



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 23, 2010

Hugoton Royalty Trust Pays 8% with Natural Gas Upside

<i>Symbol</i>	HGT	<i>Ebitda Next Twelve Months ending 6/30/11 (US\$mm)</i>	72
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	85
<i>Price (US\$/sh)</i>	20.31	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/22/10	<i>Adjusted Reserves/Production NTM</i>	12.5
<i>Shares (mm)</i>	40.0	<i>EV/Ebitda</i>	11.3
<i>Market Capitalization (US\$mm)</i>	812	<i>PV/Ebitda</i>	11.7
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	12
<i>Enterprise Value (EV) (US\$mm)</i>	812	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	3.49
<i>Present Value (PV) (US\$mm)</i>	840	<i>Present Value Proven Reserves(US\$/boe)</i>	18.50
<i>Net Present Value (US\$/unit)</i>	21.0	<i>Oil and Gas Ebitda Margin (%)</i>	66
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.62
<i>McDep Ratio - EV/PV</i>	0.97	<i>Price/Earnings Next Twelve Months</i>	13
<i>Distribution Yield (%/year)</i>	8.0	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.62
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\$75 a barrel and natural gas, \$8 a million btu.			
For historical analysis of HGT since 2000 see www.mcdep.com/4hgt.htm			

Summary and Recommendation

Buy-recommended **Hugoton Royalty Trust (HGT)** offers an 8% distribution yield derived from natural gas, the most undervalued cleaner energy. Second quarter detail filed with the Securities and Exchange Commission on July 21 confirms the prices and volumes disclosed monthly (see tables [Monthly Declarations](#) on page 2 and [Next Twelve Months Operating and Financial Estimates](#) on page 3).

The distribution yield of HGT and peer stocks is almost always attractive as stock price tends to adjust to expected distributions. Because those distributions, in turn, are most influenced by natural gas price, HGT stock can be a way to invest in future natural gas price while receiving cash payments along the way. The price received by the trust also depends on geographic differentials which have been narrowing this year compared to the widely quoted benchmark.

Distributions further depend on production volume, which normally declines steadily at a rate that can be moderated by new drilling (see chart [Monthly Volume](#) on page 4). New drilling is usually more active when natural gas price is higher and vice versa. Because drilling costs are subtracted from distributions, they tend to moderate the increase or decrease in distributions as a result of price.

Rising distributions have rewarded investors since mid-2009 (see chart [Monthly Distributions](#) on page 4). Stock prices for HGT and most income and small cap stocks are similarly in a rising



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 23, 2010

trend as measured by current quote compared to the 200-day average. We have Buy recommendations in each of four groups (see [Tables 1-3](#) on pages 5-7).

Kurt H. Wulff, CFA

Hugoton Royalty Trust									
Monthly Declarations									
	Jul-09	Aug-09	Sep-09	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10
Distribution (\$/unit)									
Declared	0.05	0.06	0.09	0.20	0.14	0.13	0.12		
Projected								0.12	0.15
Volume									
Natural Gas (bcf)	2.23	2.13	2.17	2.13	2.01	1.97	2.08	2.01	2.07
Natural Gas (mmcf)	72	71	70	76	65	66	67	67	67
Days	31	30	31	28	31	30	31	30	31
Price									
Natural gas industry quotes lagged two months (\$/mmbtu)									
Henry Hub Index/Futures	3.32	3.54	3.96	5.28	4.81	3.84	4.27	4.16	4.72
HGT/Henry Hub	0.87	0.87	0.83	1.14	1.05	1.14	1.01	1.03	1.04
HGT (\$/mcf)	2.90	3.08	3.30	6.03	5.04	4.37	4.33	4.29	4.93
Revenue (\$mm)									
Natural Gas	6.5	6.6	7.2	12.8	10.1	8.6	9.0	8.6	10.2
Other	(0.1)	0.4	0.2	0.1	0.2	0.6	0.4	0.4	0.4
Total	6.4	6.9	7.4	12.9	10.4	9.2	9.4	9.1	10.6
Cost (\$mm)									
Production	1.8	1.9	1.3	1.7	1.7	1.4	1.7	1.7	1.6
Overhead	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Total	2.7	2.8	2.3	2.6	2.6	2.3	2.6	2.6	2.6
Cash flow (\$mm)									
Development	1.0	1.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Net proceeds (\$mm)									
	2.7	3.1	4.6	9.8	7.2	6.4	6.2	6.0	7.5
Royalty income (\$mm)									
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%	80%
Distributable income (\$mm)									
	2.2	2.5	3.7	7.8	5.8	5.1	5.0	4.8	6.0
Units (millions)									
	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Distribution (\$/unit)									
	0.05	0.06	0.09	0.20	0.14	0.13	0.12	0.12	0.15



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 23, 2010

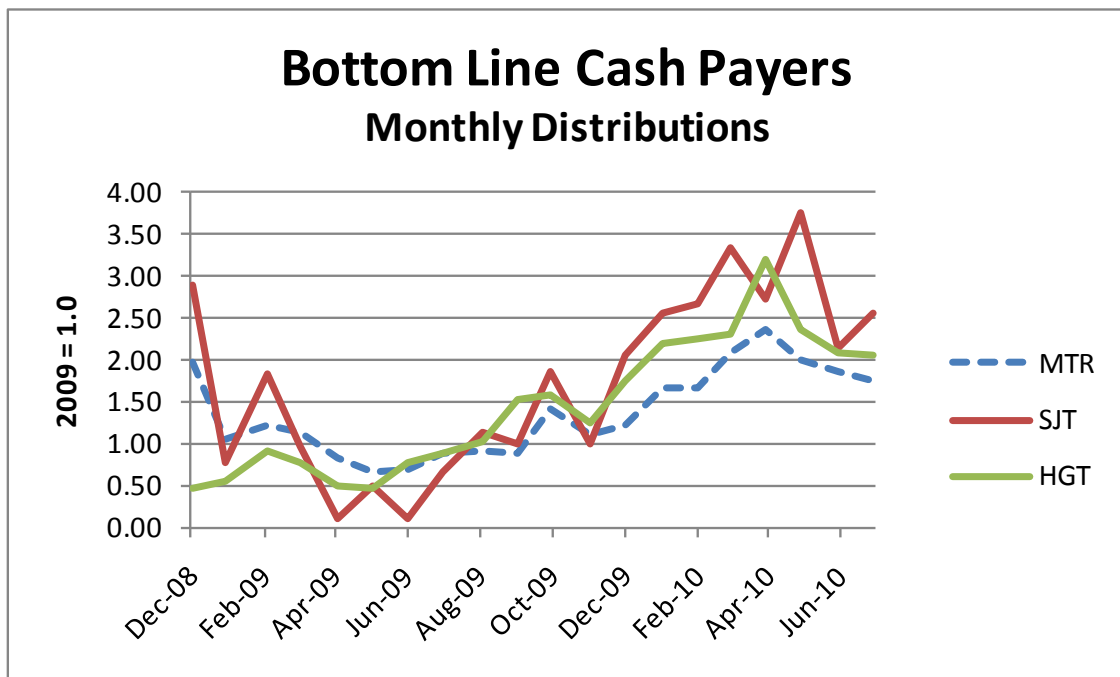
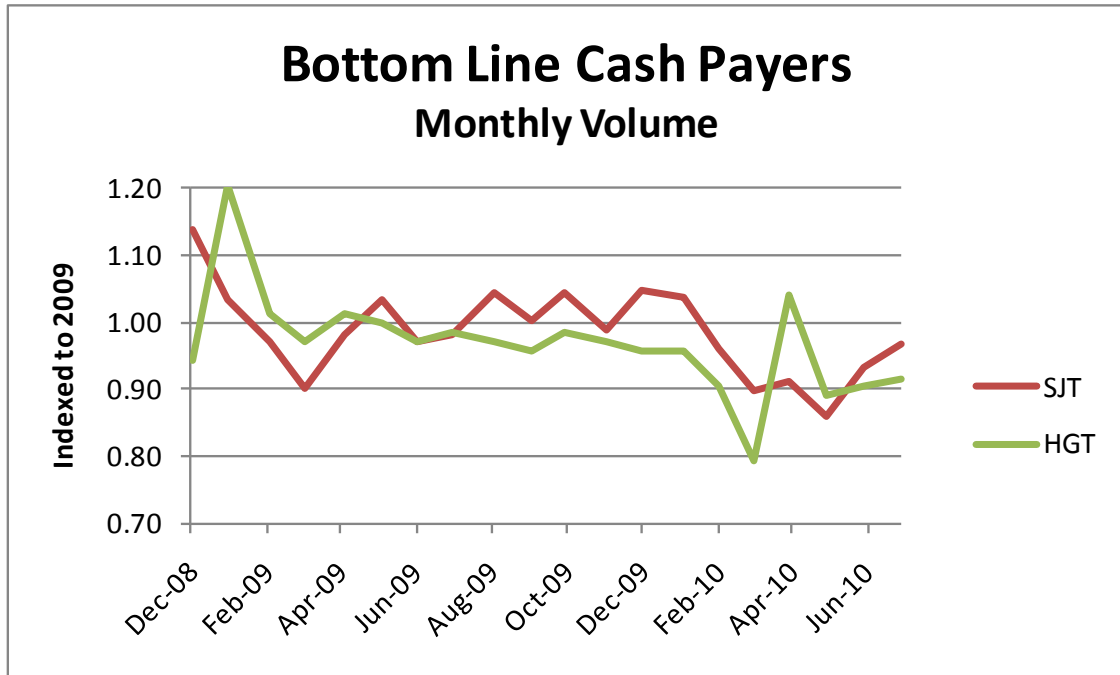
Hugoton Royalty Trust																		
Next Twelve Months Operating and Financial Performance																		
	Q2		Q1		Q2		Q3E		Q4E		Year		Q1E		Q2E		Next Twelve Months	
	6/30/09	3/31/10	6/30/10	9/30/10	12/31/10	2010E	3/31/11	6/30/11	6/30/11									
Highlights																		
Revenue (\$mm) (80%)	17.5	28.0	29.7	26.5	27.0	111.1	28.2	27.0	108.6									
Cash flow (\$mm) (80%)	8.6	18.2	20.2	17.3	17.8	73.5	18.8	17.8	71.8									
Per unit	0.21	0.45	0.50	0.43	0.45	1.84	0.47	0.44	1.79									
Distributable Income (\$mm)	4.3	16.6	18.7	15.8	16.0	67.1	17.0	16.0	64.8									
Per unit	0.11	0.41	0.47	0.39	0.40	1.68	0.43	0.40	1.62									
Units (millions)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0									
Volume																		
Natural Gas (bcf)	6.5	5.9	6.1	6.2	6.1	24.3	6.0	5.8	24.1									
Natural Gas (mmcf)	72.6	64.5	68.7	67.0	66.3	66.6	65.6	65.0	66.0									
Days	89	92	89	92	92	365	92	89	365									
Oil (mb)	69	63	71	74	73	281	64	62	272									
Oil (mbd)	0.8	0.7	0.8	0.8	0.8	0.8	0.7	0.7	0.7									
Days	89	92	89	92	92	365	92	89	365									
Total (bcf)	6.9	6.3	6.5	6.6	6.5	26.0	6.4	6.2	25.7									
Price																		
Natural Gas (HH lagged two months)																		
Henry Hub (\$/mmbtu)	4.06	4.88	4.64	4.38	4.52	4.61	5.04	5.02	4.74									
Differential (%)	27	(5)	(11)	(3)	(3)	(6)	-	-	(1)									
HGT (\$/mcf)	2.96	5.13	5.17	4.52	4.66	4.87	5.04	5.02	4.81									
Oil (\$/bbl) (WTI Cushing lagged two months)																		
WTI Cushing	45.65	76.95	80.71	74.85	77.03	77.39	78.37	79.27	77.38									
HGT	40.38	71.94	77.03	71.43	73.51	73.51	74.44	75.30	73.58									
Total (\$/mcf)	3.18	5.54	5.67	5.01	5.17	5.34	5.48	5.48	5.28									
Revenue (\$mm)																		
Natural Gas	19.1	30.4	31.6	27.8	28.4	118.2	30.4	29.0	115.7									
Oil	2.8	4.5	5.5	5.3	5.3	20.6	4.8	4.6	20.0									
Total	21.9	34.9	37.1	33.1	33.8	138.9	35.2	33.7	135.7									
Cost (\$mm)																		
Tax, transport & other	3.0	4.2	4.3	3.6	3.7	15.9	3.9	3.7	14.9									
Production	5.6	5.3	4.8	5.0	5.0	20.2	5.0	5.0	20.1									
Overhead	2.6	2.7	2.7	2.7	2.7	10.9	2.7	2.7	11.0									
Total	11.2	12.2	11.9	11.4	11.5	47.0	11.6	11.5	46.0									
Cash flow (\$mm)																		
Development	5.0	1.5	1.5	1.5	2.0	6.5	2.0	2.0	7.5									
Excess costs		0.1				0.1												
Net proceeds (\$mm)																		
	5.7	21.1	23.7	20.2	20.3	85.4	21.5	20.2	82.2									
Royalty income (\$mm)																		
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%	80%									
Administration	0.3	0.3	0.2	0.3	0.2	1.1	0.2	0.2	0.9									
Distributable income (\$mm)																		
	4.3	16.6	18.7	15.8	16.0	67.1	17.0	16.0	64.8									



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 23, 2010





Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 23, 2010

Table 1										
McDep Income and Small Cap Energy Portfolio										
Debt, Business Segments and Income Yield										
						<i>Present Value</i>				
						<i>by Segment (%)</i>				
	<i>Symbol/Rating</i>		<i>Price</i>	<i>EV/</i>	<i>Enterprise</i>	<i>NAmer.</i>		<i>Dist.</i>	<i>Dist.</i>	
	<i>B = Buy</i>		<i>(US\$/sh)</i>	<i>Market</i>	<i>Value</i>	<i>Natural</i>	<i>Oil</i>	<i>NTM</i>	<i>Yield</i>	<i>McDep</i>
	<i>CB (see below)</i>		<i>22-Jul</i>	<i>Cap</i>	<i>(\$mm)</i>	<i>Gas</i>	<i>Prod'n</i>	<i>(\$/un)</i>	<i>(%)</i>	<i>Ratio</i>
			<i>2010</i>							
Canadian Income Trusts (US\$)										
Peyto Energy Trust	PEYUF		14.87	1.23	2,210	76	24	1.37	9.2	0.99
Pengrowth Energy Trust	PGH		9.75	1.45	4,100	39	61	0.80	8.2	0.92
Penn West Energy Trust	PWE		19.72	1.39	11,700	23	77	1.71	8.7	0.89
Enerplus Resources Fund	ERF		22.67	1.22	4,900	42	58	2.05	9.0	0.79
Canadian Oil Sands Trust	COSWF	CB	27.27	1.10	14,500		100	1.90	7.0	0.74
<i>Total or Median</i>					<i>37,400</i>					<i>0.89</i>
Small Cap Independent Producers										
Cimarex Energy Company	XEC	B	75.87	1.10	7,100	71	29	0.32	0.4	1.01
Petrohawk Energy Corporation	HK		16.64	1.56	7,660	96	4	-	-	1.01
Denbury Resources Inc.	DNR		15.21	1.57	9,300	16	84	-	-	1.01
Range Resources	RRC		40.38	1.29	8,180	95	5	0.08	0.2	0.99
Berry Petroleum Company	BRY		28.96	1.72	2,550	31	69	0.30	1.0	0.89
Ultra Petroleum	UPL		44.83	1.17	7,840	94	6	-	-	0.88
Whiting Petroleum Corporation	WLL		84.72	1.24	5,840	13	87	-	-	0.86
Birchcliff Energy Ltd. (US\$)	BIREF	B	9.82	1.19	1,490	65	35	-	-	0.74
<i>Total or Median</i>					<i>50,000</i>					<i>0.94</i>
Top Line Cash Payers										
Sabine Royalty Trust	SBR		52.80	1.00	770	50	50	3.41	6.5	1.17
Permian Basin RT	PBT		19.25	1.00	900	38	62	1.32	6.8	1.07
Cross Timbers Royalty Trust	CRT		34.72	1.00	210	75	25	2.28	6.6	1.02
Dorchester Minerals, L.P.	DMLP	B	26.75	1.02	810	71	29	1.69	6.3	0.99
Freehold Royalty Trust (US\$)	FRHLF		16.19	1.08	1,020	25	75	1.59	9.8	0.96
<i>Total or Median</i>					<i>3,700</i>					<i>1.02</i>
Bottom Line Cash Payers										
Linn Energy, LLC	LINE		29.51	1.40	5,960	42	58	2.52	8.5	1.26
Legacy Reserves LP.	LGCY		25.21	1.35	1,330	16	84	2.08	8.3	1.18
Encore Energy Partners, L.P. (52%)	ENP		19.24	1.30	590	23	77	2.00	10.4	1.10
San Juan Basin Royalty Trust	SJT	B	25.96	1.00	1,210	100	-	1.48	5.7	1.04
Hugoton Royalty Trust	HGT	B	20.31	1.00	810	90	10	1.62	8.0	0.97
Mesa Royalty Trust	MTR		44.90	1.00	84	75	25	3.62	8.1	0.94
<i>Total or Median</i>					<i>10,000</i>					<i>1.07</i>
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>					<i>86,600</i>	<i>53</i>	<i>47</i>			<i>0.96</i>
<i>Equal Weighting</i>						<i>55</i>	<i>45</i>			<i>0.99</i>
<i>Equal Weighted Buys</i>						<i>69</i>	<i>31</i>			<i>0.95</i>

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 \$75 a barrel for oil and \$8 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended March 31, 2011. Enterprise Value = Market Cap and Debt.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 23, 2010

Table 2

McDep Income and Small Cap Energy Portfolio

Net Present Value and McDep Ratio

			<i>Price</i>			<i>Net</i>		
			<i>(\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/</i>		<i>22-Jul</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>Rating</i>		<i>2010</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	<i>Ratio</i>
Canadian Income Trusts (US\$)								
Peyto Energy Trust	PEYUF		14.87	120.5	1,790	15.00	0.19	0.99
Pengrowth Energy Trust	PGH		9.75	290.0	2,830	11.00	0.29	0.92
Penn West Energy Trust	PWE		19.72	428.3	8,450	23.00	0.25	0.89
Enerplus Resources Fund	ERF		22.67	178.0	4,040	30.00	0.14	0.79
Canadian Oil Sands Trust	COSWF	CB	27.27	484.0	13,200	38.00	0.07	0.74
<i>Total or Median</i>					<i>30,300</i>		<i>0.19</i>	<i>0.89</i>
Small Cap Independent Producers								
Cimarex Energy Company	XEC	B	75.87	85.4	6,480	75.00	0.09	1.01
Petrohawk Energy Corporation	HK		16.64	303.0	4,920	16.00	0.36	1.01
Denbury Resources Inc.	DNR		15.21	390.0	5,930	15.00	0.37	1.01
Range Resources	RRC		40.38	160.0	6,350	40.00	0.22	0.99
Berry Petroleum Company	BRY		28.96	51.0	1,480	35.00	0.37	0.89
Ultra Petroleum	UPL		44.83	154.0	6,680	50.00	0.13	0.88
Whiting Petroleum Corporation	WLL		84.72	59.2	4,710	95.00	0.17	0.86
Birchcliff Energy Ltd. (US\$)	BIREF	B	9.82	127.0	1,250	14.00	0.12	0.74
<i>Total or Median</i>					<i>37,800</i>		<i>0.20</i>	<i>0.94</i>
Top Line Cash Payers								
Sabine Royalty Trust	SBR		52.80	14.6	770	45.00	-	1.17
Permian Basin RT	PBT		19.25	46.6	900	18.00	-	1.07
Cross Timbers Royalty Trust	CRT		34.72	6.0	210	34.00	-	1.02
Dorchester Minerals, L.P.	DMLP	B	26.75	29.8	800	27.00	0.02	0.99
Freehold Royalty Trust (US\$)	FRHLF		16.19	58.4	950	17.00	0.07	0.96
<i>Total or Median</i>					<i>3,630</i>			<i>1.02</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		29.51	144.0	4,250	21.00	0.36	1.26
Legacy Reserves L.P.	LGCY		25.21	39.2	990	20.00	0.31	1.18
Encore Energy Partners, L.P. (52%)	ENP		19.24	23.4	450	17.00	0.26	1.10
San Juan Basin Royalty Trust	SJT	B	25.96	46.6	1,210	25.00	-	1.04
Hugoton Royalty Trust	HGT	B	20.31	40.0	810	21.00	-	0.97
Mesa Royalty Trust	MTR		44.90	1.9	84	48.00	-	0.94
<i>Total or Median</i>					<i>7,790</i>			<i>1.07</i>

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 \$75 a barrel for oil and \$8 a million btu for natural gas.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 23, 2010

Table 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		22-Jul 2010	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		14.87		1.07	23.1	11.8	11.7
	COSWF	CB	27.27		0.61	30.8	12.3	9.1
	PWE		19.72		0.67	9.9	9.0	8.0
	PGH		9.75		0.58	9.9	8.1	7.4
	ERF		22.67		0.60	9.7	8.8	7.0
	<i>Median</i>					9.9	9.0	8.0
Small Cap Independent Producers								
	RRC		40.38		-	12.4	11.7	11.6
	UPL		44.83		-	14.1	12.5	11.0
	BIREF	B	9.82		-	22.4	14.8	11.0
	DNR		15.21		-	11.3	8.9	9.0
	HK		16.64		-	7.1	8.8	8.9
	BRY		28.96		-	13.1	7.9	7.1
	WLL		84.72		-	10.3	7.5	6.4
	XEC	B	75.87		-	6.4	5.8	5.8
	<i>Median</i>					11.9	8.9	9.0
Top Line Cash Payers								
	SBR		52.80	100	1.00	8.7	13.2	15.5
	CRT		34.72	84	0.96	13.6	14.3	14.5
	DMLP	B	26.75	77	0.92	7.5	14.7	14.5
	PBT		19.25	42	0.90	13.3	12.3	13.2
	FRHLF		16.19	71	0.86	8.6	9.2	8.8
	<i>Median</i>					8.7	13.2	14.5
Bottom Line Cash Payers								
	LINE		29.51		1.59	20.0	13.3	16.7
	SJT	B	25.96		0.81	13.6	13.6	14.1
	HGT	B	20.31		0.90	12.5	11.7	11.3
	MTR		44.90		0.91	9.2	12.0	11.3
	ENP		19.24		1.12	12.9	9.5	10.4
	LGCY		25.21		0.90	12.0	8.6	10.2
	<i>Median</i>					12.7	11.9	11.3

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 June 30, 2011; 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).



Income and Small Cap Weekly

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July 23, 2010

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