



Independent Stock Idea

November 6, 2015

Dorchester Minerals, L.P. (DMLP) 25% Volume Beat

<i>Symbol</i>	DMLP	<i>Ebitda Next Twelve Months ending 9/30/16 (US\$m)</i>	45
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	28
<i>Price (US\$/sh)</i>	15.25	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/5/15	<i>Adjusted Reserves/Production NTM</i>	7.1
<i>Units (mm)</i>	30.68	<i>EV/Ebitda</i>	10.5
<i>Market Capitalization (US\$m)</i>	468	<i>PV/Ebitda</i>	19.2
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$m)</i>	468	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	3.51
<i>Present Value (PV) (US\$m)</i>	859	<i>Present Value Proven Reserves(US\$/boe)</i>	57.13
<i>Net Present Value (US\$/unit)</i>	28	<i>Oil and Gas Ebitda Margin (%)</i>	76%
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	0.71
<i>McDep Ratio - EV/PV</i>	0.54	<i>Price/Earnings Next Twelve Months</i>	21
<i>Distribution Yield (%/year)</i>	6.7	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.02
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.50 a million bbl.			
For historical analysis of DMLP since 2000 see www.mcdep.com/4dhulz.htm			

Summary and Recommendation

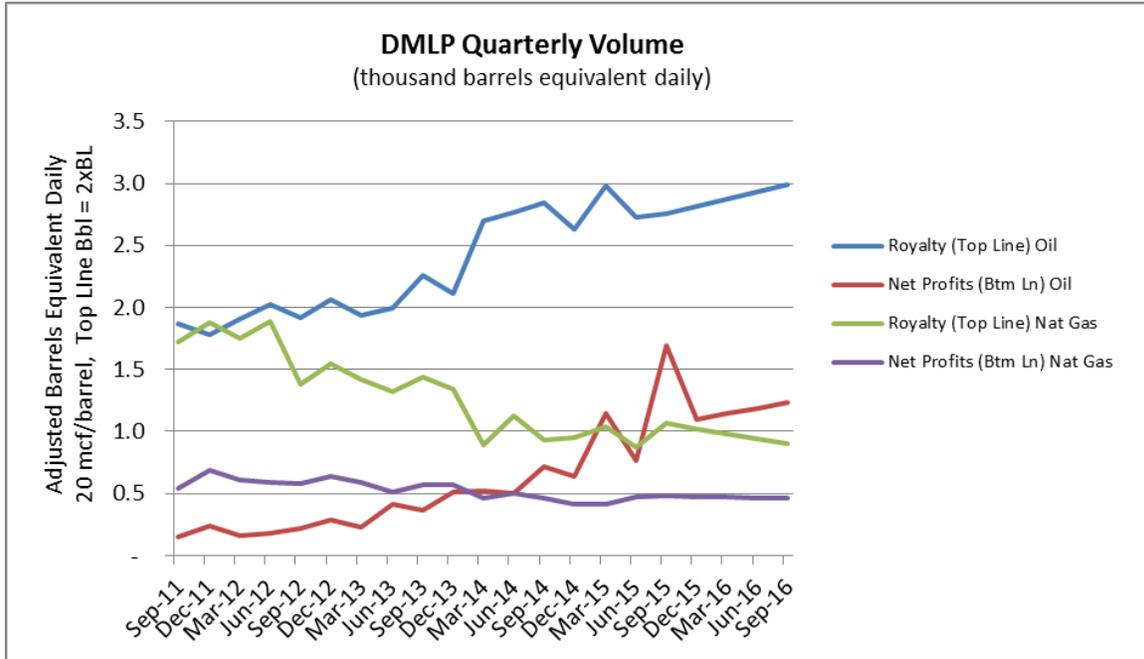
We recommend current purchase of the common units of **Dorchester Minerals (DMLP)** for 84% unlevered upside catalyzed by a quarterly regulatory filing on November 5 disclosing oil and gas volume 25% higher than our expectations of two months ago (see *Stock Idea*, DMLP, 9/10/15). Growth in Bottom Line (Net Profits) oil has accelerated with new evidence of success in the partners' change in strategy (see chart Quarterly Volume on page 2). As shale oil technology has advanced, the general partner has increasingly elected to pay its share of drilling and thereby earn bottom line as well as top line profits on its leases. Reflecting new success we increase Bottom Line to 28% of Net Present Value (NPV) from 21% previously (see table Present Value on page 2). Natural gas volume also beat expectations for the quarter. Results point to a slowing in the rate of decline and help offset low natural gas price (see table Operating and Financial Estimates on page 3). Another surprise in the latest disclosure is that the Minerals NPI has reached surplus status. We take that as reinforcement of our projection that more of Ebitda (cash flow) will be distributed to unitholders, which raises cash yield to 6.7% for the next twelve months. Finally, we think the decline in stock price is overdone and sharp gains are likely in the next few years. Patient investors can take comfort that the partnership is financially strong with no debt. Its properties are high quality and flowing abundant cash at unsustainably low oil and gas price. Waiting costs nothing.

Kurt H. Wulff, CFA



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Dorchester Minerals, L.P.						
Functional Cash Flow and Present Value						
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>		
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>		
				<i>(US\$mm)</i>		
<u>Top Line - Royalty Interests</u>						
North American Natural Gas	6	7.7	36.4	220		26%
Oil	18	8.5	21.7	400		47%
<u>Bottom Line - Net Profits Interests</u>						
North American Natural Gas	6	8.4	18.9	120		14%
Oil	14	2.9	8.7	120		14%
<u>Total Top and Bottom</u>						
North American Natural Gas	13	8.0	26.2	340		40%
Oil	32	6.0	16.3	520		60%
	45	7.1	19.1	860		100%
Debt (US\$mm)						-
Net Present Value (US\$mm)						860
Shares (mm)						31
Net Present Value - Standard Estimate (US\$/sh)						28
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)						33
Top Line Approximation at 2 times Cash Flow Multiple Depending on Reserve Life						



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Dorchester Minerals, L.P.										
Operating and Financial Performance										
	Q4	Q1	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	12/31/14	3/31/15	6/30/15	9/30/15	12/31/15	2015	3/31/16	6/30/16	9/30/16	9/30/16
Volume										
Nat Gas (mmcf) - Top Line	9.5	10.4	8.7	10.7	10.2	10.0	9.8	9.4	9.0	9.6
Nat Gas (mmcf) - Btm Line	8.4	8.3	9.4	9.6	9.5	9.2	9.4	9.3	9.2	9.4
Oil (mbd) - Top Line	1.32	1.49	1.36	1.38	1.41	1.41	1.44	1.46	1.49	1.45
Oil (mbd) - Bottom Line	0.64	1.14	0.77	1.70	1.10	1.18	1.14	1.19	1.24	1.17
Days	92	90	91	92	92	365	91	91	92	366
Total (bcfe)	2.7	3.1	2.8	3.6	3.2	12.7	3.2	3.2	3.2	12.7
Total (mmcf)	30	34	31	39	35	35	35	35	35	35
Price										
Henry Hub (\$/mmbtu)	4.02	2.99	2.66	2.76	2.31	2.68	2.50	2.49	2.58	2.47
Top Line (\$/mcf)	3.50	2.66	2.31	2.40	2.01	2.35	2.17	2.16	2.24	2.15
Bottom Line (\$/mcf)	6.24	2.63	2.56	2.90	2.43	2.63	2.63	2.61	2.71	2.59
WTI Cushing (\$/bbl)	73.18	48.62	57.94	46.39	46.51	49.86	48.23	49.97	50.91	48.91
Top Line (\$/bbl)	62.84	43.26	50.07	37.22	39.07	42.36	43.40	44.97	45.82	43.32
Bottom Line (\$/bbl)	63.93	41.74	53.65	58.43	46.51	50.85	43.40	44.97	45.82	45.18
Total (\$/mcfe)	7.06	4.69	4.98	5.27	4.31	4.82	4.55	4.73	4.92	4.63
Revenue (\$mm)										
Natural Gas - Top Line	3.1	2.5	1.8	2.4	1.9	8.6	1.9	1.9	1.9	7.6
Oil - Top Line	7.6	5.8	6.2	4.7	5.1	21.8	5.7	6.0	6.3	23.0
Total - Top Line	10.7	8.3	8.0	7.1	7.0	30.3	7.6	7.8	8.2	30.6
Natural Gas - Bottom Line	4.8	2.0	2.2	2.6	2.1	8.8	2.2	2.2	2.3	8.9
Oil - Bottom Line	3.8	4.3	3.8	9.1	4.7	21.9	4.5	4.9	5.2	19.3
Total - Bottom Line	8.6	6.3	5.9	11.7	6.8	30.7	6.8	7.1	7.5	28.2
Total	19.2	14.5	14.0	18.8	13.8	61.1	14.4	14.9	15.7	58.8
Minerals NPI	5.0	4.3	4.8	11.1	6.1	26.3	6.1	6.4	6.8	25.4
Total Rev - Min NPI	14.2	10.2	9.2	7.7	7.6	34.7	8.3	8.6	8.9	33.4
Expense										
Operating, incl. Prod Tax	1.1	1.0	1.0	0.6	0.8	3.4	0.9	0.9	0.9	3.5
General and Administrative	2.1	1.3	1.1	1.1	1.1	4.6	1.1	1.1	1.1	4.3
General Partner	0.3	0.2	0.1	0.1	0.1	0.5	0.1	0.1	0.1	0.3
Minerals NPI	1.3	1.4	1.7	2.2	1.2	6.5	1.5	1.6	1.7	6.0
Total	4.9	3.9	4.0	4.0	3.2	15.0	3.5	3.6	3.8	14.1
Ebitda										
Top Line	8.7	6.9	6.7	6.4	5.6	25.6	6.1	6.3	6.5	24.5
Bottom Line (ex. Min NPI)	2.0	0.9	0.2	(0.5)	0.1	0.7	0.2	0.2	0.3	0.8
Minerals NPI	3.7	2.9	3.1	8.9	4.9	19.8	4.6	4.8	5.1	19.4
Total Ebitda	14.4	10.7	10.0	14.8	10.6	46.1	10.9	11.3	11.9	44.6
Deprec., Deplet., & Amort.	2.2	2.5	2.3	3.0	2.7	10.6	2.6	2.6	2.7	10.7
Lease Bonus and Other	(4.3)	(0.2)	(0.9)	5.2		4.1	-	-	-	-
Minerals NPI Capital Spend	8.2	4.4	4.9	4.1	4.9	18.3	2.3	2.4	2.5	12.1
Ebit	8.3	4.0	3.7	2.5	2.9	13.1	5.9	6.3	6.7	21.8
Ebt	8.3	4.0	3.7	2.5	2.9	13.1	5.9	6.3	6.7	21.8
Net Income (\$mm)	8.3	4.0	3.7	2.5	2.9	13.1	5.9	6.3	6.7	21.8
Units (millions)	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7
Net Income Per Unit (\$)	0.27	0.13	0.12	0.08	0.10	0.43	0.19	0.20	0.22	0.71
Distribution - Cash Accounting (\$mm)										
Top Line Revenue	11.4	9.1	6.8	7.1	7.0	30.0	7.6	7.8	8.2	30.6
Bottom Line Net Revenue	5.3	2.5	0.4	0.4	0.4	3.7	0.3	0.3	0.4	1.4
Lease Bonus	0.6	0.1	0.0	-	-	0.1	-	-	-	-
Cash Expense	(2.4)	(2.3)	(2.1)	(1.5)	(2.0)	(7.9)	(2.0)	(2.0)	(2.0)	(8.0)
Minerals NPI					0.2	0.2	2.3	2.4	2.5	7.4
Distribution	14.9	9.4	5.1	6.0	5.6	26.0	8.2	8.6	9.1	31.4
Distribution Per Unit (\$)	0.49	0.31	0.17	0.19	0.18	0.85	0.27	0.28	0.30	1.02



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