



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 15, 2010

Hugoton Royalty Trust (HGT) High Income from Cheap Clean Fuel

<i>Symbol</i>	HGT	<i>Ebitda Next Twelve Months ending 3/31/11 (US\$m)</i>	76
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	86
<i>Price (US\$/sh)</i>	18.49	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/12/10	<i>Adjusted Reserves/Production NTM</i>	12.3
<i>Shares (mm)</i>	40.0	<i>EV/Ebitda</i>	9.7
<i>Market Capitalization (US\$m)</i>	740	<i>PV/Ebitda</i>	11.0
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	12
<i>Enterprise Value (EV) (US\$m)</i>	740	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	3.65
<i>Present Value (PV) (US\$m)</i>	840	<i>Present Value Proven Reserves(US\$/boe)</i>	18.50
<i>Net Present Value (US\$/unit)</i>	21.0	<i>Oil and Gas Ebitda Margin (%)</i>	67
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.46
<i>McDep Ratio - EV/PV</i>	0.88	<i>Price/Earnings Next Twelve Months</i>	13
<i>Distribution Yield (%/year)</i>	7.9	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.46
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\$75 a barrel and natural gas, \$8 a million btu.			
For historical analysis of HGT since 2000 see www.mcdep.com/4hgt.htm			

Summary and Recommendation

Buy-recommended **Hugoton Royalty Trust (HGT)** offers a near 8% distribution yield for the next year despite a low price for natural gas, the fast-growing, environmentally desirable fuel. Stock price is in an uptrend measured by the 200-day average and it may have further to go judging by estimated Net Present Value (NPV) of \$21 a unit (see table [Functional Cash Flow and Present Value](#)). Yet natural gas, HGT's main product, is out of favor with both the one-year and six-year price below the 40-week averages. The fuel expected to contribute the most to energy growth languishes underappreciated at a price 40% of the heating equivalent of oil. Investors in HGT can be patient with an adjusted reserve life index of 12.3 years implying continuing production at a declining rate for at least twice as long. Recently the operator of the trust's properties has reinvested less of the trust's cash flow thereby allowing volume to decline naturally (see chart [Natural Gas Volume and Development Spending](#)). Money not spent for drilling has boosted distributions. The future tradeoff between volume and spending will depend on buy-recommended **ExxonMobil (XOM)** as it is expected to acquire XTO Energy the founder of the trust. A premium price for HGT natural gas compared to the Henry Hub reference also helps current distributions to exceed a year ago despite lower levels for the widely quoted industry price (see table [Monthly Declarations](#)). Our current projections indicate a distribution in 2010 twice the amount in 2009 (see table [Next Twelve Months Operating and Financial Estimates](#)). Finally, HGT appears to offer favorable appreciation potential among income stocks in our regular coverage (see Tables 1-3).

Kurt H. Wulff, CFA

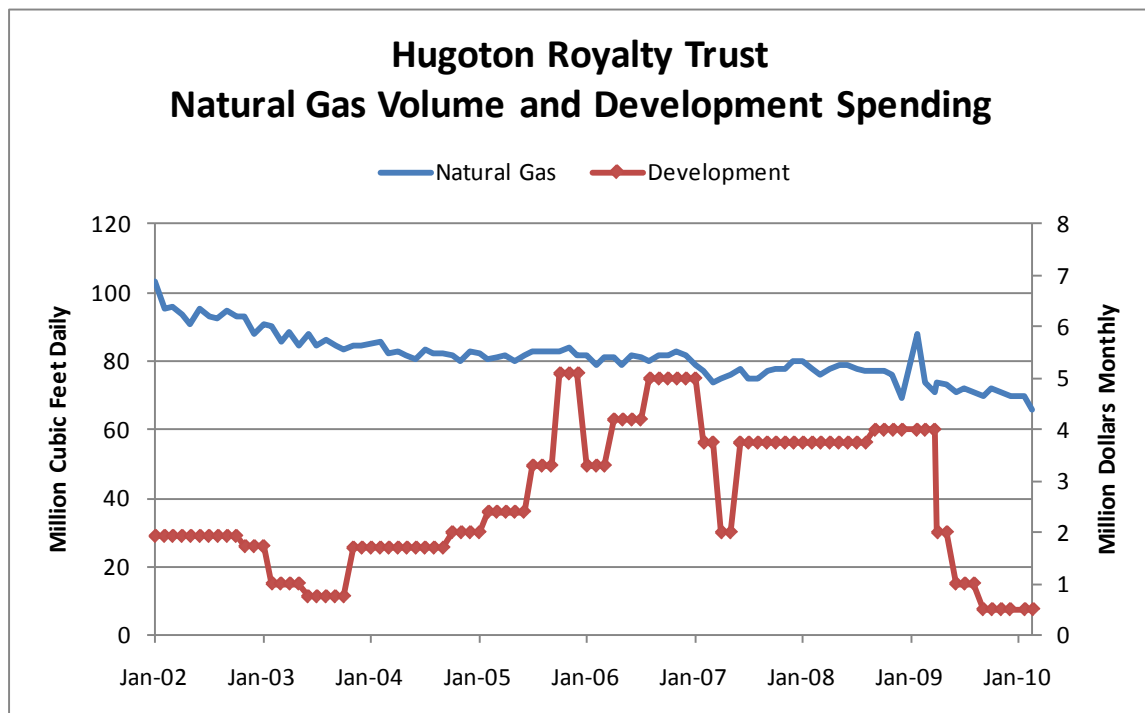


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Hugoton Royalty Trust					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	65	12.4	11.6	760	90%
Oil	11	11.0	9.5	100	12%
	76	12.3	11.1	840	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					840
Shares (mm)					40
Net Present Value - Standard Estimate (US\$/sh)					21
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					21





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Hugoton Royalty Trust									
Monthly Declarations									
	Jan-09	Feb-09	Mar-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10
Distribution (\$/unit)									
Declared	0.03	0.06	0.05	0.10	0.08	0.11	0.13	0.14	
Projected									0.18
Volume									
Natural Gas (bcf)	2.63	2.28	2.20	2.23	2.14	2.17	2.09	2.05	2.14
Natural Gas (mmcf)	88	74	71	72	71	70	70	66	69
Days	30	31	31	31	30	31	30	31	31
Price									
Natural gas industry quotes lagged two months (\$/mmbtu)									
Henry Hub Index/Futures	6.47	6.91	6.13	3.38	2.83	3.72	4.28	4.49	5.87
HGT/Henry Hub	0.53	0.59	0.73	1.01	1.06	1.06	1.11	1.10	1.00
HGT (\$/mcf)	3.41	4.11	4.49	3.41	3.00	3.94	4.75	4.92	5.87
Revenue (\$mm)									
Natural Gas	9.0	9.4	9.9	7.6	6.4	8.5	9.9	10.1	12.6
Other	(0.3)	0.0	(1.0)	0.3	0.4	(0.1)	(0.0)	(0.1)	(0.4)
Total	8.6	9.4	8.9	7.9	6.9	8.4	9.9	10.0	12.1
Cost (\$mm)									
Production	2.1	1.8	1.6	1.7	1.6	1.6	1.8	1.7	1.7
Overhead	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Total	3.0	2.6	2.5	2.6	2.5	2.5	2.7	2.6	2.6
Cash flow (\$mm)									
Development	4.0	4.0	4.0	0.5	0.5	0.5	0.5	0.5	0.5
Net proceeds (\$mm)									
	1.6	2.8	2.4	4.8	3.8	5.4	6.7	6.9	9.0
Royalty income (\$mm)									
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%	80%
Distributable income (\$mm)									
	1.3	2.2	1.9	3.9	3.1	4.3	5.4	5.5	7.2
Units (millions)									
	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Distribution (\$/unit)									
	0.03	0.06	0.05	0.10	0.08	0.11	0.13	0.14	0.18
<i>Latest Twelve Month Average</i>									
Natural Gas (mmcf)	78	77	77	73	73	73	72	71	71
HGT/Henry Hub	0.82	0.79	0.77	0.74	0.77	0.81	0.86	0.90	0.93
Other revenue (\$mm)	0.9	0.9	0.8	0.0	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)
Development (\$mm)	3.9	3.9	3.9	2.3	2.0	1.8	1.5	1.2	0.9
Production (\$mm)	2.3	2.3	2.2	1.9	1.8	1.8	1.7	1.7	1.7
Overhead (\$mm)	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9



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Hugoton Royalty Trust									
Next Twelve Months Operating and Financial Performance									
									<i>Next</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Twelve</i>
	<i>3/31/09</i>	<i>12/31/09</i>	<i>2009</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010E</i>	<i>Months</i>
									<i>3/31/11</i>
Highlights									
Revenue (\$mm) (80%)	24.9	21.5	83.3	29.8	27.4	27.2	28.0	112.4	114.1
Cash flow (\$mm) (80%)	15.4	12.5	46.9	20.2	18.1	17.9	18.6	74.7	76.2
Per unit	0.38	0.31	1.17	0.50	0.45	0.45	0.47	1.87	1.90
Distributable Income (\$mm)	5.5	11.2	29.3	18.1	15.5	12.9	13.6	60.1	58.6
Per unit	0.14	0.28	0.73	0.45	0.39	0.32	0.34	1.50	1.46
Units (millions)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Volume									
Natural Gas (bcf)	7.1	6.5	26.6	6.3	6.1	6.2	6.2	24.7	24.5
Natural Gas (mmcf)	77.3	71.1	73.0	68.3	68.3	67.6	66.9	67.7	67.2
Days	92	92	365	92	89	92	92	365	365
Oil (mb)	65	55	260	64	62	64	63	253	253
Oil (mbd)	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Days	92	92	365	92	89	92	92	365	365
Total (bcf)	7.5	6.9	28.2	6.7	6.4	6.6	6.5	26.2	26.1
Price									
Natural Gas (HH lagged two months)									
Henry Hub (\$/mmbtu)	6.50	3.31	4.37	4.88	4.87	4.67	4.88	4.82	5.00
Differential (%)	39	(4)	23	(6)	-	-	-	(2)	0
HGT (\$/mcf)	3.97	3.45	3.38	5.19	4.87	4.67	4.88	4.90	5.00
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	46.82	72.10	57.22	76.95	80.05	82.78	83.95	80.93	82.90
HGT	44.95	78.90	54.10	72.76	75.69	78.28	79.38	76.52	78.41
Total (\$/mcf)	4.15	3.92	3.69	5.59	5.32	5.15	5.36	5.36	5.47
Revenue (\$mm)									
Natural Gas	28.2	22.6	90.1	32.6	29.6	29.0	30.0	121.2	122.7
Oil	2.9	4.3	14.1	4.7	4.7	5.0	5.0	19.4	19.8
Total	31.1	26.9	104.2	37.3	34.3	34.0	35.0	140.6	142.6
Cost (\$mm)									
Tax, transport & other	3.8	3.7	13.8	4.1	3.8	3.7	3.9	15.5	15.7
Production	5.5	4.9	21.0	5.2	5.2	5.2	5.2	20.8	20.8
Overhead	2.6	2.7	10.6	2.7	2.7	2.7	2.7	10.9	10.9
Total	11.9	11.3	45.5	12.0	11.7	11.7	11.8	47.1	47.4
Cash flow (\$mm)									
Development	12.0	1.5	21.0	1.5	3.0	6.0	6.0	16.5	21.0
Excess costs		0.1	0.1					-	-
Net proceeds (\$mm)	7.2	14.1	37.7	23.7	19.6	16.3	17.3	76.9	74.2
Royalty income (\$mm)									
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%	80%
Administration	0.3	0.0	0.8	0.9	0.2	0.2	0.2	1.5	0.8
Distributable income (\$mm)	5.5	11.2	29.3	18.1	15.5	12.9	13.6	60.1	58.6



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Table 1									
McDep Income and Small Cap Energy Portfolio									
Debt, Business Segments and Income Yield									
						Present Value by Segment (%)			
Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	NAmer. Natural Gas	Oil Prod'n	Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio	
B = Buy CB (see below)	12-Mar 2010	Cap							
Canadian Income Trusts (US\$)									
Penn West Energy Trust	PWE	21.53	1.45	13,200	22	78	1.77	8.2	1.09
Peyto Energy Trust	PEYUF	13.91	1.25	2,010	71	29	1.42	10.2	1.06
Pengrowth Energy Trust	PGH	11.34	1.47	4,800	35	65	0.83	7.3	0.96
Enerplus Resources Fund	ERF	23.54	1.21	5,100	40	60	2.12	9.0	0.82
Canadian Oil Sands Trust	COSWF	B	27.35	1.10	14,600	100	1.36	5.0	0.74
<i>Total or Median</i>				39,700					0.96
Small Cap Independent Producers									
Whiting Petroleum Corporation	WLL	78.56	1.33	6,180	15	85	-	-	1.01
Cimarex Energy Company	XEC	B	62.42	1.14	5,860	62	38	0.32	0.5
Berry Petroleum Company	BRY	29.70	1.86	2,500	31	69	0.30	1.0	0.91
Birchcliff Energy Ltd. (US\$)	BIREF	9.33	1.17	1,460	76	24	-	-	0.87
<i>Total or Median</i>				16,000					0.94
Top Line Cash Payers									
Sabine Royalty Trust	SBR	48.85	1.00	710	39	61	3.66	7.5	1.09
Cross Timbers Royalty Trust	CRT	34.17	1.00	210	78	22	2.75	8.1	1.00
Permian Basin RT	PBT	17.81	1.00	830	27	73	1.33	7.5	0.99
Freehold Royalty Trust (US\$)	FRHLF	16.25	1.17	1,090	27	73	1.65	10.2	0.96
Dorchester Minerals, L.P.	DMLP	B	21.65	1.03	660	67	33	1.99	9.2
<i>Total or Median</i>				3,500					0.99
Bottom Line Cash Payers									
Linn Energy, LLC	LINE	27.43	1.48	4,610	44	56	2.52	9.2	1.35
Encore Energy Partners, L.P. (52%)	ENP	20.40	1.29	610	23	77	2.15	10.5	1.15
San Juan Basin Royalty Trust	SJT	B	22.28	1.00	1,040	100	-	1.70	7.6
Mesa Royalty Trust	MTR	42.38	1.00	79	75	25	3.98	9.4	0.88
Hugoton Royalty Trust	HGT	B	18.49	1.00	740	90	10	1.46	7.9
<i>Total or Median</i>				7,100					0.97
Composite (excl COSWF)									
<i>Enterprise Value Weighting</i>				51,700	38	62			1.00
<i>Equal Weighting</i>					51	49			0.99
<i>Equal Weighted Buys</i>					70	30			0.91

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.
 McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses.
 Present Value presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas.
 Dist. = Income distribution. NTM = Next Twelve Months Ended March 31, 2011. Enterprise Value = Market Cap and Debt.



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		12-Mar 2010	Shares (mm)				
Canadian Income Trusts (US\$)								
	PWE		21.53	420.7	9,060	19.00	0.34	1.09
	PEYUF		13.91	114.9	1,600	13.00	0.21	1.06
	PGH		11.34	290.0	3,290	12.00	0.31	0.96
	ERF		23.54	177.0	4,170	30.00	0.14	0.82
	COSWF	B	27.35	484.0	13,240	38.00	0.07	0.74
	<i>Total or Median</i>				31,400		0.21	0.96
Small Cap Independent Producers								
	WLL		78.56	59.0	4,640	78.00	0.25	1.01
	XEC	B	62.42	82.6	5,160	65.00	0.12	0.97
	BRY		29.70	45.0	1,340	35.00	0.42	0.91
	BIREF		9.33	134.0	1,250	11.00	0.13	0.87
	<i>Total or Median</i>				12,390		0.19	0.94
Top Line Cash Payers								
	SBR		48.85	14.6	710	45.00	-	1.09
	CRT		34.17	6.0	210	34.00	-	1.00
	PBT		17.81	46.6	830	18.00	-	0.99
	FRHLF		16.25	57.2	930	17.00	0.14	0.96
	DMLP	B	21.65	29.8	650	27.00	0.02	0.81
	<i>Total or Median</i>				3,330			0.99
Bottom Line Cash Payers								
	LINE		27.43	114.0	3,130	17.00	0.43	1.35
	ENP		20.40	23.4	480	17.00	0.26	1.15
	SJT	B	22.28	46.6	1,040	23.00	-	0.97
	MTR		42.38	1.9	79	48.00	-	0.88
	HGT	B	18.49	40.0	740	21.00	-	0.88
	<i>Total or Median</i>				5,470			0.97
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas.								



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Table 3								
Oil and Gas Income and Small Cap Stocks								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		12-Mar 2010	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		13.91		1.39	18.3	12.8	13.5
	COSWF	B	27.35		0.47	23.1	13.0	9.6
	PWE		21.53		0.74	9.7	8.0	8.7
	PGH		11.34		0.55	8.5	8.1	7.8
	ERF		23.54		0.59	9.6	8.4	6.8
	<i>Median</i>					9.7	8.4	8.7
Small Cap Independent Producers								
	BIREF		9.33		-	11.8	15.9	13.8
	BRY		29.70		-	12.9	8.3	7.6
	WLL		78.56		-	10.9	7.0	7.1
	XEC	B	62.42		-	7.0	5.8	5.6
	<i>Median</i>					11.3	7.7	7.4
Top Line Cash Payers								
	SBR		48.85	100	1.00	9.4	12.3	13.3
	PBT		17.81	32	0.90	21.2	12.2	12.1
	CRT		34.17	84	0.96	13.0	11.9	12.0
	DMLP	B	21.65	64	0.97	7.9	13.1	10.5
	FRHLF		16.25	71	1.01	8.9	10.4	10.0
	<i>Median</i>					9.4	12.2	12.0
Bottom Line Cash Payers								
	LINE		27.43		1.76	19.3	11.9	16.0
	SJT	B	22.28		0.81	16.0	11.0	10.6
	ENP		20.40		1.09	12.6	8.6	9.9
	MTR		42.38		0.92	8.1	11.1	9.8
	HGT	B	18.49		0.77	12.3	11.0	9.7
	<i>Median</i>					12.6	11.0	9.9
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2011; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



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