



Independent Stock Idea

November 6, 2012

Hugoton Royalty Trust (HGT) Interim Legal Ruling in Favor of Trust

<i>Symbol</i>	HGT	<i>Ebitda Next Twelve Months ending 9/30/13 (US\$mm)</i>	43
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	80
<i>Price (US\$/sh)</i>	6.74	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/5/12	<i>Adjusted Reserves/Production NTM</i>	13.5
<i>Shares (mm)</i>	40.0	<i>EV/Ebitda</i>	6.2
<i>Market Capitalization (US\$mm)</i>	270	<i>PV/Ebitda</i>	13.0
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	13
<i>Enterprise Value (EV) (US\$mm)</i>	270	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	2.55
<i>Present Value (PV) (US\$mm)</i>	560	<i>Present Value Proven Reserves(US\$/boe)</i>	13.70
<i>Net Present Value (US\$/unit)</i>	14.0	<i>Oil and Gas Ebitda Margin (%)</i>	55
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	0.30
<i>McDep Ratio - EV/PV</i>	0.48	<i>Price/Earnings Next Twelve Months</i>	22
<i>Distribution Yield (%/year)</i>	4.5	<i>Distribution Next Twelve Months (US\$/sh)</i>	0.30
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, \$6 a million btu.			
For historical analysis of HGT since 2000 see www.mcdep.com/4hgt.htm			

Summary and Recommendation

The price of units of **Hugoton Royalty Trust (HGT)** may respond positively to a legal development disclosed in the trust's 10-Q filing made after the market close on November 5. We read that a panel of three arbitrators has ruled that the operator of the trust's natural gas properties may not withhold further amounts to satisfy a legal settlement until the arbitrators have ruled further (see 10-Q excerpt on page 2). Though the trustee would receive current proceeds of natural gas production as usual, the trustee may yet withhold some of the cash to build a reserve for legal fees. The next scheduled disclosure to unit holders is the monthly declaration expected on or about November 19. Taking account of disclosures to date, we believe the trust should be trading at \$10 a unit to match the currently low average McDep Ratio of 0.70 for nine comparable oil and gas income stocks. It will take more time for the legal issues to play out, but nothing we have seen so far in the trustee's disclosures warrants the penalty reflected in current stock price under \$7. Latest quantitative models attached with no further discussion in order to be timely.

Kurt H. Wulff, CFA



Independent Stock Idea

November 6, 2012

Excerpt from Note 5 to 10-Q filed with Securities and Exchange Commission on November 5

Because XTO Energy has advised the trustee that it began deducting the settlement in September, the trustee has reserved a total of \$900,000 from trust distributions to help fund potential legal and other expenses relating to the arbitration. The trustee believes that without such a reserve, the trust is likely to be left without adequate resources to fund the costs of the arbitration out of monthly trust revenues. Because the potential expenses of arbitration are uncertain, especially at this early stage of the arbitration, it is possible that the reserve may not be sufficient to cover all of such expenses. The trustee requested that the Tribunal enjoin XTO Energy from continuing to deduct the Fankhouser settlement amount while the arbitration is pending. A hearing on the injunction was held on October 27, 2012. The Tribunal ordered that pending the issuance of a final award or further order of the Tribunal, XTO Energy should not treat any costs or expenses associated with the Fankhouser settlement as chargeable against the trust's net profit interest under the conveyances. The Tribunal denied the trust's request for an interim order directing XTO Energy to pay the trust the amounts offset against the trust's September and October 2012 distributions on the basis of the Fankhouser litigation. Based on this decision, deductions associated with the Fankhouser settlement will be suspended starting in November 2012.

Hugoton Royalty Trust									
Monthly Declarations									
	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12
Distribution (\$/unit)									
Declared	0.09	0.08	0.06	0.05	0.05	0.03	0.01	0.01	0.01
Projected									
Volume									
Natural Gas (bcf)	1.73	1.73	1.61	1.64	1.66	1.67	1.66	1.69	1.81
Natural Gas (mmcf)	56	56	56	53	55	54	55	54	58
Days	31	31	29	31	30	31	30	31	31
Price									
Natural gas industry quotes lagged two months (\$/mmbtu)									
Henry Hub Index/Futures	3.37	3.08	2.67	2.44	2.19	2.03	2.42	2.77	3.01
HGT/Henry Hub	1.22	1.21	1.24	1.30	1.23	1.27	1.14	1.05	1.15
HGT (\$/mcf)	4.11	3.73	3.30	3.16	2.69	2.57	2.76	2.90	3.45
Revenue (\$mm)									
Natural Gas	7.1	6.5	5.3	5.2	4.5	4.3	4.6	4.9	6.2
Other	0.4	1.0	1.0	0.9	1.2	0.9	(0.5)	(1.3)	(2.9)
Total	7.6	7.4	6.3	6.1	5.6	5.2	4.0	3.6	3.4
Cost (\$mm)									
Production	1.9	2.1	1.9	2.1	1.7	2.0	1.9	1.8	1.6
Overhead	0.9	0.9	0.9	0.9	1.0	0.9	1.0	0.9	1.0
Total	2.8	3.0	2.8	3.0	2.6	2.9	2.9	2.8	2.6
Cash flow (\$mm)									
Development	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Net proceeds (\$mm)	4.3	3.9	3.1	2.6	2.5	1.7	0.7	0.3	0.3
Royalty income (\$mm)									
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%	80%
Distributable income (\$mm)	3.4	3.1	2.5	2.1	2.0	1.4	0.5	0.2	0.2
Units (millions)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0



Independent Stock Idea

November 6, 2012

Hugoton Royalty Trust									
Next Twelve Months Operating and Financial Estimates									
	<i>Q4</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>12/31/11</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>12/31/12</i>	<i>2012E</i>	<i>3/31/13</i>	<i>6/30/13</i>	<i>9/30/13</i>	<i>9/30/13</i>
Highlights									
Revenue (\$mm) (80%)	23.6	16.9	14.9	17.2	69.6	20.0	19.9	21.5	78.7
Cash flow (\$mm) (80%)	14.4	8.1	6.0	8.5	33.9	11.2	11.1	12.5	43.2
Per unit	0.36	0.20	0.15	0.21	0.85	0.28	0.28	0.31	1.08
Distributable Income (\$mm)	13.1	6.6	2.1	6.3	24.8	1.3	1.3	3.2	12.0
Per unit	0.33	0.16	0.05	0.16	0.62	0.03	0.03	0.08	0.30
Units (millions)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Volume									
Natural Gas (bcf)	5.2	4.9	5.0	5.0	20.1	5.0	4.9	4.9	19.8
Natural Gas (mmcf)	57.0	54.6	54.5	54.3	55.0	54.3	54.0	53.7	54.1
Days	92	90	92	92	366	92	90	92	366
Oil (mb)	58	62	59	59	231	58	56	58	231
Oil (mbd)	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Days	92	89	92	92	365	92	89	92	365
Total (bcf)	5.6	5.3	5.4	5.3	21.5	5.3	5.2	5.3	21.2
Price									
Natural Gas (HH lagged two months)									
Henry Hub (\$/mmbtu)	3.99	2.43	2.41	2.89	2.76	3.56	3.66	3.72	3.46
Differential (%)	(18)	(25)	(14)	(14)	(19)	(14)	(14)	(20)	(16)
HGT (\$/mcf)	4.70	3.05	2.74	3.29	3.28	4.05	4.17	4.46	3.99
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	86.13	103.93	88.19	93.04	95.96	87.12	87.32	88.74	89.06
HGT	83.12	100.63	82.01	86.52	91.12	82.72	82.92	84.26	84.12
Total (\$/mcf)	5.27	4.01	3.46	4.03	4.05	4.69	4.80	5.09	4.65
Revenue (\$mm)									
Natural Gas	24.7	15.0	13.8	16.4	65.9	20.2	20.3	22.0	79.0
Oil	4.8	6.2	4.8	5.1	21.0	4.8	4.7	4.9	19.4
Total	29.5	21.2	18.6	21.5	87.0	25.1	24.9	26.9	98.4
Cost (\$mm)									
Tax, transport & other	3.3	2.6	2.5	2.4	10.4	2.8	2.7	3.0	10.8
Production	5.4	5.7	5.7	5.7	23.1	5.5	5.5	5.5	22.2
Overhead	2.7	2.8	2.8	2.8	11.1	2.8	2.8	2.8	11.3
Total	11.4	11.0	11.1	10.9	44.6	11.1	11.1	11.3	44.4
Cash flow (\$mm)									
Development	1.5	1.5	1.5	1.5	6.0	1.5	1.5	1.5	6.0
Excess costs			2.1	1.0	3.1	10.6	10.5	9.0	31.1
Net proceeds (\$mm)									
Royalty/Net proceeds	16.5	8.7	3.9	8.1	36.3	1.9	1.9	5.1	48.0
Royalty income (\$mm)									
Royalty/Net proceeds	13.2	7.0	3.1	6.5	29.1	1.5	1.5	4.1	38.4
Administration	0.1	0.4	1.0	0.2	1.8	0.2	0.2	0.9	1.5
Distributable income (\$mm)									
	13.1	6.6	2.1	6.3	24.8	1.3	1.3	3.2	12.0



Independent Stock Idea

November 6, 2012

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. 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.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation.