



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 6, 2009

## Hugoton Royalty Trust (HGT) Distribution Trend Up

<i>Symbol</i>	HGT	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$mm)</i>	61
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	84
<i>Price (US\$/sh)</i>	16.52	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/5/09	<i>Adjusted Reserves/Production NTM</i>	13.3
<i>Shares (mm)</i>	40.0	<i>EV/Ebitda</i>	10.9
<i>Market Capitalization (US\$mm)</i>	661	<i>PV/Ebitda</i>	15.2
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	11
<i>Enterprise Value (EV) (US\$mm)</i>	661	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	2.77
<i>Present Value (PV) (US\$mm)</i>	920	<i>Present Value Proven Reserves(US\$/boe)</i>	17.90
<i>Net Present Value (US\$/unit)</i>	23.0	<i>Oil and Gas Ebitda Margin (%)</i>	62
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.09
<i>McDep Ratio - EV/PV</i>	0.72	<i>Price/Earnings Next Twelve Months</i>	15
<i>Distribution Yield (%/year)</i>	6.6	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.09
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\$75 a barrel and natural gas, \$8 a million btu.			
For historical analysis of HGT since 2000 see <a href="http://www.mcdep.com/4hgt.htm">www.mcdep.com/4hgt.htm</a>			

### Summary and Recommendation

Analyzing third quarter results filed as Form 10-Q with the Securities and Exchange Commission on October 27, we reaffirm estimated Net Present Value (NPV) of US\$23 a share for buy-recommended **Hugoton Royalty Trust (HGT)**. On that basis unlevered appreciation potential is 39% to a McDep Ratio of 1.0 where stock price would equal NPV. Actually, most of the operating and financial results of the trust are disclosed monthly with the all-important distribution, and the 10-Q usually adds only a few details not already known. Cash flow from which the distribution is paid after deducting development outlays exceeded the expectations we last detailed in early July (see *ISC Weekly*, [Rounding the Bend at HGT and SJT](#), July 10, 2009). Distribution gains appear likely to continue in future quarters (see table [Next Twelve Months Operating and Financial Estimates](#)). The current quarter is off to a good start with the October distribution. Because distributions depend on prices from two months ago, the November distribution to be declared around the 19<sup>th</sup> will reflect the September low point in industry natural gas price (see table [Monthly Declarations](#)). In July and August, Chairman Bob Simpson of XTO Energy, the founder of HGT, increased his personal ownership of HGT to a million units from 700,000, according to filings.

Kurt H. Wulff, CFA



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Hugoton Royalty Trust									
Next Twelve Months Operating and Financial Performance									
									<i>Next</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Twelve</i>
	<i>9/30/08</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>Months</i>
									<i>9/30/10</i>
<b>Highlights</b>									
Revenue (\$mm) (80%)	67.2	17.5	19.4	20.4	<b>82.2</b>	24.6	25.5	26.9	<b>97.4</b>
Cash flow (\$mm) (80%)	52.9	8.6	10.5	11.4	<b>45.9</b>	15.5	16.3	17.5	<b>60.6</b>
Per unit	1.32	0.21	0.26	0.29	<b>1.15</b>	0.39	0.41	0.44	<b>1.52</b>
Distributable Income (\$mm)	43.7	4.3	8.4	9.5	<b>27.6</b>	10.4	11.2	12.5	<b>43.5</b>
Per unit	1.09	0.11	0.21	0.24	<b>0.69</b>	0.26	0.28	0.31	<b>1.09</b>
<b>Units (millions)</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>
<b>Volume</b>									
Natural Gas (bcf)	7.1	6.5	6.5	6.5	<b>26.6</b>	6.5	6.3	6.4	<b>25.7</b>
Natural Gas (mmcf)	77.2	72.6	71.0	71.1	<b>73.0</b>	71.0	70.3	69.6	<b>70.5</b>
Days	92	89	92	92	<b>365</b>	92	89	92	<b>365</b>
Oil (mb)	95	69	72	71	<b>277</b>	71	68	70	<b>279</b>
Oil (mbd)	1.0	0.8	0.8	0.8	<b>0.8</b>	0.8	0.8	0.8	<b>0.8</b>
Days	92	89	92	92	<b>365</b>	92	89	92	<b>365</b>
Total (bcf)	7.7	6.9	7.0	7.0	<b>28.3</b>	7.0	6.7	6.8	<b>27.4</b>
<b>Price</b>									
Natural Gas (HH lagged two months)									
Henry Hub (\$/mmbtu)	12.11	4.06	3.61	3.31	<b>4.37</b>	4.76	5.21	5.36	<b>4.66</b>
Differential (%)	16	27	14	3	<b>24</b>	17	17	17	<b>15</b>
HGT (\$/mcf)	10.15	2.96	3.09	3.20	<b>3.32</b>	3.95	4.33	4.45	<b>3.98</b>
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	130.89	45.65	64.29	72.10	<b>57.22</b>	78.17	79.98	81.58	<b>77.96</b>
HGT	125.74	40.38	56.64	63.52	<b>51.62</b>	70.53	72.16	73.61	<b>69.91</b>
Total (\$/mcf)	10.95	3.18	3.49	3.65	<b>3.63</b>	4.43	4.79	4.93	<b>4.44</b>
<b>Revenue (\$mm)</b>									
Natural Gas	72.1	19.1	20.2	20.9	<b>88.5</b>	25.8	27.1	28.5	<b>102.3</b>
Oil	11.9	2.8	4.1	4.5	<b>14.3</b>	5.0	4.9	5.1	<b>19.5</b>
Total	84.0	21.9	24.3	25.5	<b>102.7</b>	30.8	31.9	33.6	<b>121.8</b>
<b>Cost (\$mm)</b>									
Tax, transport & other	7.2	3.0	3.4	3.1	<b>13.3</b>	3.4	3.5	3.7	<b>13.7</b>
Production	8.0	5.6	5.0	5.4	<b>21.5</b>	5.4	5.4	5.4	<b>21.7</b>
Overhead	2.6	2.6	2.7	2.7	<b>10.6</b>	2.7	2.7	2.7	<b>10.6</b>
Total	17.8	11.2	11.1	11.2	<b>45.4</b>	11.5	11.6	11.8	<b>46.0</b>
<b>Cash flow (\$mm)</b>									
Development	66.2	10.7	13.2	14.3	<b>57.4</b>	19.3	20.3	21.9	<b>75.8</b>
Excess costs					<b>-</b>				
<b>Net proceeds (\$mm)</b>									
	54.7	5.7	10.7	12.8	<b>36.4</b>	13.3	14.3	15.9	<b>56.3</b>
<b>Royalty income (\$mm)</b>									
Royalty/Net proceeds	43.7	4.5	8.5	10.2	<b>29.1</b>	10.7	11.5	12.7	<b>45.0</b>
Administration	80%	80%	80%	80%	<b>80%</b>	80%	80%	80%	<b>80%</b>
	0.1	0.3	0.2	0.8	<b>1.5</b>	0.3	0.3	0.2	<b>1.6</b>
<b>Distributable income (\$mm)</b>									
	43.7	4.3	8.4	9.5	<b>27.6</b>	10.4	11.2	12.5	<b>43.5</b>



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<b>Hugoton Royalty Trust</b>									
<b>Monthly Declarations</b>									
	Oct-08	Nov-08	Dec-08	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
<b>Distribution (\$/unit)</b>									
Declared	0.27	0.13	0.03	0.05	0.06	0.09	0.10		
Projected								0.06	0.08
<b>Volume</b>									
Natural Gas (bcf)	2.39	2.28	2.15	2.23	2.13	2.17	2.23	2.13	2.18
Natural Gas (mmcf)	77	76	69	72	71	70	72	71	70
Days	31	30	31	31	30	31	31	30	31
<b>Price</b>									
Natural gas industry quotes lagged two months (\$/mmbtu)									
Henry Hub Index/Futures	9.23	8.40	7.48	3.32	3.54	3.96	3.38	2.83	3.72
HGT/Henry Hub	0.89	0.65	0.56	0.87	0.87	0.83	1.01	1.00	0.90
HGT (\$/mcf)	8.22	5.48	4.19	2.90	3.08	3.30	3.41	2.83	3.35
<b>Revenue (\$mm)</b>									
Natural Gas	19.6	12.5	9.0	6.5	6.6	7.2	7.6	6.0	7.3
Other	1.0	1.7	(0.4)	(0.1)	0.4	0.2	0.3	0.2	(0.1)
Total	20.6	14.2	8.6	6.4	6.9	7.4	7.9	6.3	7.2
<b>Cost (\$mm)</b>									
Production	2.0	2.6	2.4	1.8	1.9	1.3	1.7	1.9	1.8
Overhead	0.9	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Total	2.9	3.5	3.2	2.7	2.8	2.3	2.6	2.8	2.7
<b>Cash flow (\$mm)</b>									
Development	4.0	4.0	4.0	1.0	1.0	0.5	0.5	0.5	0.5
<b>Net proceeds (\$mm)</b>									
	13.7	6.7	1.4	2.7	3.1	4.6	4.8	3.0	4.0
<b>Royalty income (\$mm)</b>									
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%	80%
<b>Distributable income (\$mm)</b>									
	11.0	5.4	1.1	2.2	2.5	3.7	3.9	2.4	3.2
<b>Units (millions)</b>									
	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
<b>Distribution (\$/unit)</b>									
	0.27	0.13	0.03	0.05	0.06	0.09	0.10	0.06	0.08
<i>Latest Twelve Month Average</i>									
Natural Gas (mmcf)	78	78	77	75	74	74	73	73	73
HGT/Henry Hub	0.87	0.86	0.84	0.72	0.73	0.73	0.74	0.77	0.79
Other revenue (\$mm)	0.9	1.0	0.9	0.3	0.2	0.1	0.0	(0.1)	(0.1)
Development (\$mm)	3.8	3.8	3.8	3.1	2.9	2.6	2.3	2.0	1.8
Production (\$mm)	2.2	2.2	2.3	2.1	2.0	1.9	1.9	1.8	1.8
Overhead (\$mm)	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9



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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 H = Hold	5-Nov 2009	Cap							
<b>Canadian Income Trusts (US\$)</b>										
Penn West Energy Trust	PWE	17.58	1.55	11,500	22	78	1.69	9.6	0.95	
Peyto Energy Trust	PEYUF	11.17	1.28	1,640	78	22	1.34	12.0	0.88	
Pengrowth Energy Trust	PGH	9.67	1.74	4,400	34	66	0.78	8.1	0.79	
Enerplus Resources Fund	ERF	22.94	1.24	4,700	48	52	2.01	8.8	0.76	
Canadian Oil Sands Trust	COSWF B	28.73	1.10	15,300		100	1.58	5.5	0.70	
<i>Total or Median</i>				37,500					0.79	
<b>Small Cap Independent Producers</b>										
Encore Acquisition Company	EAC	44.56	1.73	4,030	22	78	-	-	0.93	
Cimarex Energy Company	XEC B	44.94	1.21	4,480	67	33	0.24	0.5	0.91	
Berry Petroleum Company	BRY	27.83	1.91	2,390	31	69	0.30	1.1	0.88	
Birchcliff Energy Ltd. (US\$)	BIREF	7.24	1.21	1,090	62	38	-	-	0.83	
<i>Total or Median</i>				11,990					0.90	
<b>Top Line Cash Payers</b>										
Cross Timbers Royalty Trust	CRT	33.55	1.00	200	64	36	2.01	6.0	1.20	
Freehold Royalty Trust (US\$)	FRHLF	13.84	1.21	830	25	75	1.34	9.7	0.84	
Dorchester Minerals, L.P.	DMLP B	22.03	1.00	660	63	38	1.46	6.6	0.82	
Sabine Royalty Trust	SBR	42.07	1.00	610	38	63	3.06	7.3	0.76	
Permian Basin RT	PBT	13.61	1.00	630	27	73	0.95	7.0	0.76	
<i>Total or Median</i>				2,930					0.82	
<b>Bottom Line Cash Payers</b>										
Linn Energy, LLC	LINE	24.30	1.51	4,190	38	62	2.52	10.4	1.34	
Encore Energy Partners, L.P. (52%)	ENP	17.81	1.31	540	24	76	2.15	12.1	1.04	
San Juan Basin Royalty Trust	SJT B	18.86	1.00	880	100	-	1.19	6.3	0.90	
Mesa Royalty Trust	MTR	37.29	1.00	69	75	25	2.61	7.0	0.77	
Hugoton Royalty Trust	HGT B	16.52	1.00	660	89	11	1.09	6.6	0.72	
<i>Total or Median</i>				6,340					0.90	
<b>Composite (excl COSWF)</b>										
<i>Enterprise Value Weighting</i>				43,500	40	60			0.90	
<i>Equal Weighting</i>					50	50			0.89	
<i>Equal Weighted Buys</i>					54	46			0.86	
* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.										
* Percentages in Price column refer to equal weighted buys.										



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating	5-Nov 2009		(mm)				
<b>Canadian Income Trusts (US\$)</b>								
	PWE		17.58	420.0	7,380	19.00	0.34	0.95
	PEYUF		11.17	115.0	1,280	13.00	0.19	0.88
	PGH		9.67	260.0	2,510	14.00	0.34	0.79
	ERF		22.94	166.3	3,810	32.00	0.14	0.76
	COSWF	B	28.73	484.0	13,910	42.00	0.06	0.70
	<i>Total or Median</i>				28,900		0.19	0.79
<b>Small Cap Independent Producers</b>								
	EAC		44.56	52.3	2,330	50.00	0.39	0.93
	XEC	B	44.94	82.2	3,690	50.00	0.16	0.91
	BRY		27.83	44.8	1,250	35.00	0.42	0.88
	BIREF		7.24	124.0	900	9.00	0.15	0.83
	<i>Total or Median</i>				8,170		0.28	0.90
<b>Top Line Cash Payers</b>								
	CRT		33.55	6.0	200	28.00	-	1.20
	FRHLF		13.84	49.6	690	17.00	0.15	0.84
	DMLP	B	22.03	29.8	660	27.00	-	0.82
	SBR		42.07	14.6	610	55.00	-	0.76
	PBT		13.61	46.6	630	18.00	-	0.76
	<i>Total or Median</i>				2,790			0.82
<b>Bottom Line Cash Payers</b>								
	LINE		24.30	114.0	2,770	15.00	0.45	1.34
	ENP		17.81	23.2	410	17.00	0.25	1.04
	SJT	B	18.86	46.6	880	21.00	-	0.90
	MTR		37.29	1.9	69	48.00	-	0.77
	HGT	B	16.52	40.0	660	23.00	-	0.72
	<i>Total or Median</i>				4,790			0.90
B = Buy, Hold ratings discontinued October 23, 2009								
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		5-Nov 2009	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Canadian Income Trusts (US\$)</b>								
	PEYUF		11.17		1.34	18.0	12.9	11.4
	COSWF	B	28.73		0.48	22.7	12.7	8.9
	PWE		17.58		0.75	8.1	8.4	8.0
	ERF		22.94		0.59	9.4	9.4	7.1
	PGH		9.67		0.47	7.9	8.4	6.7
	<i>Median</i>					9.4	9.4	8.0
<b>Small Cap Independent Producers</b>								
	BIREF		7.24		-	10.1	13.4	11.2
	EAC		44.56		-	11.7	8.2	7.7
	BRY		27.83		-	12.1	7.8	6.9
	XEC	B	44.94		-	7.6	5.6	5.1
	<i>Median</i>					10.9	8.0	7.3
<b>Top Line Cash Payers</b>								
	CRT		33.55	84	0.93	13.3	13.0	15.6
	SBR		42.07	100	1.00	10.2	18.0	13.8
	DMLP	B	22.03	64	0.87	8.2	16.2	13.2
	PBT		13.61	32	0.89	11.7	16.9	12.8
	FRHLF		13.84	71	0.71	6.5	9.0	7.6
	<i>Median</i>					10.2	16.2	13.2
<b>Bottom Line Cash Payers</b>								
	LINE		24.30		2.27	18.2	13.5	18.1
	SJT	B	18.86		0.77	9.1	13.7	12.3
	MTR		37.29		0.85	7.8	15.6	12.0
	HGT	B	16.52		0.72	13.3	15.2	10.9
	ENP		17.81		1.11	13.1	8.8	9.1
	<i>Median</i>					13.1	13.7	12.0
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2010; 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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**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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