

## McDep Ratio Opportunity in Hugoton

### Summary and Recommendation

The **Mesa Royalty Trust (MTR)** experience of the past year reinforces our expectations for buy-recommended **Hugoton Royalty Trust (HGT)**. Now near the top of the McDep ranking as the stock outperforms (see table [Rank by McDep Ratio](#)), MTR traded at the bottom along with HGT a year ago (see, for example, <http://www.mcdep.com/rtweek60929.pdf>). Though the long-term potential measured by Net Present Value (NPV) did not change, distributions were reduced for MTR a year ago for a lawsuit deduction and increased recently because the lawsuit deduction was refunded. We don't know all the reasons why HGT is underperforming in stock price, but the working interest owner and the trustee have repeatedly emphasized that natural gas price is low for the trust's production in Wyoming. Rocky Mountain natural gas price periodically lags temporarily after a surge of drilling and before new pipelines are completed. Meanwhile the big news of the week is the upside implication of oil price closing above \$90 a barrel for near-month futures. That news is tempered for our Canadian recommendations as the Alberta government grabs a higher share long term (see *Industry Idea Flash, Alberta's New Royalty Framework – Gradually Reduce Weighting of Canadian Buy Recommendations*, October 26, 2007).

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### Natural Gas and Oil Income Stocks - Rank by McDep Ratio

	Symbol/ Rating	Price (\$/sh) 25-Oct 2007	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
<b>U.S. Royalty Trusts</b>							
	SBR	47.06	14.6	690	45.00	-	1.05
	MTR	68.60	1.9	130	70.00	-	0.98
	PBT	15.85	46.6	740	16.50	-	0.96
	SJT	B	36.76	46.6	1,710	40.00	0.92
	CRT	40.18	6.0	240	46.00	-	0.87
	HGT	B	23.90	40.0	960	34.00	0.70
	<i>Total or Median</i>			4,500			0.94
<b>Canadian Income Trusts (US\$)</b>							
	PGH	18.78	246.0	4,620	17.00	0.28	1.08
	PWE	B	32.74	241.5	7,910	36.00	0.21
	ERF	47.00	128.0	6,020	52.00	0.13	0.92
	COSWF	B	34.78	479.0	16,660	39.00	0.08
	<i>Total or Median</i>			35,200		0.17	0.92
<b>U.S. Master Limited Partnerships (MLPs)</b>							
	KMP	S	51.83	178.3	9,240	17.00	0.54
	LINE	29.77	114.0	3,390	25.00	0.31	1.13
	ENP	20.45	9.0	180	18.00	0.14	1.12
	DMLP	22.18	28.2	630	27.00	-	0.82
	<i>Total or Median</i>			13,400		0.23	1.12

B = Buy, S = Sell

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

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## Natural Gas and Oil Income Stocks - Rank by EV/Ebitda

	Symbol/ Rating		Price (\$/sh) 25-Oct 2007	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	B	36.76	10.3	13.6	12.5	15.2	6.6
Cross Timbers Royalty Trust	CRT		40.18	13.9	12.6	11.0	11.7	8.5
Mesa RoyaltyTrust	MTR		68.60	21.9	11.0	10.8	12.3	8.2
Sabine Royalty Trust	SBR		47.06	9.6	9.9	10.3	10.3	9.7
Hugoton RoyaltyTrust	HGT	B	23.90	13.8	11.8	8.3	12.1	8.2
Permian Basin RT	PBT		15.85	8.1	8.5	8.2	10.1	9.9
	<i>Median</i>			12.1	11.4	10.5	11.9	8.4
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	34.78	21.7	9.2	8.3	9.8	9.1
Pengrowth Energy Trust	PGH		18.78	7.1	7.1	7.7	40.4	15.5
Enerplus Resources Fund	ERF		47.00	9.4	8.3	7.6	15.3	10.9
Penn West Energy Trust	PWE	B	32.74	7.7	7.3	6.8	13.3	12.7
	<i>Median</i>			8.5	7.8	7.6	14.3	11.8
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Linn Energy, LLC	LINE		29.77	21.1	14.2	16.1	71.1	7.7
Kinder Morgan Energy Partners, L.P.	KMP	S	51.83	7.6	7.9	15.3	32.4	6.8
Dorchester Minerals, L.P.	DMLP		22.18	9.1	11.9	9.8	15.2	10.2
Encore Energy Partners, L.P.	ENP		20.45	12.7	7.6	8.4	22.3	6.8
	<i>Median</i>			10.9	9.9	12.6	27.4	7.3

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

## Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield

	Symbol	Revenue Royalty (%)	Natural Gas/ Ebitda (%)	Dist/ Ebitda	Dist/ Equity Ebitda	NTM Distribution (\$mm)	Dist. Yield (\$/un) (%)
<b>U.S. Royalty Trusts</b>							
San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	113	2.42
Mesa RoyaltyTrust	MTR	-	67	0.88	0.88	10	5.59
Hugoton RoyaltyTrust	HGT	-	87	0.68	0.68	79	1.97
Cross Timbers Royalty Trust	CRT	84	68	0.94	0.94	21	3.43
Sabine Royalty Trust	SBR	100	53	1.00	1.00	66	4.55
Permian Basin RT	PBT	35	33	0.81	0.81	73	1.56
	<i>Total or Median</i>		67	0.85	0.85	400	8.4
<b>Canadian Income Trusts (US\$)</b>							
Canadian Oil Sands Trust	COSWF	-	(7)	0.69	0.75	1,515	3.16
Enerplus Resources Fund	ERF	-	38	0.71	0.82	658	5.14
Penn West Energy Trust	PWE	-	32	0.67	0.84	1,006	4.16
Pengrowth Energy Trust	PGH	-	38	0.87	1.22	715	2.91
	<i>Total or Median</i>		35	0.70	0.83	3,900	11.8
<b>U.S. Master Limited Partnerships (MLPs)</b>							
Kinder Morgan Energy Partners, L.P.	KMP		-	0.75	1.64	628	3.52
Encore Energy Partners, L.P.	ENP		14	0.50	0.59	13	1.40
Linn Energy, LLC	LINE		65	0.89	1.30	260	2.28
Dorchester Minerals, L.P.	DMLP	64	69	1.00	1.00	64	2.27
	<i>Total or Median</i>		39	0.82	1.15	1,000	7.3

NTM = Next Twelve Months Ended September 30, 2008  
Ebitda = Earnings before interest, tax, depreciation and amortization

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