



Independent Stock Idea

October 4, 2013

Enduro Royalty Trust (NDRO) Worth Another Look after Stock Price Decline

<i>Symbol</i>	NDRO	<i>Ebitda Next Twelve Months ending 9/30/14 (US\$mm)</i>	55
<i>Rating</i>	RTF Stock	<i>North American Natural Gas/Ebitda (%)</i>	24
<i>Price (\$/un)</i>	12.44	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/3/13	<i>Adjusted Reserves/Production NTM</i>	6.2
<i>Shares (mm)</i>	33	<i>EV/Ebitda</i>	7.5
<i>Market Capitalization (\$mm)</i>	410	<i>PV/Ebitda</i>	10.2
<i>Debt (\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	10
<i>Enterprise Value (EV) (\$mm)</i>	410	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	33.60
<i>Present Value (PV) (\$mm)</i>	560	<i>Present Value Proven Reserves(\$/boe)</i>	32.80
<i>Net Present Value (\$/unit)</i>	17	<i>Oil and Gas Ebitda Margin (%)</i>	61
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.54
<i>McDep Ratio - EV/PV</i>	0.73	<i>Price/Earnings Next Twelve Months</i>	8
<i>Distribution Yield (%/year)</i>	12.3	<i>NTM Distribution (US\$/un)</i>	1.54
Note: Estimated cash flow and earnings tied to one-year futures prices for natural gas and oil.			
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\$90 a barrel and natural gas, \$6 a million btu.			
Twenty-six percent of units held by Enduro Resource Partners LLC, the sponsor of the trust.			
For historical analysis of NDRO since 2010 see www.mcdep.com/5ndro.htm			

Summary and Recommendation

Units of Enduro Royalty Trust (NDRO) at a McDep Ratio of 0.73 appear more attractive for new purchase than at any time in the trust's brief two-year history. The stock is down some 40% from its initial public offering and 20% in the past week with the announcement and subsequent closing of a secondary offering. The fundamental outlook for the trust's Permian Basin oil properties is improving with rising industry production. The longer term outlook for the trust's prolific Haynesville Shale natural gas properties is positive as demand builds for the "clean cheap energy" offered by North American producers. Yet, monthly distributions dipped in February and March as high costs for horizontal fracks were deducted from cash flow (see table [Monthly Declarations](#) on page 2). Production from those new wells in the Lost Tank oil field in the Permian Basin remains shut in until a new line can take the byproduct natural gas. Lost Tank may boost quarterly oil volume in the second quarter of 2014. Also, the mid-2013 jump in oil price will flow through to distributions beginning in the fourth quarter of 2013 (see table [Operating and Financial Estimates](#) on page 3). We recommend RTF stocks including NDRO as part of a Royalty Trust Fund. On current estimates we see Net Present Value at 37% above stock price and annual distribution yield highest among RTF stocks at 12.3% (see [Table 1](#) on page 4).

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Enduro Royalty Trust					
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>	
North American Natural Gas	13	6.8	20.8	270	48%
Oil	42	5.9	6.9	290	52%
	55	6.2	10.2	560	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					560
Shares (mm)					33
Net Present Value - Standard Estimate (US\$/sh)					17
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					12

Enduro Royalty Trust										
Monthly Declarations and Ebitda Proxy										
	<i>Q1 3/31/13</i>			<i>Q2 6/30/13</i>			<i>Q3 9/30/13</i>			
	<i>Dec-12</i>	<i>Jan-13</i>	<i>Feb-13</i>	<i>Mar-13</i>	<i>Apr-13</i>	<i>May-13</i>	<i>Jun-13</i>	<i>Jul-13</i>	<i>Aug-13</i>	<i>Sep-13</i>
Volume (Natural Gas lagged four months, Oil three months)										
Natural Gas (mmcf)	28.6	27.6	25.7	25.2	23.9	22.5	21.1	20.4	28.9	18.6
Days (4 month lag)	31	30	31	30	31	31	29	31	30	31
Oil (mbd)	2.5	2.5	2.5	2.5	2.5	2.5	2.4	2.4	2.4	2.4
Days (3 month lag)	30	31	30	31	31	28	31	30	31	30
Total (mbd)	7.3	7.1	6.8	6.7	6.5	6.2	6.0	5.8	7.2	5.5
Price										
Henry Hub (\$/mmbtu)	3.01	2.63	3.03	3.47	3.71	3.35	3.23	3.43	3.98	4.16
Differential (\$/mmbtu)	-0.01	-0.20	-0.18	-0.07	0.04	-0.04	-0.15	-0.17	0.21	-0.06
Trust (\$/mcf)	3.02	2.83	3.21	3.54	3.67	3.39	3.38	3.60	3.77	4.22
WTI Cushing (\$/bbl)	94.56	89.57	86.73	88.23	94.96	95.32	92.96	92.07	94.80	95.80
Differential	3.03	4.70	5.33	10.57	15.72	15.55	6.90	3.32	2.48	2.14
Trust (\$/bbl)	91.53	84.87	81.40	77.66	79.24	79.77	86.06	88.75	92.32	93.66
Total (\$/bbl)	43.03	41.35	41.78	42.73	43.94	42.41	48.32	48.73	46.19	54.33
Revenue (\$mm)										
Natural Gas	2.68	2.34	2.56	2.67	2.72	2.37	2.07	2.27	3.27	2.43
Oil	6.96	6.55	6.15	6.01	6.07	5.49	6.53	6.33	6.82	6.63
Total	9.64	8.89	8.71	8.68	8.79	7.86	8.60	8.60	10.09	9.06
Ebitda Proxy	4.5	4.2	4.7	4.7	4.4	3.5	4.3	4.2	5.4	4.6
Development	0.9	1.0	3.3	3.8	1.0	1	0.5	0.3	0.4	1
Hedge	1.0	0.9	0.9	1.0	0.7	0.7	0.5	0.5	0.4	0.6
Distributable Income (\$mm)	4.6	4.1	2.3	1.9	4.1	3.2	4.3	4.4	5.4	4.2
Distribution Per Unit (\$)	0.14	0.13	0.07	0.06	0.12	0.10	0.13	0.13	0.16	0.13
Units (millions)	33	33	33	33	33	33	33	33	33	33
Ebitda Proxy Margin	47%	48%	54%	54%	50%	44%	49%	49%	53%	51%



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Enduro Royalty Trust										
Next Twelve Months Operating and Financial Estimates										
	Q4	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	12/31/12	3/31/13	6/30/13	9/30/13	12/31/13	2013E	3/31/14	6/30/14	9/30/13	9/30/14
Volume (Natural Gas lagged five months, Oil four months)										
Natural Gas (bcf)	3.18	2.51	2.19	2.09	1.84	8.64	1.80	1.77	1.68	7.09
Natural Gas (mmcfd)	35	27	24	23	20	24	20	19	19	19
Days (5 month lag)	92	92	92	89	92	365	92	92	89	365
Oil (mmb)	0.24	0.23	0.22	0.22	0.22	0.89	0.22	0.23	0.23	0.90
Oil (mbd)	2.6	2.5	2.5	2.4	2.4	2.45	2.4	2.6	2.5	2.48
Days (4 month lag)	92	91	90	92	92	365	91	90	92	365
Total (mb)	771	648	589	569	528	2,333	519	529	509	2,084
Total (mbd)	8.4	7.1	6.5	6.3	5.7	6.4	5.7	5.8	5.6	5.7
Price (Natural Gas lagged five months, Oil four months)										
Henry Hub (\$/mmbtu)	2.41	2.89	3.51	3.55	4.01	3.49	3.91	3.70	3.80	3.85
Differential (\$/mmbtu)	(0.15)	(0.13)	(0.03)	(0.06)	(0.07)	(0.03)	(0.07)	(0.06)	(0.06)	(0.07)
Trust (\$/mcf)	2.56	3.02	3.54	3.61	4.07	3.52	3.97	3.77	3.86	3.92
WTI Cushing (\$/bbl)	88.17	90.29	92.84	93.28	102.35	94.69	103.65	101.11	98.23	101.33
Differential	6.69	4.35	13.98	4.26	4.67	6.85	4.73	4.61	7.86	5.52
Trust (\$/bbl)	81.48	85.94	78.85	89.02	97.68	87.84	98.92	96.50	90.37	95.81
Total (\$/bbl)	36.00	42.07	43.04	47.81	55.12	46.67	55.43	55.31	53.53	54.86
Revenue (\$mm)										
Natural Gas	8.2	7.6	7.8	7.5	7.5	30.4	7.2	6.7	6.5	27.8
Oil	19.6	19.7	17.6	19.7	21.6	78.5	21.6	22.6	20.8	86.6
Total	27.8	27.2	25.3	27.2	29.1	108.9	28.8	29.2	27.3	114.4
Expense										
Lease operating	7.2	7.9	8.0							-
Transportation	1.1	1.1	0.8							
Production taxes	2.0	1.9	1.6							
Total	10.2	10.9	10.4	9.5	11.3	42.0	11.1	11.3	10.6	44.3
Ebitda										
Development	2.5	5.2	5.8	1.2	1.2	13.4	1.2	1.2	3.0	6.6
Hedge	(3.7)	(2.8)	(2.4)	(1.4)	(1.4)	(8.0)			-	(1.4)
Net Profits Income	18.7	14.0	11.6	17.9	18.0	61.5	16.4	16.7	13.7	64.8
Trust Share	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Trust Income										
General and administrative	0.3	0.1	0.1	0.3	0.3	0.8	0.3	0.3	0.3	1.2
Distributable Income (\$mm)	14.6	11.0	9.2	14.0	14.1	48.4	12.8	13.1	10.7	50.7
Distribution Per Unit (\$)	0.44	0.33	0.28	0.43	0.43	1.47	0.39	0.40	0.32	1.54
Units (millions)										
Ebitda Margin	63%	60%	59%	65%	61%	61%	61%	61%	61%	61%



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Table 1

McDep Energy Stocks

Enterprise Value, Segments, Yield and McDep Ratio

	Symbol/Rating B = Buy, CB (see below)	Price (US\$/sh) 3-Oct 2013	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)				Dist. Yield NTM (%)	McDep Ratio
					North		Rest of			
					Amer. Natural Gas	World Natural Gas	Oil Prod'n	Down- stream		
RTF Cash Payers										
Freehold Royalties Ltd.	FRHLF	22.84	1.05	1,600	16		84		7.1	1.08
Dorchester Minerals, L.P.	DMLP B	23.77	1.00	730	54		46		7.8	0.91
Sabine Royalty Trust	SBR	52.22	1.00	760	52		48		7.8	0.82
Permian Basin RT	PBT	14.26	1.00	670	19		81		8.4	0.79
San Juan Basin Royalty Trust	SJT B	16.18	1.00	750	100		-		5.5	0.77
Mesa Royalty Trust	MTR	22.29	1.00	40	75		25		8.8	0.75
Enduro Royalty Trust	NDRO	12.44	1.00	410	48		52		12.3	0.73
Cross Timbers Royalty Trust	CRT	28.76	1.00	170	70		30		9.5	0.69
Hugoton Royalty Trust	HGT	7.13	1.00	290	90		10		11.2	0.59
<i>Total or Median</i>			<i>1.00</i>	<i>5,400</i>					<i>8.4</i>	<i>0.77</i>

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average. H = Hold
 Estimated present value presumes a long-term price for oil of US\$90 a barrel and natural gas, \$6 a million btu.
 McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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