

Natural Gas Royalty Trusts

A Weekly Analysis

May 8, 2003

Dollar Hedge

Summary and Recommendation

Natural gas royalty trusts, primarily representing ownership of the commodity, ring of realism that paper or electronic dollars do not have. That is reassuring after a week of sharp devaluation of the dollar in international currency markets. Of course, the appeal is more exciting than that for those who believe as we do that natural gas commodity appreciation in itself may be rewarding because demand for the clean fuel, particularly for power generation, appears to be expanding faster than producing capacity. Always wary that commodity price can take an unpredictable turn, we nonetheless believe that long term value remains attractive in recommended **San Juan Basin Royalty Trust (SJT)** and in **Cross Timbers Royalty Trust (CRT)** as well as in **Hugoton Royalty Trust (HGT)**. Continued gains in six-year futures translate to gains in present value that appear to be matched by gains in stock price as signaled by little change in McDep Ratio. In other words, the stocks are going up in line with apparent industry prospects.

Kurt H. Wulff, CFA

Natural Gas and Oil Futures

May 7,

	2004	2005	2006	2007	2008	2009	<i>Six Year</i>
Natural Gas							
Year ending	5.63	4.88	4.65	4.58	4.58	4.50	4.81
Light Sweet Crude Oil							
Year ending	25.44	24.43	24.12	24.09	24.08	24.10	24.38
Natural Gas/Oil (6:1 =							
Year ending	1.33	1.20	1.16	1.14	1.14	1.12	1.18

Source: Nymex, FutureSource, wsj.com, McDep

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Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 7-May 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Cross Timbers Royalty Trust	CRT	21.85	6.0	131	22.60	-	0.97
Hugoton RoyaltyTrust (46%)	HGT	14.96	18.4	280	17.70	-	0.84
San Juan Basin Royalty Trust	SJT B	15.40	46.6	720	18.90	-	0.82

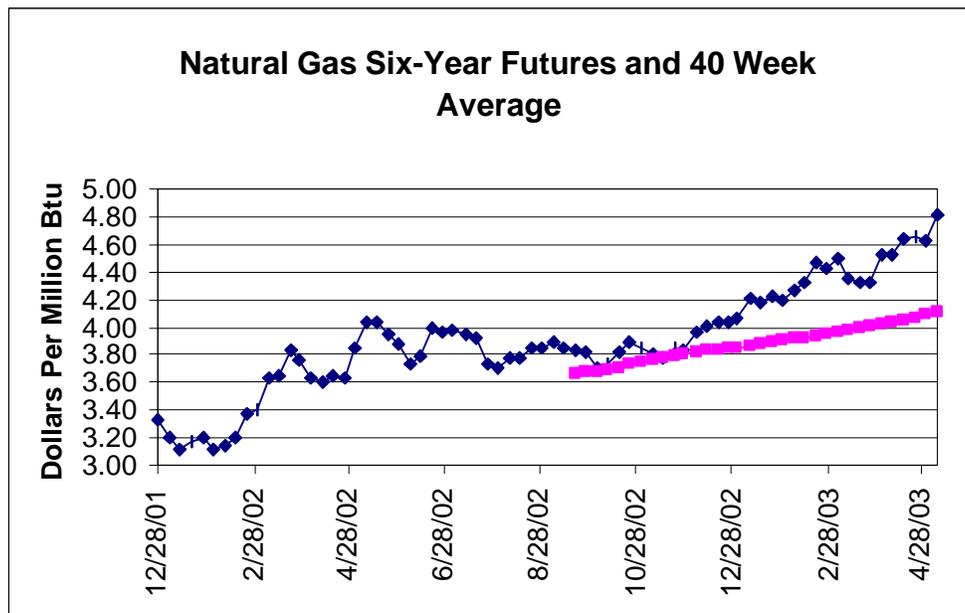
Buy/Sell rating after symbol: B - Buy, N - Neutral, S - Sell

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 7-May 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM
Cross Timbers Royalty Trust	CRT	21.85	6.2	8.5	9	11.3	8.8
San Juan Basin Royalty Trust	SJT B	15.40	5.0	6.1	7	14.2	7.5
Hugoton RoyaltyTrust (46%)	HGT	14.96	4.4	5.8	7	15.0	6.9

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2003; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses



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Table SJT-1
San Juan Basin Royalty Trust
Present Value

Volume Decline (%/yr):	11	Price Escalation Post 2008 (%/yr):	2.6
Volume Enhancement (%/yr):	10	Discount rate (%/yr):	6.0
Capex/Cash Flow (%):	25	U.S. TIPS Inflation (%/yr):	1.8
Variable Cost (%):	12	U.S. 10 Year Yield (%/yr):	4.0
PV/Volume (\$/mcf):	1.73	PV/EBITDA 2004:	7.8

Year	Basic (bcf)	Enhanced (bcf)	Total (bcf)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var Cost (\$mm)	Cap Ex (\$mm)	Distribution (\$/unit)	Disc Factor	Present Value (\$/unit)	
Total 2004 through 2030; years ending on 3/31												
	306	204	509	4.43	2258	353	271	193	1441	30.93	0.61	18.90
2004	34.1	0.0	34.1	4.24	144.6	14.5	17.3	10.7	102.0	2.19	0.97	2.13
2005	30.5	3.4	33.9	4.30	145.5	13.0	17.5	28.8	86.3	1.85	0.92	1.70
2006	27.2	6.4	33.7	4.01	135.0	13.0	16.2	26.4	79.3	1.70	0.86	1.47
2007	24.3	9.1	33.5	3.89	130.2	13.0	15.6	25.4	76.2	1.63	0.82	1.33
2008	21.8	11.5	33.3	3.92	130.3	13.0	15.6	25.4	76.2	1.64	0.77	1.26
2009	19.5	13.6	33.1	3.86	127.5	13.0	15.3	24.8	74.4	1.60	0.73	1.16
2010	17.4	15.5	32.9	3.96	130.0	13.0	15.6	25.4	76.1	1.63	0.69	1.12
2011	15.5	17.1	32.7	4.06	132.6	13.0	15.9	25.9	77.7	1.67	0.65	1.08
2012	13.9	15.3	29.2	4.16	121.5	13.0	14.6		94.0	2.02	0.61	1.23
2013	12.4	13.7	26.1	4.27	111.5	13.0	13.4		85.1	1.83	0.58	1.05
2014	11.1	12.2	23.3	4.38	102.2	13.0	12.3		76.9	1.65	0.54	0.90
2015	9.9	10.9	20.9	4.49	93.7	13.0	11.2		69.5	1.49	0.51	0.76
2016	8.9	9.8	18.6	4.61	85.9	13.0	10.3		62.6	1.34	0.48	0.65
2017	7.9	8.7	16.7	4.73	78.8	13.0	9.5		56.3	1.21	0.46	0.55
2018	7.1	7.8	14.9	4.85	72.3	13.0	8.7		50.6	1.09	0.43	0.47
2019	6.3	7.0	13.3	4.97	66.3	13.0	8.0		45.3	0.97	0.41	0.39
2020	5.7	6.2	11.9	5.10	60.8	13.0	7.3		40.5	0.87	0.38	0.33
2021	5.1	5.6	10.6	5.23	55.7	13.0	6.7		36.0	0.77	0.36	0.28
2022	4.5	5.0	9.5	5.37	51.1	13.0	6.1		32.0	0.69	0.34	0.23
2023	4.1	4.5	8.5	5.50	46.8	13.0	5.6		28.2	0.61	0.32	0.19
2024	3.6	4.0	7.6	5.65	43.0	13.0	5.2		24.8	0.53	0.30	0.16
2025	3.2	3.6	6.8	5.79	39.4	13.0	4.7		21.7	0.46	0.29	0.13
2026	2.9	3.2	6.1	5.94	36.1	13.0	4.3		18.8	0.40	0.27	0.11
2027	2.6	2.8	5.4	6.09	33.1	13.0	4.0		16.1	0.35	0.25	0.09
2028	2.3	2.5	4.9	6.25	30.4	13.0	3.6		13.7	0.29	0.24	0.07
2029	2.1	2.3	4.3	6.41	27.9	13.0	3.3		11.5	0.25	0.23	0.06
2030	1.8	2.0	3.9	6.57	25.5	13.0	3.1		9.5	0.20	0.21	0.04

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Table SJT-2
San Juan Basin Royalty Trust
Distributable Income

	Q2	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Next Twelve Months
	6/30/02	9/30/02	12/31/02	2002	3/31/03	6/30/03	9/30/03	12/31/03	2003E	3/31/04	3/31/04
Highlights											
Revenue (\$mm) (75%)	18.6	20.7	20.4	78.9	31.1	38.4	34.7	35.3	139.5	36.2	144.6
Cash flow (\$mm) (75%)	14.1	16.0	15.6	59.7	25.0	31.5	28.3	28.8	113.5	29.6	118.1
Per unit	0.30	0.34	0.33	1.28	0.54	0.68	0.61	0.62	2.44	0.64	2.53
Tax credit (\$mm)	1.4	1.9	1.9	5.6					-		
Per unit	0.03	0.04	0.04	0.12					-		
Distributable Income (\$mm)	9.0	12.2	11.6	36.3	19.5	27.4	24.3	24.7	95.9	25.6	102.0
Per unit	0.19	0.26	0.25	0.78	0.42	0.59	0.52	0.53	2.06	0.55	2.19
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume											
Natural gas (mmbtu)	12.0	11.6	12.4	48.5	12.6	11.7	12.1	12.1	48.5	12.1	48.0
Heat Content(btu/cf)	1,077	970	1,064	1,050	1,084	1,068	1,068	1,068	1,072	1,068	1,068
Natural gas (bcf)	11.1	12.0	11.6	46.2	11.6	11.0	11.3	11.3	45.3	11.3	44.9
Natural Gas (mmcf)	125.1	130.4	126.2	126.6	126.5	123.1	123.1	123.1	124.0	123.1	123.1
Days	89	92	92	365	92	89	92	92	365	92	365
Oil (mb)	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Oil (mbd)	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total gas & oil (bcf)	11.3	12.1	11.7	46.8	11.8	11.1	11.4	11.4	45.7	11.4	45.4
Price											
Natural gas (\$/mmbtu) (Henry Hub lagged two months)											
Henry Hub (\$/mmbtu)	2.92	3.23	3.59	3.02	4.73	6.33	5.65	5.74	5.61	5.89	5.90
Differential (%)	31	28	40	30	32	32	33	33	33	33	33
Total	2.02	2.33	2.16	2.13	3.24	4.32	3.79	3.84	3.79	3.95	3.97
Natural gas (\$/mcf)	2.18	2.26	2.30	2.24	3.51	4.61	4.05	4.11	4.06	4.22	4.24
Oil (\$/bbl) (WTI Cushing lagged two months)											
WTI Cushing	23.80	26.49	28.96	24.70	29.55	32.51	26.04	25.73	28.46	25.33	27.40
SJT	19.14	21.95	28.35	20.90	28.92	31.82	25.49	25.19	27.82	24.79	26.78
Total gas & oil (\$/mcf)	2.19	2.28	2.32	2.25	3.53	4.62	4.05	4.11	4.07	4.22	4.24
Revenue (\$mm)											
Natural Gas	24.2	27.1	26.7	103.3	40.9	50.6	45.8	46.5	183.8	47.8	190.7
Oil	0.5	0.5	0.6	2.0	0.6	0.6	0.5	0.5	2.2	0.5	2.1
Total	24.8	27.6	27.3	105.2	41.5	51.2	46.3	47.0	186.0	48.3	192.8
Cost (\$mm)											
Severance tax	2.4	2.3	3.1	10.5	4.2	5.3	4.6	4.7	18.8	4.8	19.5
Operating	3.7	4.0	3.4	15.2	3.9	3.9	4.0	4.0	15.8	4.0	15.8
Total	6.0	6.3	6.5	25.6	8.1	9.2	8.6	8.7	34.6	8.8	35.3
Cash flow (\$mm)	18.8	21.3	20.7	79.6	33.3	42.0	37.7	38.3	151.4	39.5	157.5
Development	3.4	2.1	4.7	21.5	6.6	3.6	3.6	3.6	17.2	3.6	14.2
Net proceeds (\$mm)	15.4	19.2	16.1	58.2	26.8	38.4	34.2	34.8	134.1	35.9	143.3
Royalty income (\$mm)	11.5	14.4	12.1	43.6	20.1	28.8	25.6	26.1	100.6	26.9	107.4
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	0.5	0.6	0.5	2.0	0.6	1.4	1.4	1.4	4.7	1.4	5.4
One-time	2.0	1.6		5.3					-		-
Distributable income (\$mm)	9.0	12.2	11.6	36.3	19.5	27.4	24.3	24.7	95.9	25.6	102.0
Modeling ratios											
Severance tax/revenue	9.5%	8.5%	11.5%	9.9%	10.2%	10.3%	10.0%	10.0%	10.1%	10.0%	10.1%
Operating cost (\$/mcf)	0.32	0.33	0.29	0.32	0.33	0.35	0.35	0.35	0.34	0.35	0.35
Development/Cash flow	18%	10%	22%	27%	20%	8%	9%	9%	11%	9%	9%

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Table SJT-3
San Juan Basin Royalty Trust
Monthly Declarations

	<i>Feb-03</i>	<i>Mar-03</i>	<i>Apr-03</i>	<i>May-03</i>	<i>Jun-03</i>	<i>Jul-03</i>	<i>Aug-03</i>
Distribution (\$/unit)							
Declared	0.12	0.20	0.16				
<i>Projected</i>				0.28	0.15	0.18	0.18
Volume							
Natural gas (mmbtu)	3.97	4.58	3.62	4.11	3.98	4.11	3.98
Heat Content(btu/cf)	1,097	1,067	1,107	1,051	1,051	1,051	1,051
Natural gas (bcf)	3.62	4.29	3.27	3.91	3.78	3.91	3.78
Natural Gas (mmcf)	117	138	117	126	126	126	126
Days	31	31	28	31	30	31	30
Price							
Natural gas industry quotes lagged two months (\$/mmbtu)							
Henry Hub Daily/Futures	4.76	5.41	7.77	5.95	5.26	5.57	5.66
San Juan Monthly Index	3.45	4.14	4.58	5.91	3.71	4.03	
SJT/Henry Hub	0.66	0.68	0.54	0.90	0.64	0.66	0.67
SJT/San Juan Index	0.91	0.88	0.91	0.91	0.91	0.91	
SJT (\$/mmbtu)	3.14	3.66	4.16	5.38	3.38	3.67	3.79
SJT (\$/mcf)	3.45	3.91	4.60	5.66	3.55	3.86	3.99
Revenue (\$mm)							
Natural Gas	12.5	16.8	15.0	22.1	13.4	15.1	15.1
Other	(0.1)	(0.1)	0.1	(0.0)	(0.0)	(0.0)	(0.0)
Cost (\$mm)							
Severance tax	1.3	1.7	1.6	2.3	1.4	1.6	1.6
Operating	1.3	1.1	1.4	1.3	1.3	1.3	1.3
Total	2.6	2.8	3.0	3.6	2.7	2.8	2.8
Cash flow (\$mm)	9.8	13.8	12.1	18.5	10.7	12.2	12.2
Development	2.4	1.4	1.1	1.2	1.2	1.2	1.2
Net proceeds (\$mm)	7.4	12.4	11.0	17.3	9.5	11.0	11.0
Royalty income (\$mm)	5.5	9.3	8.3	12.9	7.1	8.2	8.2
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%
One time			0.9				
Distributable income (\$mm)	5.5	9.3	7.4	12.9	7.1	8.2	8.2
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Distribution (\$/unit)	0.12	0.20	0.16	0.28	0.15	0.18	0.18
<i>Latest Twelve Month Average</i>							
Heat Content(btu/cf)	1,050	1,048	1,051				
Natural Gas (mmcf)	126	127	126				
SJT/Henry Hub	0.70	0.67	0.67				
SJT/San Juan Index	0.90	0.90	0.91				
Other revenue	(0.1)	(0.1)	(0.0)				
Operating	1.3	1.2	1.3				
Development	1.5	1.4	1.2				
Severance tax/revenue	10.1%	10.1%	10.2%				

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