

Rating: None

S&amp;P 500: 1197

## Hugoton Royalty Trust

### Improving Volume Trend

<i>Symbol</i>	HGT	<i>Ebitda Next Twelve Months ending 3/31/06 (US\$mm)</i>	116
<i>Rating</i>	None	<i>North American Natural Gas/Ebitda (%)</i>	92
<i>Price (US\$/sh)</i>	29.02	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/10/05	<i>Adjusted Reserves/Production NTM</i>	14.3
<i>Shares (mm)</i>	40.00	<i>EV/Ebitda</i>	10.0
<i>Market Capitalization (US\$mm)</i>	1,161	<i>PV/Ebitda</i>	9.3
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	14
<i>Enterprise Value (EV) (US\$mm)</i>	1,161	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	4.56
<i>Present Value (PV) (US\$mm)</i>	1,080	<i>Present Value Proven Reserves(US\$/boe)</i>	16.50
<i>Net Present Value (US\$/unit)</i>	27.0	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.80
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	2.41
<i>McDep Ratio - EV/PV</i>	1.07	<i>Price/Earnings Next Twelve Months</i>	12
<i>Distribution Yield (%/year)</i>	8.3	<i>Distribution Next Twelve Months (US\$/sh)</i>	2.41

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.

### Summary and Recommendation

An 8.3 % per year distribution yield on a stock whose price tracks long-term natural gas commodity value makes **Hugoton Royalty Trust (SJT)** an attractive investment. The trend in six-year natural gas remains positive consistent with our expectation that there is more upside than downside in oil and gas price for the next several years. Natural gas production from newly drilled wells appears to be offsetting normal decline in production from existing wells. 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. Commodity price volatility is mitigated by the absence of any debt in the trust's capital structure.

### High Monthly Distributions

Distributions continue at a high level. Industry index price for the month is determined at the beginning of the month. The index for February is the relevant reference price for the distribution to be declared in April (see table Monthly Declarations). For HGT we are using the index for the Henry Hub in Louisiana, the same reference point for natural gas futures pricing. We have not done it yet, but we could be more sophisticated and try a weighted index for western Oklahoma and Wyoming, the two areas of the trust's gas production.

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### Hugoton Royalty Trust Monthly Declarations

	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05
<b>Distribution</b> (\$/unit)								
Declared	0.15	0.17	0.24					
Projected				0.26	0.19	0.17	0.19	0.18
<b>Volume</b>								
Natural Gas (bcf)	2.40	2.57	2.48	2.55	2.55	2.30	2.54	2.46
Natural Gas (mmcf)	80	83	83	82	82	82	82	82
Days	30	31	30	31	31	28	31	30
<b>Price</b>								
Natural gas industry quotes lagged two months (\$/mmbtu)								
Henry Hub Index/Futures	5.08	5.81	7.67	7.81	6.21	6.29	6.19	6.25
HGT/Henry Hub	0.96	0.84	0.89	0.87	0.88	0.89	0.88	0.88
HGT (\$/mcf)	4.87	4.89	6.85	6.80	5.49	5.57	5.45	5.52
<b>Revenue</b> (\$mm)								
Natural Gas	11.7	12.6	17.0	17.4	14.0	12.8	13.9	13.6
Other	(0.1)	0.1	(0.7)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Total	11.6	12.6	16.3	17.1	13.7	12.6	13.6	13.4
<b>Cost</b> (\$mm)								
Production	1.4	1.3	1.5	1.5	1.5	1.5	1.5	1.5
Overhead	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total	2.1	2.0	2.1	2.1	2.1	2.1	2.1	2.1
<b>Cash flow</b> (\$mm)								
Development	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>Net proceeds</b> (\$mm)								
	7.5	8.7	12.1	13.0	9.6	8.4	9.5	9.2
<b>Royalty income</b> (\$mm)								
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%
<b>Distributable income</b> (\$mm)								
	6.0	6.9	9.7	10.4	7.7	6.7	7.6	7.4
<b>Units</b> (millions)								
	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
<b>Distribution</b> (\$/unit)								
	0.15	0.17	0.24	0.26	0.19	0.17	0.19	0.18
<i>Latest Twelve Month Average</i>								
Natural Gas (mmcf)	83	83	82	82	82	82	82	82
HGT/Henry Hub	0.88	0.87	0.87	0.88	0.89	0.88	0.88	0.89
Other revenue (\$mm)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Development (\$mm)	1.8	1.8	1.8	1.8	1.9	1.9	1.9	1.9
Production (\$mm)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Overhead (\$mm)	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6

### Quarterly Projections Foretell Future Distributions

Trends in volume, price and costs determine future distributions for the next twelve months (see table Distributable Income). Though we use futures prices for our projections, the trend is for actual prices to be higher than futures prices.

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# U.S. Natural Gas Royalty Trusts

## Single Trust Analysis

February 11, 2005

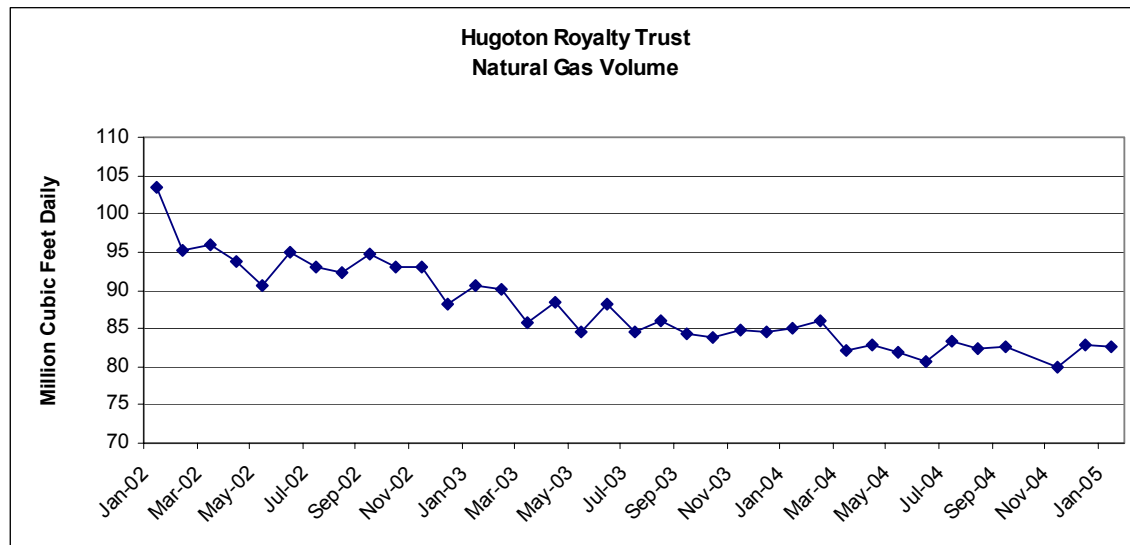
### Hugoton Royalty Trust Distributable Income

	Q3	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Next Twelve Months
	9/30/04	12/31/04	2004E	3/31/05	6/30/05	9/30/05	12/31/05	2005E	3/31/06	3/31/06
<b>Highlights</b>										
Revenue (\$mm) (80%)	36.0	33.8	<b>130.7</b>	41.5	35.0	36.8	37.2	<b>150.6</b>	40.5	<b>149.5</b>
Cash flow (\$mm) (80%)	27.6	25.9	<b>99.0</b>	32.8	26.9	28.5	28.9	<b>117.1</b>	31.8	<b>116.1</b>
Per unit	0.69	0.65	<b>2.48</b>	0.82	0.67	0.71	0.72	<b>2.93</b>	0.80	<b>2.90</b>
Distributable Income (\$mm)	23.4	21.0	<b>81.6</b>	27.8	21.7	23.6	24.0	<b>97.1</b>	27.0	<b>96.3</b>
Per unit	0.59	0.53	<b>2.04</b>	0.69	0.54	0.59	0.60	<b>2.43</b>	0.67	<b>2.41</b>
Units (millions)	40.0	40.0	<b>40.0</b>	40.0	40.0	40.0	40.0	<b>40.0</b>	40.0	<b>40.0</b>
<b>Volume</b>										
Natural Gas (bcf)	7.6	7.5	<b>30.2</b>	7.6	7.3	7.6	7.6	<b>30.0</b>	7.6	<b>30.0</b>
Natural Gas (mmcf)	82.7	81.6	<b>82.8</b>	82.4	82.1	82.1	82.1	<b>82.1</b>	82.1	<b>82.1</b>
Days	92	92	<b>366</b>	92	89	92	92	<b>365</b>	92	<b>365</b>
Oil (mb)	83	82	<b>322</b>	80	77	79	78	<b>314</b>	78	<b>312</b>
Oil (mbd)	0.9	0.9	<b>0.9</b>	0.9	0.9	0.9	0.8	<b>0.9</b>	0.9	<b>0.9</b>
Days	92	92	<b>366</b>	92	89	92	92	<b>365</b>	92	<b>365</b>
Total (bcf)	8.1	8.0	<b>32.2</b>	8.1	7.8	8.0	8.0	<b>31.9</b>	8.0	<b>31.8</b>
<b>Price</b>										
Natural Gas (HH lagged two months)										
Henry Hub (\$/mmbtu)	6.24	5.64	<b>5.74</b>	7.23	6.24	6.35	6.44	<b>6.56</b>	7.05	<b>6.52</b>
Differential (%)	12	9	<b>13</b>	12	12	12	12	<b>12</b>	12	<b>12</b>
HGT (\$/mcf)	5.50	5.11	<b>5.00</b>	6.38	5.51	5.61	5.69	<b>5.80</b>	6.23	<b>5.76</b>
Oil (\$/bbl) (WTI Cushing lagged two months)										
WTI Cushing	39.71	48.00	<b>39.06</b>	46.07	47.10	47.63	46.94	<b>46.93</b>	46.01	<b>46.92</b>
HGT	38.59	46.64	<b>38.18</b>	44.77	46.03	46.56	45.88	<b>45.80</b>	44.97	<b>45.86</b>
Total (\$/mcf)	5.56	5.28	<b>5.08</b>	6.44	5.64	5.74	5.80	<b>5.91</b>	6.30	<b>5.87</b>
<b>Revenue (\$mm)</b>										
Natural Gas	41.9	38.4	<b>151.1</b>	48.3	40.3	42.4	42.9	<b>173.9</b>	47.0	<b>172.6</b>
Oil	3.2	3.8	<b>12.3</b>	3.6	3.5	3.7	3.6	<b>14.4</b>	3.5	<b>14.3</b>
Total	45.0	42.2	<b>163.4</b>	51.9	43.8	46.0	46.5	<b>188.3</b>	50.6	<b>186.9</b>
<b>Cost (\$mm)</b>										
Tax, transport & other	3.8	3.8	<b>14.1</b>	4.5	3.8	4.0	4.0	<b>16.2</b>	4.3	<b>16.1</b>
Production	4.7	4.1	<b>17.9</b>	4.5	4.5	4.5	4.5	<b>18.0</b>	4.5	<b>17.9</b>
Overhead	2.0	1.9	<b>7.6</b>	1.9	1.9	1.9	1.9	<b>7.7</b>	1.9	<b>7.7</b>
Total	10.5	9.8	<b>39.6</b>	10.9	10.2	10.4	10.4	<b>41.9</b>	10.8	<b>41.7</b>
<b>Cash flow (\$mm)</b>	34.5	32.4	<b>123.8</b>	41.0	33.6	35.7	36.1	<b>146.4</b>	39.8	<b>145.2</b>
Development	5.1	6.0	<b>21.3</b>	6.0	6.0	6.0	6.0	<b>24.0</b>	6.0	<b>24.0</b>
<b>Net proceeds (\$mm)</b>	29.4	26.4	<b>102.5</b>	35.0	27.6	29.7	30.1	<b>122.4</b>	33.8	<b>121.2</b>
<b>Royalty income (\$mm)</b>										
Royalty/Net proceeds	80%	80%	<b>80%</b>	80%	80%	80%	80%	<b>80%</b>	80%	<b>80%</b>
Administration	0.1	0.1	<b>0.4</b>	0.3	0.1	0.1	0.1	<b>0.5</b>	0.1	<b>0.3</b>
<b>Distributable income (\$mm)</b>	23.4	21.0	<b>81.6</b>	27.8	21.7	23.6	24.0	<b>97.1</b>	27.0	<b>96.3</b>
Tax and other/revenue	8%	9%	<b>9%</b>	9%	9%	9%	9%	<b>9%</b>	9%	<b>9%</b>
Production cost (\$/mcf)	0.58	0.52	<b>0.56</b>	0.56	0.58	0.56	0.56	<b>0.56</b>	0.56	<b>0.56</b>
Overhead cost (\$/mcf)	0.25	0.24	<b>0.24</b>	0.24	0.25	0.24	0.24	<b>0.24</b>	0.24	<b>0.24</b>
Development/Cash flow	0.15	0.19	<b>0.17</b>	0.15	0.18	0.17	0.17	<b>0.16</b>	0.15	<b>0.17</b>

### Volume Trend Leveling

Currently we are projecting flat volume near the latest twelve months actual results. While that would have been too optimistic in recent years, it may be valid now. The operator of the trust's properties, **XTO Energy (XTO)** has been applying about one-sixth of cash flow to drilling new wells. The development spending appears to be having an impact as volume from new wells seems to be offsetting natural decline (see chart [Natural Gas Volume](#)).

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## Present Value Relates to \$40 a Barrel Constant Real

We revised our estimate of long-term oil price on January 26, 2005 to \$40 a barrel constant real, up from \$35. We estimate a present value estimate for HGT at \$27 a unit up from a tentative \$25 a unit (see *U.S. Natural Gas Royalty Trusts*, Present Value at \$40 Oil, January 28, 2005). The calculation is sensitive to assumptions.

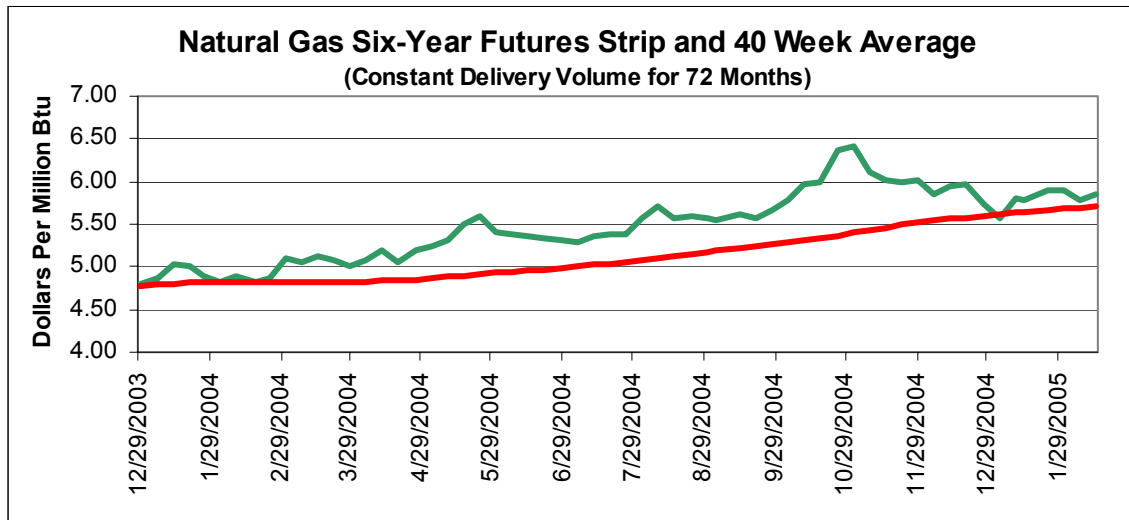
As a check on consistency we regularly compare estimates of present value that do not change often to estimated NTM cash flow that changes every time we obtain new commodity price quotes. The latest correlation of the multiple of present value to cash flow with adjusted reserve life for 20 rated stocks indicates PV/Ebitda of 10.3 for HGT's adjusted reserve life of 14.3. Instead we limit HGT's PV/Ebitda to about the same as for **San Juan Basin Royalty Trust (SJT)**. We do not question reserve estimates for HGT, but we sense that estimates for other royalty trusts with similar properties are more understated.

## Royalty Trusts Track Rising Commodity Value

Though we believe we are valuing the resources on a consistent basis with those of operating companies there are still differences in stock market valuation. HGT is valued in the market place near present value. Most operating companies are valued less than present value. The remaining differences seem to reflect the value of the different structure of royalty trusts.

Comparing the valuation of royalty trusts to long-term commodity futures seems to offer a match. HGT is valued close to present value that is related to \$40 oil. Current six-year futures average about \$42 a barrel. On that basis the outlook for the price of HGT may be tied to the trend in futures, specifically natural gas. We see that trend continuing upward as measured by the 40-week moving average (see chart Natural Gas Six-Year Futures).

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Ultimately natural gas is also tied to oil. We see three to five-fold gain potential for oil price over the next 5 to 13 years.

Kurt H. Wulff, CFA

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