



Independent Stock Idea

March 22, 2010

rating: buy
s&p 500: 1160

Hugoton Royalty Trust (HGT) Monthly Volume Distortion

<i>Symbol</i>	HGT	<i>Ebitda Next Twelve Months ending 3/31/11 (US\$mm)</i>	71
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	86
<i>Price (US\$/sh)</i>	15.00	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/19/10	<i>Adjusted Reserves/Production NTM</i>	12.3
<i>Shares (mm)</i>	40.0	<i>EV/Ebitda</i>	8.5
<i>Market Capitalization (US\$mm)</i>	600	<i>PV/Ebitda</i>	11.9
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	12
<i>Enterprise Value (EV) (US\$mm)</i>	600	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	3.38
<i>Present Value (PV) (US\$mm)</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>	65
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.32
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	11
<i>Distribution Yield (%/year)</i>	8.8	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.32
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

Stock price for buy-recommended **Hugoton Royalty Trust (HGT)** ought to rebound from a 12% decline on March 19 because monthly volume that was reported to decline by 13% actually increased by 2%. As a result, the monthly distribution declared for March was \$0.14 a unit compared to our estimate of \$0.18. Occurring on the last day of winter when investor interest also turned away from other natural gas stocks, the distortion of the Hugoton disclosure appeared to be magnified. The trustee explains in the release that payment for 14% of volume was received after the end of the month and therefore not included in the calculation of volume for the latest distribution. Using the new low price for HGT and taking account of latest futures prices for natural gas for the next twelve months, we see a distribution yield of 8.8%. We include a gentle decline in production from HGT's long-life, low cost reserves while we wait for firming price from rising demand for clean energy that would accompany economic growth. Though more drilling on HGT's properties would be competitive, the near-term trend of natural gas price is signaling that producers should delay further development efforts until consumers need more fuel. No company is more insistent on considering longer term implications in drilling decisions than the soon-to-be operator of the trust's properties, buy-recommended **ExxonMobil (XOM)**. While gaining long-term value, investors in HGT can receive attractive current income.

Kurt H. Wulff, CFA



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Hugoton Royalty Trust									
Next Twelve Months Operating and Financial Performance									
									<i>Next Twelve Months</i>
	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</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>3/31/11</i>	<i>3/31/11</i>
Highlights									
Revenue (\$mm) (80%)	21.5	83.3	28.1	26.7	25.1	26.1	106.0	30.2	108.1
Cash flow (\$mm) (80%)	12.5	46.9	18.6	17.4	15.9	16.8	68.6	20.5	70.6
Per unit	0.31	1.17	0.46	0.43	0.40	0.42	1.72	0.51	1.76
Distributable Income (\$mm)	11.2	29.3	16.6	14.8	10.9	11.8	54.0	15.5	53.0
Per unit	0.28	0.73	0.41	0.37	0.27	0.30	1.35	0.39	1.32
Units (millions)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Volume									
Natural Gas (bcf)	6.5	26.6	5.9	6.1	6.2	6.2	24.4	6.1	24.6
Natural Gas (mmcf)	71.1	73.0	64.5	68.3	67.6	66.9	66.8	66.3	67.3
Days	92	365	92	89	92	92	365	92	365
Oil (mb)	55	260	64	62	64	63	253	64	253
Oil (mbd)	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Days	92	365	92	89	92	92	365	92	365
Total (bcf)	6.9	28.2	6.3	6.4	6.6	6.5	25.9	6.5	26.1
Price									
Natural Gas (HH lagged two months)									
Henry Hub (\$/mmbtu)	3.31	4.37	4.88	4.74	4.26	4.51	4.60	5.38	4.72
Differential (%)	(4)	23	(5)	-	-	-	(1)	-	0
HGT (\$/mcf)	3.45	3.38	5.13	4.74	4.26	4.51	4.65	5.38	4.72
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	72.10	57.22	76.95	78.77	80.42	81.40	79.38	82.12	80.68
HGT	78.90	54.10	72.76	74.48	76.04	76.97	75.06	77.64	76.30
Total (\$/mcf)	3.92	3.69	5.55	5.18	4.74	4.99	5.11	5.83	5.18
Revenue (\$mm)									
Natural Gas	22.6	90.1	30.4	28.8	26.5	27.8	113.5	32.8	115.9
Oil	4.3	14.1	4.7	4.6	4.8	4.9	19.0	5.0	19.3
Total	26.9	104.2	35.1	33.4	31.3	32.6	132.5	37.8	135.2
Cost (\$mm)									
Tax, transport & other	3.7	13.8	3.9	3.7	3.4	3.6	14.6	4.2	14.9
Production	4.9	21.0	5.3	5.3	5.3	5.3	21.2	5.3	21.2
Overhead	2.7	10.6	2.7	2.7	2.7	2.7	10.9	2.7	10.9
Total	11.3	45.5	11.9	11.7	11.5	11.6	46.7	12.2	47.0
Cash flow (\$mm)									
Development	1.5	21.0	1.5	3.0	6.0	6.0	16.5	6.0	21.0
Excess costs	0.1	0.1					-		
Net proceeds (\$mm)	14.1	37.7	21.7	18.7	13.9	15.0	69.3	19.6	67.2
Royalty income (\$mm)									
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%	80%
Administration	0.0	0.8	0.8	0.2	0.2	0.2	1.4	0.2	0.8
Distributable income (\$mm)									
Tax and other/revenue	13.6%	13.3%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Production cost (\$/mcf)	0.72	0.75	0.84	0.82	0.80	0.81	0.82	0.82	0.81
Overhead cost (\$/mcf)	0.40	0.38	0.43	0.42	0.41	0.42	0.42	0.42	0.42
Development/Cash flow	0.10	0.36	0.06	0.14	0.30	0.29	0.19	0.23	0.24
Production/Revenue	0.18	0.20	0.15	0.16	0.17	0.16	0.16	0.14	0.16
Overhead/Revenue	0.10	0.10	0.08	0.08	0.09	0.08	0.08	0.07	0.08
Distributable Income/Reven	0.42	0.28	0.47	0.44	0.35	0.36	0.41	0.41	0.39

Please see disclosures on the final page.

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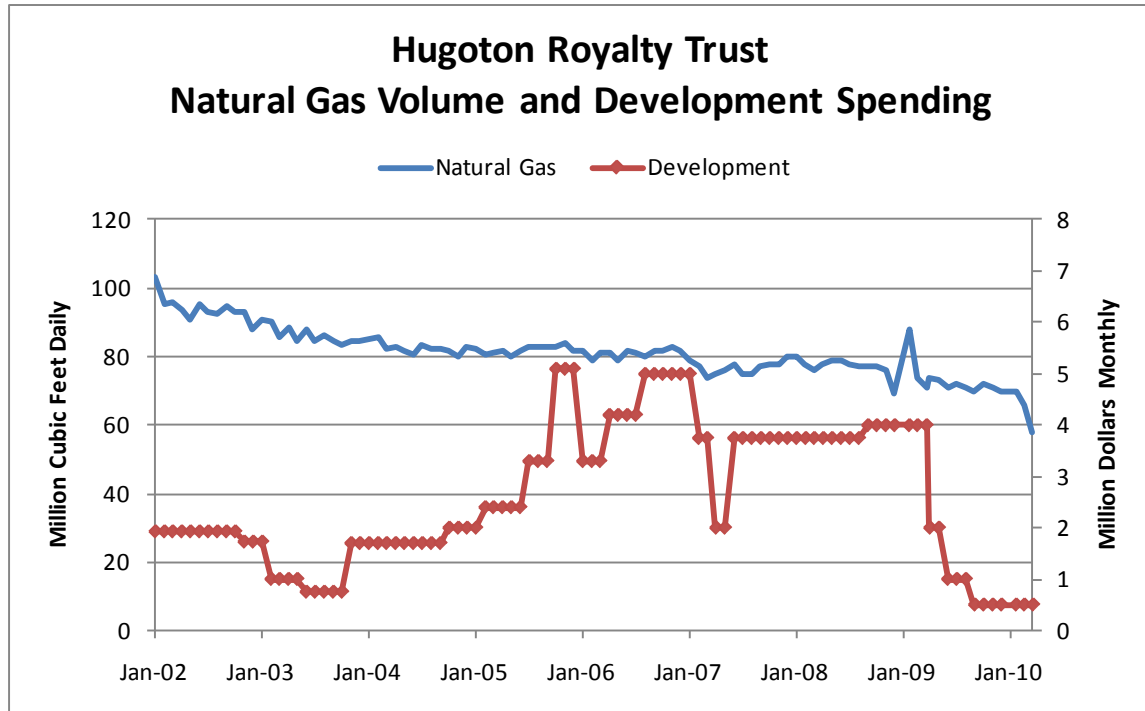
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Hugoton Royalty Trust									
Monthly Declarations									
	Jan-09	Feb-09	Mar-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10
Distribution (\$/unit)									
Declared	0.03	0.06	0.05	0.10	0.08	0.11	0.13	0.14	0.14
Projected									
Volume									
Natural Gas (bcf)	2.63	2.28	2.20	2.23	2.14	2.17	2.09	2.05	1.79
Natural Gas (mmcf)	88	74	71	72	71	70	70	66	58
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	0.99
HGT (\$/mcf)	3.41	4.11	4.49	3.41	3.00	3.94	4.75	4.92	5.80
Revenue (\$mm)									
Natural Gas	9.0	9.4	9.9	7.6	6.4	8.5	9.9	10.1	10.4
Other	(0.3)	0.0	(1.0)	0.3	0.4	(0.1)	(0.0)	(0.1)	(0.1)
Total	8.6	9.4	8.9	7.9	6.9	8.4	9.9	10.0	10.3
Cost (\$mm)									
Production	2.1	1.8	1.6	1.7	1.6	1.6	1.8	1.7	1.8
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	2.7
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	7.1
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	5.7
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	0.14
<i>Latest Twelve Month Average</i>									
Natural Gas (mmcf)	78	77	77	73	73	73	72	71	70
HGT/Henry Hub	0.82	0.79	0.77	0.74	0.77	0.81	0.86	0.90	0.92
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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