



Independent Stock Idea

April 23, 2014

Hugoton Royalty Trust (HGT) Positive Arbitration Ruling

Summary and Recommendation

<i>Symbol</i>	HGT	<i>Ebitda Next Twelve Months ending 3/31/15 (US\$mm)</i>	49
<i>Rating</i>	RTF Stock	<i>North American Natural Gas/Ebitda (%)</i>	82
<i>Price (US\$/sh)</i>	9.80	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/21/14	<i>Adjusted Reserves/Production NTM</i>	13.5
<i>Shares (mm)</i>	40.0	<i>EV/Ebitda</i>	8.0
<i>Market Capitalization (US\$mm)</i>	392	<i>PV/Ebitda</i>	10.6
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	15
<i>Enterprise Value (EV) (US\$mm)</i>	392	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	3.55
<i>Present Value (PV) (US\$mm)</i>	520	<i>Present Value Proven Reserves(US\$/boe)</i>	15.20
<i>Net Present Value (US\$/unit)</i>	13.0	<i>Oil and Gas Ebitda Margin (%)</i>	58
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.09
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	9
<i>Distribution Yield (%/year)</i>	11.2	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.09
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\$90 a barrel and natural gas, \$6 a million btu.			
For historical analysis of HGT since 2000 see www.mcdep.com/4hgt.htm			

At midday, HGT stock was up about 22% on a positive ruling by an arbitration panel in a dispute involving the recovery of a legal settlement. According to the press release the arbitrators ruled the trust had no liability to the working interest owner's claim and was entitled to reimbursement of legal and administrative expense as well as interest on amounts withheld from unitholders. As a result, our estimate of next twelve months distribution of \$1.09 a unit looks reasonable as a run rate that excludes future one-time positive adjustments of up to \$0.15 related to the arbitration (see table Operating and Financial Estimates on page 2). We restore estimated Net Present Value (NPV) to \$13 a unit from \$12 on the apparent implications of the decision announced today (see table Present Value on page 3). Despite appreciation, HGT's McDep Ratio of 0.75 is still low compared to a median of 0.86 for our 9 stock RTF (Royalty Trust Fund) group. We are heartened by the news.

Kurt H. Wulff, CFA



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Hugoton Royalty Trust										
Next Twelve Months Operating and Financial Estimates										
	Q1	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Next Twelve Months
	3/31/13	12/31/13	2013	3/31/14	6/30/14	9/30/14	12/31/14	2014E	3/31/15	3/31/15
Volume										
Natural Gas (bcf)	4.7	4.7	18.7	4.5	4.2	4.2	4.1	16.9	3.9	16.4
Natural Gas (mmcf)	51.4	51.0	51.3	48.4	47.0	45.5	44.2	46.3	42.9	44.9
Days	92	92	365	92	90	92	92	366	92	366
Oil (mb)	56	56	217	54	51	51	50	206	48	200
Oil (mbd)	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.5	0.5
Days	92	92	365	92	89	92	92	365	92	365
Total (bcf)	5.1	5.0	20.0	4.8	4.5	4.5	4.4	18.2	4.2	17.6
Price										
Natural Gas (HH lagged two months)										
Henry Hub (\$/mmbtu)	3.51	3.51	3.64	3.91	5.01	4.72	4.73	4.59	4.86	4.83
Differential (%)	(10)	(13)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
HGT (\$/mcf)	3.87	3.97	4.03	4.35	5.58	5.25	5.26	5.10	5.41	5.37
Oil (\$/bbl) (WTI Cushing lagged two months)										
WTI Cushing	89.97	104.44	96.58	95.56	101.48	103.49	100.67	100.30	97.71	100.83
HGT	83.95	102.40	95.25	94.25	100.09	102.07	99.29	98.85	96.29	99.48
Total (\$/mcf)	4.54	4.85	4.80	5.12	6.33	6.05	6.03	5.87	6.13	6.14
Revenue (\$mm)										
Natural Gas	18.3	18.7	75.5	19.4	23.6	22.0	21.4	86.3	21.3	88.3
Oil	4.7	5.7	20.7	5.1	5.1	5.2	4.9	20.4	4.6	19.9
Total	23.0	24.4	96.1	24.5	28.7	27.2	26.3	106.7	26.0	108.2
Cost (\$mm)										
Tax, transport & other	2.8	2.7	10.8	2.7	3.2	3.0	2.9	11.7	2.9	11.9
Production	5.7	5.4	21.6	5.4	5.4	5.4	5.4	21.6	5.4	21.6
Overhead	2.8	3.0	11.8	3.0	3.0	3.0	3.0	12.2	3.0	12.2
Total	11.4	11.1	44.2	11.1	11.6	11.4	11.3	45.5	11.3	45.7
Cash flow (\$mm)										
Development	1.5	1.8	6.5	1.7	1.5	1.5	1.5	6.2	1.5	6.0
Excess costs and other			(1.2)					-		-
Net proceeds (\$mm)	10.1	11.5	46.7	11.7	15.6	14.3	13.5	55.0	13.2	56.5
Royalty income (\$mm)										
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Administration	0.3	1.8	2.8	1.7	0.6	0.3	0.2	2.8	0.3	1.4
Distributable income (\$mm)										
	7.8	7.4	34.5	7.6	11.9	11.1	10.6	41.2	10.2	43.8
Units (millions)										
	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Per unit	0.20	0.19	0.86	0.19	0.30	0.28	0.26	1.03	0.26	1.09



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Hugoton Royalty Trust					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	40	13.6	11.5	460	88%
Oil	9	11.7	6.7	60	12%
	49	13.5	10.6	520	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					520
Units (mm)					40
Net Present Value - Standard Estimate (US\$/un)					13
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/un)					14

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