	14.8	9.0
Dorchester Hugoton, Ltd.	DHULZ		14.56	0.8	3		8.3	6.4
Canadian Royalty Trusts								
Canadian Oil Sands Trust (US\$)	COS_u.TO	B	23.62	0.4			7.2	11.2
Enerplus Resources Fund	ERF		18.71	0.8	10	6	6.7	6.5
Provident Energy Trust	PVX		7.27	1.3	20	8	6.0	4.5
Pengrowth Energy Trust	PGH		9.62	0.9	9	6	5.9	5.9
	<i>Median</i>						<i>6.4</i>	<i>6.2</i>
U.S. Natural Gas Royalty Trusts								
Cross Timbers Royalty Trust	CRT		20.53	0.9			8.5	8.6
San Juan Basin Royalty Trust	SJT	B	13.69	0.8			5.9	7.3
Hugoton RoyaltyTrust (46%)	HGT		12.91	0.7			5.9	7.5
Additional McDep Recommendations								
Royal Dutch/Shell	RD	B	44.20	0.2			6.6	8.6
ChevronTexaco Corporation	CVX	B	68.15	0.2			6.0	8.2
Marathon Oil Corporation	MRO	B	21.71	0.2			4.7	6.6
PetroChina Company Ltd (10%)	PTR	B	20.55	0.2			3.7	5.1
	<i>Median</i>						<i>5.3</i>	<i>7.4</i>

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Table SJT-1
San Juan Basin Royalty Trust
Present Value

Volume Decline (%/yr):	10	Price Escalation Post 2008 (%/yr):	2.6
Volume Enhancement (%/yr):	10	Discount rate (%/yr):	6.1
Capex/Cash Flow (%):	25	U.S. TIPS Inflation (%/yr):	1.8
Variable Cost (%):	12	U.S. 10 Year Yield (%/yr):	4.1
PV/Volume (\$/mcf):	1.40	PV/EBITDA 2003:	7.4

Year	Basic (bcf)	Volume Enhanced (bcf)	Total (bcf)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var Cost (\$mm)	Cap Ex (\$mm)	Distribution (\$mm)	(\$/unit)	Tax Credit (\$/unit)	Disc Factor	Present Value (\$/unit)
Total 2003 through 2032; years ending on 12/31													
	318	244	562	3.92	2201	388	264	206	1343	28.83	0.00	0.59	16.90
2003	34.5	0.0	34.5	3.85	132.8	10.6	15.9	25.1	81.2	1.74	0.00	0.97	1.69
2004	30.9	3.5	34.4	3.85	132.4	13.0	15.9	25.9	77.7	1.67		0.92	1.53
2005	27.7	6.5	34.2	3.47	118.8	13.0	14.3	22.9	68.6	1.47		0.86	1.27
2006	24.8	9.3	34.0	3.28	111.6	13.0	13.4	21.3	63.9	1.37		0.81	1.12
2007	22.2	11.7	33.9	3.29	111.7	13.0	13.4	21.3	63.9	1.37		0.77	1.05
2008	19.9	13.9	33.7	3.34	112.6	13.0	13.5	21.5	64.6	1.39		0.72	1.00
2009	17.8	15.8	33.6	3.43	115.0	13.0	13.8	22.1	66.2	1.42		0.68	0.97
2010	15.9	17.5	33.4	3.51	117.5	13.0	14.1	22.6	67.8	1.46		0.64	0.94
2011	14.3	19.0	33.3	3.61	120.0	13.0	14.4	23.2	69.5	1.49		0.61	0.90
2012	12.8	17.0	29.8	3.70	110.3	13.0	13.2		84.0	1.80		0.57	1.03
2013	11.4	15.2	26.7	3.80	101.3	13.0	12.2		76.2	1.63		0.54	0.88
2014	10.2	13.7	23.9	3.89	93.1	13.0	11.2		68.9	1.48		0.51	0.75
2015	9.2	12.2	21.4	4.00	85.5	13.0	10.3		62.3	1.34		0.48	0.64
2016	8.2	11.0	19.2	4.10	78.6	13.0	9.4		56.2	1.20		0.45	0.54
2017	7.4	9.8	17.2	4.21	72.2	13.0	8.7		50.5	1.08		0.43	0.46
2018	6.6	8.8	15.4	4.32	66.3	13.0	8.0		45.4	0.97		0.40	0.39
2019	5.9	7.9	13.8	4.43	60.9	13.0	7.3		40.6	0.87		0.38	0.33
2020	5.3	7.0	12.3	4.54	56.0	13.0	6.7		36.3	0.78		0.36	0.28
2021	4.7	6.3	11.0	4.66	51.5	13.0	6.2		32.3	0.69		0.34	0.23
2022	4.2	5.6	9.9	4.78	47.3	13.0	5.7		28.6	0.61		0.32	0.19
2023	3.8	5.1	8.9	4.91	43.4	13.0	5.2		25.2	0.54		0.30	0.16
2024	3.4	4.5	7.9	5.03	39.9	13.0	4.8		22.1	0.47		0.28	0.13
2025	3.0	4.1	7.1	5.16	36.7	13.0	4.4		19.3	0.41		0.27	0.11
2026	2.7	3.6	6.4	5.30	33.7	13.0	4.0		16.6	0.36		0.25	0.09
2027	2.4	3.3	5.7	5.44	31.0	13.0	3.7		14.2	0.31		0.24	0.07
2028	2.2	2.9	5.1	5.58	28.4	13.0	3.4		12.0	0.26		0.22	0.06
2029	2.0	2.6	4.6	5.72	26.1	13.0	3.1		10.0	0.21		0.21	0.04
2030	1.8	2.3	4.1	5.87	24.0	13.0	2.9		8.1	0.17		0.20	0.03
2031	1.6	2.1	3.7	6.02	22.1	13.0	2.6		6.4	0.14		0.19	0.03
2032	1.4	1.9	3.3	6.18	20.3	13.0	2.4		4.8	0.10		0.18	0.02

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Table SJT-2
San Juan Basin Royalty Trust
Distributable Income

	Q1	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	3/31/02	6/30/02	9/30/02	12/31/02	2002E	3/31/03	6/30/03	9/30/03	12/31/03	12/31/03
Highlights										
Revenue (\$mm) (75%)	19.2	18.6	20.7	20.4	78.9	29.9	35.5	33.9	33.5	132.8
Cash flow (\$mm) (75%)	14.1	14.1	16.0	15.5	59.7	24.1	29.2	27.6	27.3	108.2
Per unit	0.30	0.30	0.34	0.33	1.28	0.52	0.63	0.59	0.59	2.32
Tax credit (\$mm)	0.5	1.4	1.9	1.9	5.6					
Per unit	0.01	0.03	0.04	0.04	0.12					
Distributable Income (\$mm)	3.5	9.0	12.2	11.6	36.3	19.6	21.4	20.2	20.0	81.2
Per unit	0.08	0.19	0.26	0.25	0.78	0.42	0.46	0.43	0.43	1.74
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume										
Natural gas (mmbtu)	12.5	12.0	11.6	12.4	48.5	12.2	11.8	12.2	12.2	48.4
Heat Content(btu/cf)	1,092	1,077	970	1,064	1,050	1,064	1,064	1,064	1,064	1,064
Natural gas (bcf)	11.5	11.1	12.0	11.6	46.2	11.5	11.1	11.5	11.5	45.5
Natural Gas (mmcf)	124.7	125.1	130.4	126.2	126.6	124.6	124.6	124.6	124.6	124.6
Days	92	89	92	92	365	92	89	92	92	365
Oil (mb)	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Oil (mbd)	0.3	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Total gas & oil (bcf)	11.6	11.3	12.1	11.7	46.8	11.6	11.2	11.6	11.6	46.0
Price										
Natural gas (\$/mmbtu) (Henry Hub lagged two months)										
Henry Hub (\$/mmbtu)	2.34	2.92	3.23	3.59	3.02	4.65	5.28	4.88	4.83	4.91
Differential (%)	14	31	28	40	30	31	25	25	25	26
Total	2.01	2.02	2.33	2.16	2.13	3.22	3.96	3.66	3.62	3.61
Natural gas (\$/mcf)	2.20	2.18	2.26	2.30	2.24	3.43	4.22	3.89	3.86	3.85
Oil (\$/bbl) (WTI Cushing lagged two months)										
WTI Cushing	19.56	23.80	26.49	28.96	24.70	29.29	32.39	29.37	27.02	29.52
SJT	15.78	19.14	21.95	24.00	20.10	24.27	26.84	24.33	22.38	24.44
Total gas & oil (\$/mcf)	2.20	2.19	2.28	2.32	2.25	3.44	4.22	3.89	3.85	3.85
Revenue (\$mm)										
Natural Gas	25.2	24.2	27.1	26.7	103.3	39.3	46.8	44.6	44.2	174.9
Oil	0.4	0.5	0.5	0.5	1.9	0.5	0.6	0.5	0.5	2.2
Total	25.6	24.8	27.6	27.2	105.2	39.9	47.3	45.2	44.7	177.1
Cost (\$mm)										
Severance tax	2.6	2.4	2.3	3.1	10.5	4.0	4.5	4.3	4.3	17.1
Operating	4.1	3.7	4.0	3.4	15.2	3.8	3.9	4.0	4.0	15.7
Total	6.7	6.0	6.3	6.5	25.6	7.8	8.4	8.3	8.3	32.8
Cash flow (\$mm)										
Development	11.3	3.4	2.1	4.7	21.5	5.4	9.7	9.2	9.1	33.4
Net proceeds (\$mm)	7.5	15.4	19.2	16.1	58.2	26.7	29.2	27.6	27.3	110.8
Royalty income (\$mm)										
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	0.4	0.5	0.6	0.5	2.0	0.4	0.5	0.5	0.5	1.9
One-time	1.7	2.0	1.6		5.3					-
Distributable income (\$mm)	3.5	9.0	12.2	11.6	36.3	19.6	21.4	20.2	20.0	81.2
<i>Modeling ratios</i>										
Severance tax/revenue	10.2%	9.5%	8.5%	11.5%	9.9%	10.0%	9.6%	9.6%	9.6%	9.7%
Operating cost (\$/mcf)	0.36	0.32	0.33	0.29	0.32	0.33	0.35	0.35	0.35	0.34

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Table SJT-3
San Juan Basin Royalty Trust
Monthly Declarations

	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03
Distribution (\$/unit)								
Declared	0.08	0.10	0.12	0.04	0.09			
Projected						0.11	0.14	0.17
Volume								
Natural gas (mmbtu)	3.77	3.95	4.49	3.77	4.08	3.92	4.05	4.05
Heat Content(btu/cf)	807	1,068	1,084	1,064	1,043	1,050	1,050	1,050
Natural gas (bcf)	4.67	3.70	4.15	3.55	3.91	3.74	3.86	3.86
Natural Gas (mmcf)	156	119	134	118	126	125	125	125
Days	30	31	31	30	31	30	31	31
Price								
Natural gas industry quotes lagged two months (\$/mmbtu)								
Henry Hub Daily/Futures	3.22	2.99	3.09	3.55	4.12	4.03	4.76	5.15
San Juan Monthly Index	2.24	2.62	2.50	2.42	2.52	3.25	3.45	4.14
SJT/Henry Hub	0.75	0.78	0.74	0.55	0.54	0.71	0.68	0.71
SJT/San Juan Index	1.08	0.89	0.91	0.81	0.89	0.89	0.94	0.89
SJT (\$/mmbtu)	2.41	2.32	2.28	1.95	2.24	2.88	3.23	3.68
SJT (\$/mcf)	1.95	2.47	2.47	2.07	2.33	3.02	3.39	3.86
Revenue (\$mm)								
Natural Gas	9.1	9.1	10.2	7.3	9.1	11.3	13.1	14.9
Other	(0.2)	0.0	(0.1)	(0.0)	0.0	0.0	0.0	0.0
Cost (\$mm)								
Severance tax	0.8	0.9	0.9	0.7	1.5	1.1	1.3	1.5
Operating	1.6	1.3	1.1	1.8	0.5	1.3	1.3	1.3
Total	2.4	2.2	2.0	2.5	2.0	2.4	2.6	2.8
Cash flow (\$mm)	6.5	6.9	8.2	4.8	7.1	8.9	10.5	12.1
Development	1.0	0.5	1.0	2.1	1.6	1.8	1.8	1.8
Net proceeds (\$mm)	5.5	6.5	7.2	2.7	5.5	7.1	8.7	10.3
Royalty income (\$mm)	4.1	4.9	5.4	2.0	4.2	5.3	6.5	7.8
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%
One time	0.6							
Distributable income (\$mm)	3.5	4.9	5.4	2.0	4.2	5.3	6.5	7.8
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Distribution (\$/unit)	0.08	0.10	0.12	0.04	0.09	0.11	0.14	0.17
<i>Latest Twelve Month Average</i>								
Heat Content(btu/cf)	1,059	1,059	1,057	1,054	1,050			
Natural Gas (mmcf)	124	123	125	125	127			
SJT/Henry Hub	0.73	0.73	0.74	0.71	0.72			
SJT/San Juan Index	0.87	0.87	0.87	0.86	0.88			
Other revenue	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)			
Operating	1.3	1.3	1.3	1.3	1.3			
Development	2.5	2.4	2.2	2.0	1.8			
Severance tax/revenue	10.0%	9.8%	9.7%	9.6%	10.1%			

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