



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 25, 2012

HGT Bargain

Summary and Recommendation

A 54% stock price decline creates an apparent bargain in the units of **Hugoton Royalty Trust (HGT)**. The stock's 0.50 McDep Ratio stands out as the lowest in the Bottom Line Cash Payer group (see [Table ISC-1](#) on page 2). The decline may be exaggerated in part as panic sellers may be overlooking the absence of any debt, which would normally reduce equity volatility (see [Table ISC-2](#) on page 3). Once the highest, cash flow multiple (EV/Ebitda) is now below the group median (see [Table ISC-3](#) on page 4). The multiple is low despite the reduction in NPV we now make to \$14 from \$17 after alluding to it a few days ago (see [Stock Idea Hugoton Royalty Trust \(HGT\) - Panic Selling on Possible Legal Settlement](#), May 22, 2012). Multiples for natural gas stocks are generally higher than those for oil stocks because natural gas price is depressed relative to oil price by most measures. The most understandable explanation for a stock price decline is that a pending legal settlement may reduce monthly income to a nominal \$.01 a unit for more than a year at current low natural gas price. Low income, even if temporary, often has an exaggerated impact on stock price compared to the impact, if any, on long-term value. Those conditions applied to royalty trusts can be a classic signal of undervaluation.

Kurt H. Wulff, CFA

While we travel overseas, Income and Small Cap Weekly will not be published on June 2.



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Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
			Price								
Symbol/Rating	(US\$/sh)	EV/	Enterprise	PV(%)	EV/	Dist.	Dist.				
B = Buy	24-May	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
CB (see below)	2012	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
Range Resources	RRC	CB	62.17	1.27	12,640	71	29	15.1	0.16	0.3	0.91
Peyto Exploration and Developmen	PEYUF		17.72	1.20	2,940	77	23	10.0	0.70	4.0	0.77
PDC Energy	PETD		25.04	1.89	1,130	56	44	7.3	-	-	0.76
Berry Petroleum Company	BRY		38.25	1.75	3,650	13	87	5.8	0.32	0.8	0.68
Denbury Resources Inc.	DNR		15.21	1.47	8,720	6	94	5.4	-	-	0.64
Birchcliff Energy Ltd.	BIREF	CB	5.99	1.51	1,330	61	39	9.5	-	-	0.60
Whiting Petroleum Corporation	WLL	CB	44.27	1.35	7,140	8	92	4.5	-	-	0.58
Cimarex Energy Company	XEC	CB	54.21	1.22	5,710	42	58	4.9	0.48	0.9	0.54
<i>Total or Median</i>					43,300			6.5			0.66
Top Line Cash Payers											
Permian Basin RT	PBT		18.80	1.00	880	37	63		1.38	7.4	0.94
Cross Timbers Royalty Trust	CRT		38.69	1.00	230	70	30		2.42	6.3	0.88
Freehold Royalties Ltd.	FRHLF		17.82	1.04	1,200	16	84		1.64	9.2	0.85
Dorchester Minerals, L.P.	DMLP	CB	22.15	1.00	680	57	43		1.80	8.1	0.82
Sabine Royalty Trust	SBR		49.45	1.00	720	55	45		3.52	7.1	0.76
<i>Total or Median</i>					3,700					7.4	0.85
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		36.02	1.68	11,670	40	60	11.7	2.90	8.1	1.11
Vanguard Natural Resources, LLC	VNR		25.23	1.52	2,010	27	74	9.8	2.37	9.4	1.01
Legacy Reserves L.P.	LGCY		26.41	1.39	1,740	23	77	8.2	2.22	8.4	0.91
Enduro Royalty Trust (40%)	NDRO		18.44	1.00	240	42	58	6.8	1.68	9.1	0.88
San Juan Basin Royalty Trust	SJT	CB	16.41	1.00	770	100	-	12.9	0.88	5.3	0.78
Mesa RoyaltyTrust	MTR		30.15	1.00	56	75	25	10.0	2.56	8.5	0.75
Enerplus Corporation	ERF	CB	13.71	1.62	4,400	27	73	5.6	2.10	15.3	0.64
Hugoton RoyaltyTrust	HGT		6.99	1.00	280	89	11	8.2	0.37	5.3	0.50
<i>Total or Median</i>					21,200			9.0		8.5	0.83
Composite											
<i>Enterprise Value Weighting</i>					68,100	38	62				0.75
<i>Equal Weighting</i>						47	53				0.78
<i>Equal Weighted Buys</i>						45	55				0.66

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 (PV) presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended March 31, 2013. Enterprise Value = Market Cap and Debt.



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Table ISC-2								
McDep Income and Small Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price (\$/sh)		Market	Net		
	Symbol/ Rating		24-May 2012	Shares (mm)	Cap (\$mm)	Present Value (\$/un)	Debt/ Present Value	McDep Ratio
Small Cap Independent Producers								
Range Resources	RRC	CB	62.17	160.0	9,950	70.00	0.19	0.91
Peyto Exploration and Development Cor	PEYUF		17.72	138.3	2,450	24.00	0.13	0.77
PDC Energy	PETD		25.04	23.9	600	40.00	0.36	0.76
Berry Petroleum Company	BRY		38.25	54.7	2,090	70.00	0.29	0.68
Denbury Resources Inc.	DNR		15.21	391.0	5,950	28.00	0.20	0.64
Birchcliff Energy Ltd.	BIREF	CB	5.99	146.0	880	12.00	0.20	0.60
Whiting Petroleum Corporation	WLL	CB	44.27	119.0	5,270	88.00	0.15	0.58
Cimarex Energy Company	XEC	CB	54.21	86.1	4,670	110.00	0.10	0.54
<i>Total or Median</i>					31,860		0.20	0.66
Top Line Cash Payers								
Permian Basin RT	PBT		18.80	46.6	880	20.00	-	0.94
Cross Timbers Royalty Trust	CRT		38.69	6.0	230	44.00	-	0.88
Freehold Royalties Ltd.	FRHLF		17.82	64.7	1,150	21.00	0.03	0.85
Dorchester Minerals, L.P.	DMLP	CB	22.15	30.7	680	27.00	-	0.82
Sabine Royalty Trust	SBR		49.45	14.6	720	65.00	-	0.76
<i>Total or Median</i>					3,660			0.85
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		36.02	193.0	6,950	30.00	0.45	1.11
Vanguard Natural Resources, LLC	VNR		25.23	52.5	1,330	25.00	0.34	1.01
Legacy Reserves L.P.	LGCY		26.41	47.5	1,250	30.00	0.26	0.91
Enduro Royalty Trust (40%)	NDRO		18.44	13.2	240	21.00	-	0.88
San Juan Basin Royalty Trust	SJT	CB	16.41	46.6	770	21.00	-	0.78
Mesa RoyaltyTrust	MTR		30.15	1.9	56	40.00	-	0.75
Enerplus Corporation	ERF	CB	13.71	196.0	2,690	26.00	0.25	0.64
Hugoton RoyaltyTrust	HGT		6.99	40.0	280	14.00	-	0.50
<i>Total or Median</i>					13,570			0.83
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 \$100 a barrel for oil and \$6 a million btu for natural gas.								



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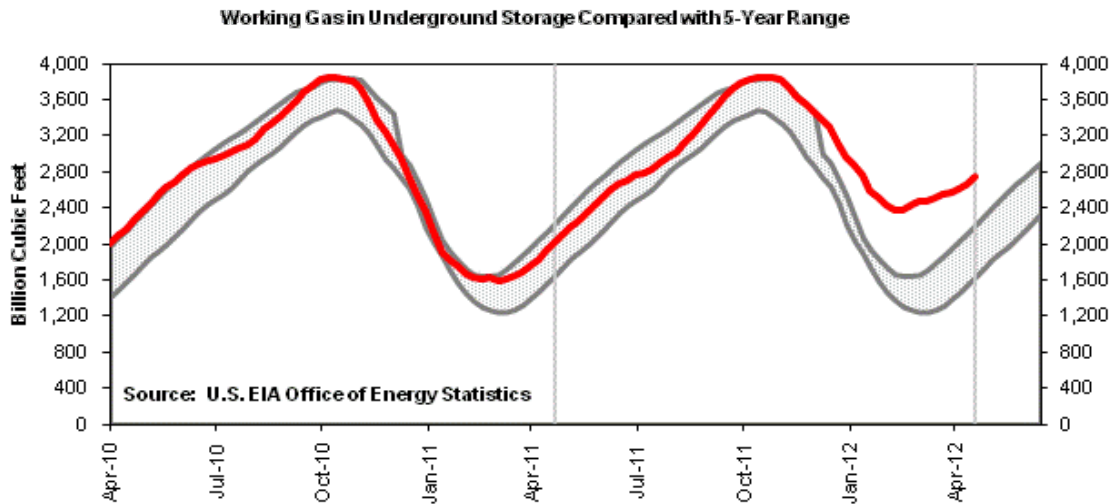
Table ISC-3								
McDep Income and Small Cap Energy Portfolio								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		24-May 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	CB	62.17		-	14.5	16.6	15.1
Peyto Exploration and Development Corp	PEYUF		17.72		0.38	10.5	12.9	10.0
Birchcliff Energy Ltd.	BIREF	CB	5.99		-	22.6	15.7	9.5
PDC Energy	PETD		25.04		-	8.1	9.6	7.3
Berry Petroleum Company	BRY		38.25		-	12.2	8.5	5.8
Denbury Resources Inc.	DNR		15.21		-	13.3	8.6	5.4
Cimarex Energy Company	XEC	CB	54.21		-	8.2	9.0	4.9
Whiting Petroleum Corporation	WLL	CB	44.27		-	9.7	7.8	4.5
	<i>Median</i>					11.3	9.3	6.5
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		38.69	78	0.96	16.3	17.4	15.3
Sabine Royalty Trust	SBR		49.45	100	1.00	8.8	18.4	14.0
Permian Basin RT	PBT		18.80	32	0.91	9.7	13.2	12.4
Dorchester Minerals, L.P.	DMLP	CB	22.15	77	1.00	6.6	15.0	12.3
Freehold Royalties Ltd.	FRHLF		17.82	71	0.82	5.3	10.6	9.0
	<i>Median</i>					8.8	15.0	12.4
Bottom Line Cash Payers								
San Juan Basin Royalty Trust	SJT	CB	16.41		0.69	8.8	16.5	12.9
Linn Energy, LLC	LINE		36.02		1.02	14.5	10.5	11.7
Mesa RoyaltyTrust	MTR		30.15		0.86	7.5	13.4	10.0
Vanguard Natural Resources, LLC	VNR		25.23		0.92	13.6	9.7	9.8
Hugoton RoyaltyTrust	HGT		6.99		0.84	13.2	16.4	8.2
Legacy Reserves L.P.	LGCY		26.41		0.66	11.3	9.0	8.2
Enduro Royalty Trust (40%)	NDRO		18.44		0.62	5.2	7.8	6.8
Enerplus Corporation	ERF	CB	13.71		0.70	6.5	8.7	5.6
	<i>Median</i>					10.1	10.1	9.0
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, 2013; 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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