



# Oil & Gas Income Stocks

A Weekly Analysis

August 22, 2008

## Hugoton Royalty Trust (HGT) Long-Term Natural Gas Income

<i>Symbol</i>	HGT	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$m)</i>	159
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	86
<i>Price (US\$/sh)</i>	31.77	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/21/08	<i>Adjusted Reserves/Production NTM</i>	13.1
<i>Shares (mm)</i>	40.0	<i>EV/Ebitda</i>	8.0
<i>Market Capitalization (US\$m)</i>	1,271	<i>PV/Ebitda</i>	10.6
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	13
<i>Enterprise Value (EV) (US\$m)</i>	1,271	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	6.53
<i>Present Value (PV) (US\$m)</i>	1,680	<i>Present Value Proven Reserves(US\$/boe)</i>	29.50
<i>Net Present Value (US\$/unit)</i>	42.0	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.90
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	3.01
<i>McDep Ratio - EV/PV</i>	0.76	<i>Price/Earnings Next Twelve Months</i>	11
<i>Distribution Yield (%/year)</i>	9.5	<i>Distribution Next Twelve Months (US\$/sh)</i>	3.01
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\$100 a barrel and natural gas, \$14 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

Buy-recommended **Hugoton Royalty Trust (HGT)**, with estimated net present value (NPV) of \$42 a unit, offers natural gas resource value with income. On May 13, we raised NPV from \$34 on the basis of a long-term natural gas price assumption of \$14 a million btu, up from \$11. The natural gas benchmark index price set at the beginning of the month was \$13 in July (see table [Monthly Declarations](#)). Taking account of the two-month lag in declaring distributions, the July index price indicates a record payment of \$0.42 a unit to be declared in September. Alas, natural gas price declined sharply to a \$9 index for August, which points to \$0.26 a unit distribution in October. Futures prices on August 18 are the basis for our estimate of distributions in the first half of next year (see table [Distributable Income](#)). With the U.S. in a continuing credit crisis, investors in a strong financial position can be the winners buying units of a sound trust, like HGT, sold by weak, highly leveraged investors.

### Weekly Income Stock Valuation

The freshly declared distribution for August rockets monthly income for oil-oriented **Permian Basin Royalty Trust (PBT)** to new heights (see charts, page 4, [Monthly Distributions](#)). Thirteen income stocks have a median McDep Ratio of 0.84 that indicates attractive value (see table, page 5). The median unlevered market cash flow multiple (EV/Ebitda) is 8.6 times, a low valuation for a median adjusted reserve life of 10.6 years (see table, page 6). Median estimated distribution yield is a high 10.5% (see table, page 6).

Kurt H. Wulff, CFA



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Hugoton Royalty Trust									
Monthly Declarations									
	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
<b>Distribution (\$/unit)</b>									
Declared	0.23	0.30	0.31	0.36	0.33				
Projected						0.42	0.26	0.19	0.21
<b>Volume</b>									
Natural Gas (bcf)	2.28	2.45	2.38	2.42	2.30	2.42	2.43	2.35	2.43
Natural Gas (mmcf)	78	79	79	78	77	78	78	78	78
Days	29	31	30	31	30	31	31	30	31
<b>Price</b>									
Natural gas industry quotes lagged two months (\$/mmbtu)									
Henry Hub Index/Futures	7.99	8.93	9.58	11.29	11.93	13.11	9.23	7.89	8.00
HGT/Henry Hub	0.96	0.94	0.90	0.85	0.82	0.86	0.86	0.86	0.86
HGT (\$/mcf)	7.66	8.42	8.65	9.61	9.80	11.27	7.94	6.78	6.88
<b>Revenue (\$mm)</b>									
Natural Gas	17.4	20.6	20.5	23.2	22.6	27.3	19.3	15.9	16.7
Other	0.8	0.6	2.0	1.8	1.3	0.9	1.0	0.8	1.1
Total	18.2	21.2	22.5	25.0	23.9	28.3	20.3	16.8	17.8
<b>Cost (\$mm)</b>									
Production	2.3	1.6	2.4	2.4	2.8	2.6	2.6	2.6	2.6
Overhead	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Total	3.1	2.3	3.2	3.3	3.7	3.5	3.5	3.5	3.5
<b>Cash flow (\$mm)</b>	15.1	18.9	19.3	21.7	20.2	24.8	16.8	13.3	14.3
Development	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
<b>Net proceeds (\$mm)</b>	11.4	15.2	15.5	18.0	16.4	21.0	13.0	9.5	10.5
<b>Royalty income (\$mm)</b>	9.1	12.1	12.4	14.4	13.1	16.8	10.4	7.6	8.4
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%	80%
<b>Distributable income (\$mm)</b>	9.1	12.1	12.4	14.4	13.1	16.8	10.4	7.6	8.4
<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>	0.23	0.30	0.31	0.36	0.33	0.42	0.26	0.19	0.21
<i>Latest Twelve Month Average</i>									
Natural Gas (mmcf)	77	78	78	78	78	78	78	78	78
HGT/Henry Hub	0.84	0.85	0.86	0.86	0.86	0.87	0.87	0.88	0.88
Other revenue (\$mm)	0.3	0.4	0.5	0.7	0.8	0.9	0.9	0.9	0.9
Development (\$mm)	3.6	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Production (\$mm)	1.9	1.9	2.0	2.0	2.1	2.1	2.2	2.3	2.3
Overhead (\$mm)	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8



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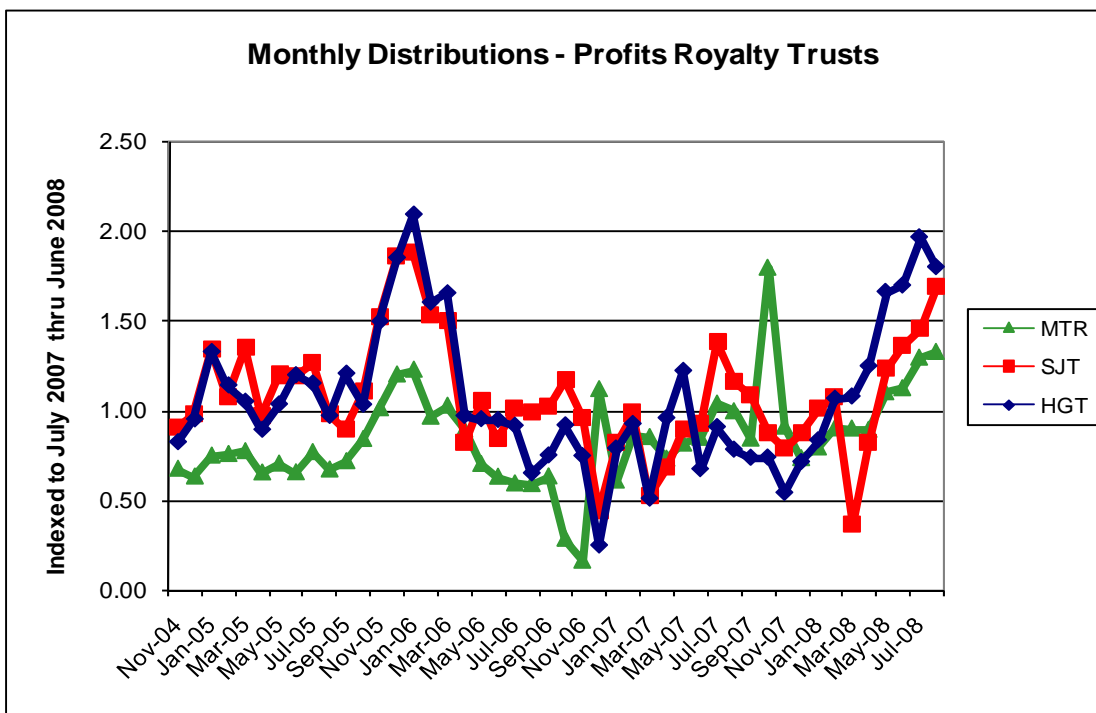
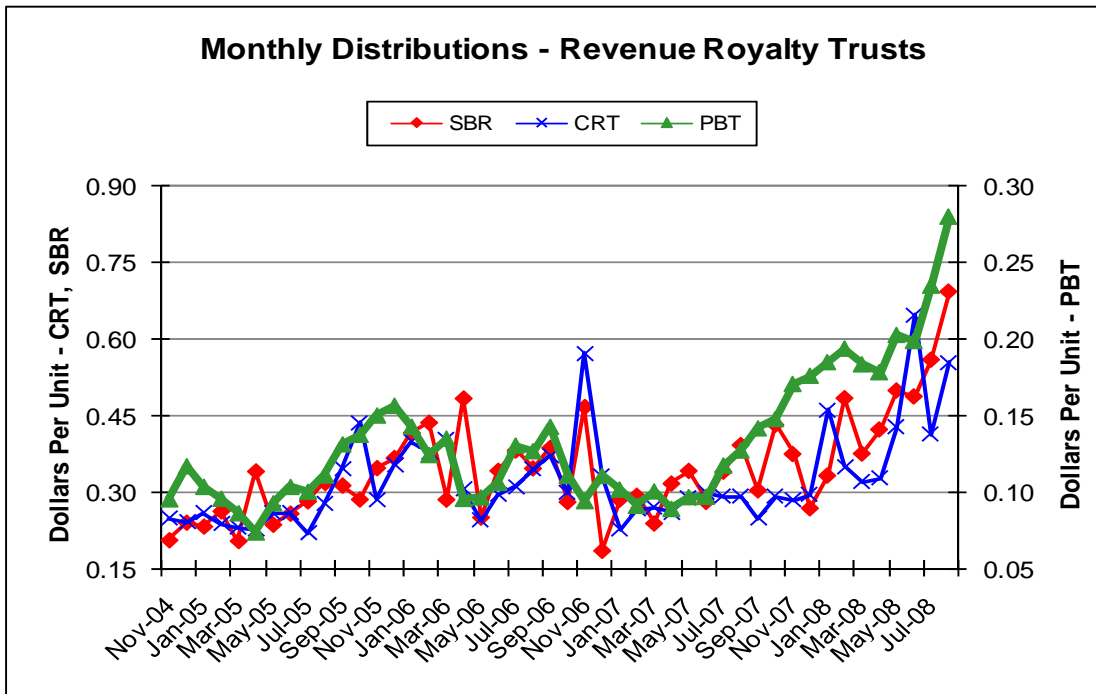
Hugoton Royalty Trust									
Distributable Income									
									<i>Next</i>
	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Twelve</i>
	<i>2007</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>Months</i>
									<i>6/30/09</i>
<b>Highlights</b>									
Revenue (\$mm) (80%)	<b>143.9</b>	42.8	54.6	66.9	48.8	<b>213.2</b>	49.4	48.9	<b>214.1</b>
Cash flow (\$mm) (80%)	<b>104.5</b>	31.7	42.9	51.9	35.6	<b>162.1</b>	36.1	35.6	<b>159.2</b>
Per unit	<b>2.61</b>	0.79	1.07	1.30	0.89	<b>4.05</b>	0.90	0.89	<b>3.98</b>
Distributable Income (\$mm)	<b>69.4</b>	21.8	33.7	44.3	26.4	<b>126.1</b>	25.1	24.7	<b>120.5</b>
Per unit	<b>1.73</b>	0.54	0.84	1.11	0.66	<b>3.15</b>	0.63	0.62	<b>3.01</b>
Units (millions)	<b>40.0</b>	40.0	40.0	40.0	40.0	<b>40.0</b>	40.0	40.0	<b>40.0</b>
<b>Volume</b>									
Natural Gas (bcf)	<b>28.1</b>	7.2	7.1	7.1	7.2	<b>28.6</b>	7.2	7.0	<b>28.5</b>
Natural Gas (mmcf)	<b>77.0</b>	77.9	78.9	77.9	77.9	<b>78.4</b>	77.9	77.9	<b>77.9</b>
Days	<b>365</b>	92	90	92	92	<b>366</b>	92	90	<b>366</b>
Oil (mb)	<b>306</b>	74	95	83	83	<b>334</b>	83	81	<b>329</b>
Oil (mbd)	<b>0.8</b>	0.8	1.1	0.9	0.9	<b>0.9</b>	0.9	0.9	<b>0.9</b>
Days	<b>365</b>	92	90	92	92	<b>366</b>	92	90	<b>366</b>
Total (bcf)	<b>29.9</b>	7.6	7.7	7.6	7.7	<b>30.6</b>	7.7	7.5	<b>30.5</b>
<b>Price</b>									
Natural Gas (HH lagged two months)									
Henry Hub (\$/mmbtu)	<b>6.96</b>	7.21	8.83	12.11	8.37	<b>9.13</b>	8.73	8.83	<b>9.51</b>
Differential (%)	<b>18</b>	10	7	16	16	<b>12</b>	16	16	<b>15</b>
HGT (\$/mcf)	<b>5.70</b>	6.49	8.25	10.17	7.03	<b>8.04</b>	7.33	7.41	<b>8.05</b>
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	<b>66.87</b>	93.03	104.49	130.89	112.88	<b>110.32</b>	113.68	114.33	<b>117.94</b>
HGT	<b>64.35</b>	94.27	102.16	127.97	110.36	<b>108.82</b>	112.13	112.77	<b>115.82</b>
Total (\$/mcf)	<b>6.01</b>	7.02	8.90	10.96	7.92	<b>8.70</b>	8.07	8.15	<b>8.78</b>
<b>Revenue (\$mm)</b>									
Natural Gas	<b>160.1</b>	46.5	58.6	73.1	51.9	<b>230.1</b>	52.5	52.0	<b>229.5</b>
Oil	<b>19.7</b>	7.0	9.7	10.6	9.1	<b>36.4</b>	9.3	9.1	<b>38.1</b>
Total	<b>179.8</b>	53.5	68.3	83.7	61.0	<b>266.5</b>	61.8	61.1	<b>267.6</b>
<b>Cost (\$mm)</b>									
Tax, transport & other	<b>17.9</b>	5.5	6.0	8.3	6.0	<b>25.8</b>	6.1	6.0	<b>26.5</b>
Production	<b>22.3</b>	6.1	6.3	7.9	7.8	<b>28.0</b>	7.8	7.8	<b>31.3</b>
Overhead	<b>9.1</b>	2.3	2.4	2.6	2.7	<b>10.0</b>	2.7	2.7	<b>10.7</b>
Total	<b>49.2</b>	13.8	14.6	18.8	16.5	<b>63.8</b>	16.6	16.5	<b>68.5</b>
<b>Cash flow (\$mm)</b>									
Development	<b>42.8</b>	11.3	11.3	11.3	11.3	<b>45.0</b>	13.6	13.4	<b>49.4</b>
Excess costs		0.9				<b>0.9</b>			
<b>Net proceeds (\$mm)</b>									
	<b>87.9</b>	27.5	42.4	53.6	33.2	<b>157.6</b>	31.6	31.2	<b>149.6</b>
<b>Royalty income (\$mm)</b>									
	<b>70.3</b>	22.0	33.9	42.9	26.6	<b>126.1</b>	25.3	24.9	<b>119.7</b>
Royalty/Net proceeds	<b>80%</b>	80%	80%	80%	80%	<b>80%</b>	80%	80%	<b>80%</b>
Administration	<b>0.9</b>	0.3	0.3	0.2	0.2	<b>0.9</b>	0.2	0.2	<b>0.8</b>
<b>Distributable income (\$mm)</b>									
	<b>69.4</b>	21.8	33.7	44.3	26.4	<b>126.1</b>	25.1	24.7	<b>120.5</b>
Tax and other/revenue	<b>9.9%</b>	10.2%	8.8%	9.9%	9.9%	<b>9.7%</b>	9.9%	9.9%	<b>9.9%</b>
Production cost (\$/mcf)	<b>0.74</b>	0.80	0.82	1.03	1.01	<b>0.92</b>	1.02	1.04	<b>1.03</b>
Overhead cost (\$/mcf)	<b>0.30</b>	0.30	0.31	0.35	0.35	<b>0.33</b>	0.35	0.36	<b>0.35</b>
Development/Cash flow	<b>0.33</b>	0.28	0.21	0.17	0.25	<b>0.22</b>	0.30	0.30	<b>0.25</b>
Producton/Revenue	<b>0.12</b>	0.11	0.09	0.09	0.13	<b>0.11</b>	0.13	0.13	<b>0.12</b>
Overhead/Revenue	<b>0.05</b>	0.04	0.03	0.03	0.04	<b>0.04</b>	0.04	0.04	<b>0.04</b>
Distributable Income/Revenue	<b>0.39</b>	0.41	0.49	0.53	0.43	<b>0.47</b>	0.41	0.41	<b>0.45</b>



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Natural Gas and Oil Income Stocks - Rank by McDep Ratio								
			Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		21-Aug 2008	Shares (mm)				
<b>U.S. Royalty Trusts</b>								
Sabine Royalty Trust	SBR		67.26	14.6	980	60.00	-	1.12
Permian Basin RT	PBT		24.18	46.6	1,130	23.00	-	1.05
Cross Timbers Royalty Trust	CRT		49.72	6.0	300	57.00	-	0.87
San Juan Basin Royalty Trust	SJT	B	41.43	46.6	1,930	48.00	-	0.86
Mesa RoyaltyTrust	MTR		74.31	1.9	140	93.00	-	0.80
Hugoton RoyaltyTrust	HGT	B	31.77	40.0	1,270	42.00	-	0.76
<i>Total or Median</i>					5,800			0.87
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	49.50	479.9	23,760	57.00	0.04	0.87
Pengrowth Energy Trust	PGH		17.86	248.0	4,430	24.00	0.26	0.81
Penn West Energy Trust	PWE	B	29.37	380.0	11,160	40.00	0.26	0.80
Enerplus Resources Fund	ERF		41.74	164.5	6,870	63.00	0.13	0.71
<i>Total or Median</i>					46,200		0.19	0.81
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Encore Energy Partners, L.P. (32%)	ENP		24.60	10.0	250	29.00	0.17	0.87
Linn Energy, LLC	LINE		20.80	114.0	2,370	30.00	0.49	0.84
Dorchester Minerals, L.P.	DMLP		27.27	28.2	770	33.00	-	0.83
<i>Total or Median</i>					3,400		0.17	0.84
B = Buy, S = Sell								
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 \$14 a million btu for natural gas.								

Natural Gas and Oil Income Stocks - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
	Symbol/ Rating		21-Aug 2008					
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	B	41.43	10.6	11.8	10.2	12.0	8.3
Sabine Royalty Trust	SBR		67.26	8.9	8.6	9.7	9.7	10.4
Cross Timbers Royalty Trust	CRT		49.72	13.9	10.3	9.0	9.5	10.5
Permian Basin RT	PBT		24.18	8.6	8.1	8.6	8.8	11.3
Mesa RoyaltyTrust	MTR		74.31	21.1	10.5	8.4	9.6	10.4
Hugoton RoyaltyTrust	HGT	B	31.77	13.1	10.6	8.0	10.5	9.5
<i>Median</i>				11.8	10.4	8.8	9.6	10.4
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	49.50	22.2	10.1	8.8	10.2	10.5
Enerplus Resources Fund	ERF		41.74	9.6	7.9	5.5		12.5
Pengrowth Energy Trust	PGH		17.86	9.1	6.7	5.4		14.2
Penn West Energy Trust	PWE	B	29.37	7.5	6.7	5.4	11.5	13.1
<i>Median</i>				9.3	7.3	5.5	10.9	12.8
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Dorchester Minerals, L.P.	DMLP		27.27	8.5	11.0	9.1	12.1	11.0
Linn Energy, LLC	LINE		20.80	17.1	10.6	8.9		12.1
Encore Energy Partners, L.P.	ENP		24.60	11.9	7.3	6.4		9.7
<i>Median</i>				11.9	10.6	8.9	12.1	11.0
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield								
			Natural					
		Revenue	Gas/		Dist/			Dist.
	Symbol	Royalty	Ebitda	Dist/	Equity	NTM Distribution		Yield
		(%)	(%)	Ebitda	Ebitda	(\$mm)	(\$/un)	(%)
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	-	98	0.85	0.85	160	3.44	8.3
Hugoton Royalty Trust	HGT	-	86	0.76	0.76	121	3.01	9.5
Sabine Royalty Trust	SBR	100	56	1.00	1.00	102	6.96	10.4
Mesa Royalty Trust	MTR	-	64	0.88	0.88	14	7.75	10.4
Cross Timbers Royalty Trust	CRT	84	69	0.94	0.94	31	5.21	10.5
Permian Basin RT	PBT	32	34	0.97	0.97	128	2.74	11.3
<i>Total or Median</i>			66	0.91	0.91	600		10.4
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	-	(6)	0.88	0.92	2,506	5.22	10.5
Enerplus Resources Fund	ERF	-	41	0.57	0.65	856	5.21	12.5
Penn West Energy Trust	PWE	-	28	0.48	0.64	1,457	3.83	13.1
Pengrowth Energy Trust	PGH	-	31	0.52	0.70	629	2.54	14.2
<i>Total or Median</i>			29	0.54	0.68	5,400		12.8
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Encore Energy Partners, L.P.	ENP		18	0.50	0.60	24	2.38	9.7
Dorchester Minerals, L.P.	DMLP	64	67	1.00	1.00	85	2.99	11.0
Linn Energy, LLC	LINE		43	0.46	0.89	287	2.52	12.1
<i>Total or Median</i>			43	0.50	0.89	400		11.0
NTM = Next Twelve Months Ended June 30, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								

**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. 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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