

Rating: Buy
 S&P 500: 1534

Hugoton Royalty Trust Paying Unitholders to Wait

<i>Symbol</i>	HGT	<i>Ebitda Next Twelve Months ending 6/30/08 (US\$mm)</i>	121
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	89
<i>Price (US\$/sh)</i>	26.00	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/20/07	<i>Adjusted Reserves/Production NTM</i>	13.9
<i>Shares (mm)</i>	40.0	<i>EV/Ebitda</i>	8.6
<i>Market Capitalization (US\$mm)</i>	1,040	<i>PV/Ebitda</i>	11.2
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	14
<i>Enterprise Value (EV) (US\$mm)</i>	1,040	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	5.11
<i>Present Value (PV) (US\$mm)</i>	1,360	<i>Present Value Proven Reserves(US\$/boe)</i>	23.00
<i>Net Present Value (US\$/unit)</i>	34.0	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.80
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	2.09
<i>McDep Ratio - EV/PV</i>	0.76	<i>Price/Earnings Next Twelve Months</i>	12
<i>Distribution Yield (%/year)</i>	8.1	<i>Distribution Next Twelve Months (US\$/sh)</i>	2.09

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\$66 a barrel and natural gas, \$11 a million btu.

For historical analysis of HGT since 2000 see www.mcdep.com/4hgt.htm

Summary and Recommendation

We expect buy-recommended **Hugoton Royalty Trust (HGT)** to distribute cash over for the next twelve months adding to 8.1% of stock price. That pays unitholders to wait for stock price appreciation implied by estimated net present value (NPV) of \$34 a share. Expected income corresponds to current quotes of natural gas futures prices for the next twelve months of \$7.73 a million btu (see table [Distributable Income](#)). Estimated NPV matches our correlation of present value estimates for 23 other North American natural gas producers presuming a long-term price of natural gas of \$11 a million btu, the energy equivalent of burning crude oil priced at \$66 a barrel (see table [Functional Cash Flow and Present Value](#)). Now at 8.9, natural gas price was last at crude oil divided by 6 in 2004 and could be there again with a hot summer, cold winter or a sincere interest in cleaner energy (see chart [Oil/Natural Gas Futures Ratio](#)). We carry HGT at a full weighting in the illustrative McDep Energy Portfolio where a high concentration on natural gas helps offset under-representation in the clean fuel in the shares of the largest energy companies.

Natural Gas Price Warning

In the latest monthly disclosure and in the 10-Q quarterly report filed on July 20 with the Securities and Exchange Commission, the trust sponsor - buy-recommended **XTO Energy (XTO)** - warns of possible continued low regional natural gas price for the next several months. The caution refers to the 28% of HGT production in Wyoming where industry additions to supply are temporarily ahead of pipeline capacity to take it away.

Kurt H. Wulff, CFA

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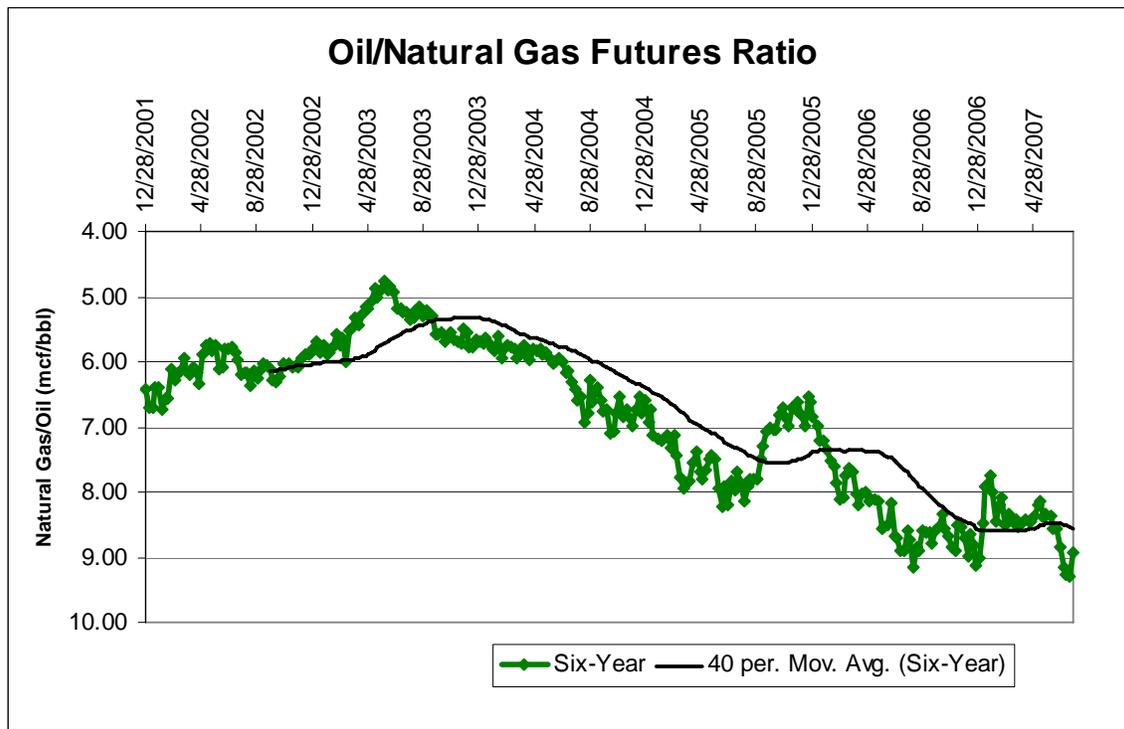
Hugoton Royalty Trust
Distributable Income

	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>6/30/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>6/30/08</i>
Highlights								
Revenue (\$mm) (80%)	40.5	173.1	36.8	37.3	38.2	35.4	147.7	161.4
Cash flow (\$mm) (80%)	31.2	132.6	26.7	27.4	28.5	26.5	109.1	121.3
Per unit	0.78	3.32	0.67	0.69	0.71	0.66	2.73	3.03
Distributable Income (\$mm)	21.0	90.9	16.2	20.8	19.1	17.3	73.4	83.7
Per unit	0.52	2.27	0.41	0.52	0.48	0.43	1.84	2.09
Units (millions)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Volume								
Natural Gas (bcf)	7.2	29.6	7.1	6.8	7.0	7.0	27.9	27.8
Natural Gas (mmcf)	80.6	81.2	77.0	76.1	76.3	76.3	76.4	76.3
Days	89	365	92	89	92	92	365	365
Oil (mb)	83	333	68	79	74	78	299	306
Oil (mbd)	0.9	0.9	0.7	0.9	0.8	0.8	0.8	0.8
Days	89	365	92	89	92	92	365	365
Total (bcf)	7.7	31.6	7.5	7.2	7.5	7.5	29.7	29.7
Price								
Natural Gas (HH lagged two months)								
Henry Hub (\$/mmbtu)	7.61	8.03	7.11	7.38	7.35	6.55	7.10	7.73
Differential (%)	17	18	16	16	16	16	16	16
HGT (\$/mcf)	6.33	6.59	5.94	6.21	6.18	5.51	5.94	6.47
Oil (\$/bbl) (WTI Cushing lagged two months)								
WTI Cushing	64.68	65.77	58.46	61.31	68.78	75.64	66.05	73.50
HGT	63.54	63.73	57.17	58.60	65.74	72.29	63.62	70.44
Total (\$/mcf)	6.60	6.84	6.13	6.44	6.41	5.92	6.22	6.80
Revenue (\$mm)								
Natural Gas	45.4	195.1	42.1	42.0	42.9	38.6	165.7	180.2
Oil	5.3	21.2	3.9	4.6	4.8	5.7	19.0	21.5
Total	50.6	216.3	46.0	46.6	47.8	44.3	184.7	201.7
Cost (\$mm)								
Tax, transport & other	4.9	20.1	4.9	4.6	4.4	4.1	18.0	18.8
Production	4.8	22.2	5.5	5.6	5.5	4.9	21.4	22.4
Overhead	2.0	8.3	2.2	2.2	2.2	2.2	8.9	8.9
Total	11.6	50.6	12.5	12.3	12.2	11.2	48.2	50.1
Cash flow (\$mm)								
Development	12.6	51.7	12.5	7.8	11.3	11.3	42.8	45.7
Net proceeds (\$mm)								
	26.4	114.1	20.9	26.6	24.4	21.8	93.7	105.9
Royalty income (\$mm)								
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%
Administration	0.2	0.3	0.5	0.4	0.2	0.2	1.3	0.8
Distributable income (\$mm)								
	21.0	90.9	16.2	20.8	19.1	17.3	73.4	83.7
Tax and other/revenue	9.6%	9.3%	10.6%	9.8%	9.3%	9.3%	9.8%	9.3%
Production cost (\$/mcf)	0.62	0.70	0.73	0.77	0.74	0.65	0.72	0.76
Overhead cost (\$/mcf)	0.26	0.26	0.30	0.30	0.30	0.30	0.30	0.30
Development/Cash flow	0.32	0.31	0.37	0.23	0.32	0.34	0.31	0.30
Producton/Revenue	0.09	0.10	0.12	0.12	0.11	0.11	0.12	0.11
Overhead/Revenue	0.04	0.04	0.05	0.05	0.05	0.05	0.05	0.04
Distributable Income/Revenue		0.42	0.35	0.45	0.40	0.39	0.40	0.42

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Hugoton Royalty Trust
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	108	14.0	11.7	1,270	93%
Oil	13	11.8	7.0	90	7%
	121	13.9	11.2	1,360	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					1,360
Shares (mm)					40
Net Present Value - Standard Estimate (US\$/sh)					34
Net Present Value - Approximation by Correlation (US\$/sh)					34



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Hugoton Royalty Trust
Monthly Declarations

	Jul-06	Aug-06	Sep-06	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07
Distribution (\$/unit)									
Declared	0.17	0.12	0.14	0.18	0.22	0.12	0.17		
Projected								0.17	0.14
Volume									
Natural Gas (bcf)	2.53	2.40	2.56	2.10	2.34	2.33	2.34	2.39	2.30
Natural Gas (mmcf)	81	80	82	75	76	78	75	77	77
Days	31	30	31	28	31	30	31	31	30
Price									
Natural gas industry quotes lagged two months (\$/mmbtu)									
Henry Hub Index/Futures	7.23	5.95	5.89	7.04	7.55	7.56	7.52	7.59	6.93
HGT/Henry Hub	0.84	0.91	0.93	0.94	0.87	0.73	0.83	0.83	0.83
HGT (\$/mcf)	6.07	5.42	5.50	6.59	6.54	5.53	6.26	6.32	5.77
Revenue (\$mm)									
Natural Gas	15.3	13.0	14.1	13.8	15.3	12.9	14.6	15.1	13.2
Other	0.1	0.4	0.6	(0.1)	(0.2)	(0.2)	(0.1)	-	(0.0)
Total	15.4	13.4	14.6	13.7	15.1	12.8	14.5	15.1	13.2
Cost (\$mm)									
Production	2.1	1.7	2.1	2.3	1.2	2.1	1.7	1.9	1.9
Overhead	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.7	0.7
Total	2.9	2.4	2.8	3.0	1.9	2.9	2.5	2.6	2.6
Cash flow (\$mm)	12.6	10.9	11.9	10.8	13.2	9.9	12.0	12.5	10.6
Development	4.2	5.0	5.0	2.0	2.0	3.8	3.8	3.8	3.8
Net proceeds (\$mm)	8.4	5.9	6.9	8.8	11.2	6.2	8.3	8.7	6.9
Royalty income (\$mm)	6.7	4.8	5.5	7.0	8.9	4.9	6.6	7.0	5.5
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%	80%
Distributable income (\$mm)	6.7	4.8	5.5	7.0	8.9	4.9	6.6	7.0	5.5
Units (millions)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Distribution (\$/unit)	0.17	0.12	0.14	0.18	0.22	0.12	0.17	0.17	0.14
<i>Latest Twelve Month Average</i>									
Natural Gas (mmcf)	82	81	81	80	79	79	79	78	78
HGT/Henry Hub	0.81	0.81	0.81	0.87	0.87	0.87	0.86	0.86	0.85
Other revenue (\$mm)	(0.1)	(0.1)	(0.0)	0.0	0.0	(0.0)	(0.0)	(0.1)	(0.1)
Development (\$mm)	4.1	4.2	4.3	4.3	4.2	4.1	4.1	4.0	3.9
Production (\$mm)	1.7	1.7	1.8	1.9	1.9	1.9	1.9	1.9	1.9
Overhead (\$mm)	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7

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