



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 26, 2008

Hugoton Royalty Trust under Year-End Price Pressure

Summary and Recommendation

As buy-recommended **Hugoton Royalty Trust (HGT)** scores new 52-week lows in stock price at year end, we feature the pure play in natural gas in the first edition of our expanded, renamed weekly analysis, which now combines small cap operating companies with income producers. HGT has the lowest McDep Ratio among the U.S. Royalty Trusts and MLP's, signaling more appreciation potential (see Table 1). McDep Ratios for Small Cap Independent Producers, taxed as corporations, are lower than for the U.S. income stocks. Canadian Income Trusts, scheduled to lose trust tax treatment in two years, also have lower McDep Ratios, perhaps for the added reason that the Canadian dollar has declined relative to the U.S. dollar in recent months. Despite the recent sharp decline in oil and gas price, HGT is in the middle of a healthy range in Ebitda Margin from 33% to 96% (see far right column, newly added, Table 2). Finally, median distribution yield for the thirteen income stocks remains remarkably stable at 10.7% despite continually changing prices (see Table 3). Settlement prices for futures are from December 24 for next twelve months deliveries of Light, Sweet Crude Oil at \$43.90 a barrel and Louisiana Natural Gas at \$6.29 a million btu.

An updated model translates natural gas price to distributions in 2009 for HGT (see table Distributable Income). An illustrative calculation includes the major variables contributing to Net Present Value (NPV) of \$28 a unit (see table Present Value). Revised from \$30, NPV for HGT matches NPV for SJT in the same proportion as income distributions that followed a similar pattern for the past four years (see chart, page 8). Change the long-term natural gas price from \$10 to \$7, as in current futures for the next six years, and NPV for HGT changes from \$28 to \$20 a unit. In other words, HGT appeal parallels natural gas appeal.

Kurt H. Wulff, CFA

<i>Symbol</i>	HGT	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$m)</i>	88
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	90
<i>Price (US\$/sh)</i>	14.20	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	12/24/08	<i>Adjusted Reserves/Production NTM</i>	13.1
<i>Shares (mm)</i>	40.0	<i>EV/Ebitda</i>	6.5
<i>Market Capitalization (US\$m)</i>	568	<i>PV/Ebitda</i>	12.8
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	13
<i>Enterprise Value (EV) (US\$m)</i>	568	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	3.60
<i>Present Value (PV) (US\$m)</i>	1,120	<i>Present Value Proven Reserves(US\$/boe)</i>	19.70
<i>Net Present Value (US\$/unit)</i>	28.0	<i>Oil and Gas Ebitda Margin (%)</i>	67
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.52
<i>McDep Ratio - EV/PV</i>	0.51	<i>Price/Earnings Next Twelve Months</i>	9
<i>Distribution Yield (%/year)</i>	10.7	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.52
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, \$10 a million btu.			
For historical analysis of HGT since 2000 see www.mcdep.com/4hgt.htm			



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 26, 2008

Table 1								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		24-Dec 2008	Shares (mm)				
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH		7.48	249.0	1,860	16.00	0.32	0.64
Penn West Energy Trust	PWE	H	11.10	389.9	4,330	27.00	0.27	0.57
Enerplus Resources Fund	ERF		18.28	164.9	3,010	44.00	0.10	0.47
Canadian Oil Sands Trust	COSWF	B	15.54	482.0	7,490	42.00	0.04	0.40
<i>Total or Median</i>					16,700		0.18	0.52
Small Cap Independent Producers								
Encore Acquisition Company	EAC	H	21.93	53.5	1,170	48.00	0.36	0.65
Berry Petroleum Company	BRY	H	6.66	45.5	300	40.00	0.43	0.53
Birchcliff Energy Ltd. (US\$)	BIR.TO		4.40	117.0	510	10.00	0.14	0.52
Cimarex Energy Company	XEC	B	24.83	84.5	2,100	70.00	0.09	0.41
<i>Total or Median</i>					4,080		0.25	0.52
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		38.93	14.6	570	47.00	-	0.83
San Juan Basin Royalty Trust	SJT	H	23.94	46.6	1,120	34.00	-	0.70
Permian Basin RT	PBT		13.20	46.6	620	19.00	-	0.69
Cross Timbers Royalty Trust	CRT		27.75	6.0	170	42.00	-	0.66
Mesa RoyaltyTrust	MTR		39.88	1.9	70	67.00	-	0.59
Hugoton RoyaltyTrust	HGT	B	14.20	40.0	570	28.00	-	0.51
<i>Total or Median</i>					3,120			0.68
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		11.68	114.0	1,330	14.00	0.52	0.92
Dorchester Minerals, L.P.	DMLP		17.03	28.2	480	24.00	-	0.71
Encore Energy Partners, L.P. (32%)	ENP		11.44	10.6	120	19.00	0.23	0.69
<i>Total or Median</i>					1,930		0.23	0.71
B = Buy, H = Hold								
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 \$10 a million btu for natural gas.								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 26, 2008

Table 2									
Oil and Gas Income and Small Cap Stocks									
Value Multiples - Rank by EV/Ebitda									
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Ebitda Margin		
	Symbol/ Rating		24-Dec 2008	NTM	NTM	NTM	NTM (%)		
Canadian Income Trusts (US\$)									
	Canadian Oil Sands Trust	COSWF	B	15.54	23.3	38.4	15.3	33	
	Pengrowth Energy Trust	PGH		7.48	9.5	12.1	7.7	70	
	Penn West Energy Trust	PWE	H	11.10	7.7	10.6	6.0	75	
	Enerplus Resources Fund	ERF		18.28	10.6	11.9	5.6	74	
	<i>Median</i>				10.0	12.0	6.9	72	
Small Cap Independent Producers									
	Birchcliff Energy Ltd. (US\$)	BIR.TO		4.40	6.9	19.6	10.1	73	
	Encore Acquisition Company	EAC		21.93	13.4	13.9	9.1	53	
	Berry Petroleum Company	BRY		6.66	9.6	12.0	6.3	7.8	60
	Cimarex Energy Company	XEC		24.83	7.4	9.9	4.1	59	
	<i>Median</i>				8.5	13.0	7.7	60	
U.S. Royalty Trusts									
	Sabine Royalty Trust	SBR		38.93	9.2	14.0	11.6	11.6	96
	Permian Basin RT	PBT		13.20	8.8	15.8	11.0	12.8	75
	Cross Timbers Royalty Trust	CRT		27.75	14.5	15.7	10.4	10.9	75
	San Juan Basin Royalty Trust	SJT	H	23.94	10.8	14.5	10.2	12.7	72
	Mesa RoyaltyTrust	MTR		39.88	21.1	13.8	8.2	9.4	82
	Hugoton RoyaltyTrust	HGT	B	14.20	13.1	12.8	6.5	9.3	67
	<i>Median</i>				12.0	14.3	10.3	11.2	75
U.S. Master Limited Partnerships (MLPs)									
	Dorchester Minerals, L.P.	DMLP		17.03	8.5	14.0	9.9	16.6	87
	Linn Energy, LLC	LINE		11.68	13.6	10.7	9.9		70
	Encore Energy Partners, L.P.	ENP		11.44	12.7	13.3	9.2		70
	<i>Median</i>				12.7	13.3	9.9	16.6	70
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses									



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 26, 2008

Table 3								
Oil and Gas Income and Small Cap Stocks								
Next Twelve Months Distribution Yield								
			Natural					
	Revenue	Gas	Dist/	Dist/	NTM Distribution		Dist.	
Symbol	Royalty	%	Dist/	Equity	NTM Distribution		Yield	
	(%)	NPV	Ebitda	Ebitda	(\$mm)	(\$/un)	(%)	
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH	-	34	0.86	1.26	416	1.67	22.4
Penn West Energy Trust	PWE	-	28	0.56	0.77	767	1.97	17.7
Enerplus Resources Fund	ERF	-	56	0.60	0.66	406	2.46	13.5
Canadian Oil Sands Trust	COSWF	-	-	0.72	0.75	395	0.82	5.3
<i>Total or Median</i>			<i>31</i>	<i>0.66</i>	<i>0.76</i>	<i>2,000</i>		<i>15.6</i>
Small Cap Independent Producers								
Berry Petroleum Company	BRY	-	42	0.05	0.09	14	0.30	4.5
Cimarex Energy Company	XEC	-	65	0.03	0.03	20	0.24	1.0
Birchcliff Energy Ltd. (US\$)	BIR.TO	-	19	-	-	-	-	-
Encore Acquisition Company	EAC	-	18	-	-	-	-	-
<i>Total or Median</i>			<i>31</i>					
U.S. Royalty Trusts								
Hugoton Royalty Trust	HGT	-	91	0.69	0.69	61	1.52	10.7
Mesa Royalty Trust	MTR	-	75	0.87	0.87	8	4.25	10.7
Cross Timbers Royalty Trust	CRT	84	76	0.96	0.96	15	2.55	9.2
Sabine Royalty Trust	SBR	100	54	1.00	1.00	49	3.36	8.6
San Juan Basin Royalty Trust	SJT	-	100	0.81	0.81	88	1.89	7.9
Permian Basin RT	PBT	32	33	0.86	0.86	48	1.03	7.8
<i>Total or Median</i>			<i>76</i>	<i>0.87</i>	<i>0.87</i>	<i>270</i>		<i>8.9</i>
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		48	0.92	1.93	287	2.52	21.6
Encore Energy Partners, L.P.	ENP		30	0.93	1.21	18	1.73	15.1
Dorchester Minerals, L.P.	DMLP	64	74	1.00	1.00	48	1.72	10.1
<i>Total or Median</i>			<i>48</i>	<i>0.93</i>	<i>1.21</i>	<i>350</i>		<i>15.1</i>
NTM = Next Twelve Months Ended December 31, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 26, 2008

Hugoton Royalty Trust									
Distributable Income									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</i>
	<i>12/31/07</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>9/30/09</i>	<i>12/31/09</i>	<i>Months</i>
	<i>12/31/07</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>9/30/09</i>	<i>12/31/09</i>	<i>12/31/09</i>
Highlights									
Revenue (\$mm) (80%)	32.6	67.2	41.2	205.8	34.0	30.5	32.4	34.0	130.9
Cash flow (\$mm) (80%)	23.4	52.9	29.7	157.2	23.1	20.0	21.7	23.1	87.8
Per unit	0.59	1.32	0.74	3.93	0.58	0.50	0.54	0.58	2.19
Distributable Income (\$mm)	14.6	43.7	17.5	116.6	16.1	13.9	15.0	15.9	60.9
Per unit	0.36	1.09	0.44	2.91	0.40	0.35	0.37	0.40	1.52
Units (millions)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Volume									
Natural Gas (bcf)	7.3	7.1	6.8	28.2	7.1	6.9	7.1	7.1	28.3
Natural Gas (mmcf)	78.8	77.2	74.0	77.2	77.2	77.2	77.2	77.2	77.2
Days	92	92	92	366	92	90	92	92	366
Oil (mb)	83	95	95	359	95	93	95	95	377
Oil (mbd)	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Days	92	92	92	366	92	90	92	92	366
Total (bcf)	7.7	7.7	7.4	30.3	7.7	7.5	7.7	7.7	30.5
Price									
Natural Gas (HH lagged two months)									
Henry Hub (\$/mmbtu)	5.99	12.11	8.37	9.13	6.43	5.95	6.13	6.40	6.23
Differential (%)	20	16	25	15	16	16	16	16	16
HGT (\$/mcf)	4.77	10.15	6.25	7.80	5.40	5.00	5.15	5.37	5.23
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	79.40	130.89	99.06	106.87	44.15	37.88	42.75	45.99	42.69
HGT	74.90	125.74	95.16	104.91	43.34	37.18	41.97	45.14	41.94
Total (\$/mcf)	5.26	10.95	6.99	8.48	5.54	5.08	5.29	5.53	5.36
Revenue (\$mm)									
Natural Gas	34.6	72.1	42.5	219.7	38.4	34.7	36.6	38.2	147.8
Oil	6.2	11.9	9.0	37.6	4.1	3.4	4.0	4.3	15.8
Total	40.8	84.0	51.5	257.3	42.5	38.2	40.5	42.4	163.6
Cost (\$mm)									
Tax, transport & other	3.8	7.2	4.9	23.5	4.0	3.6	3.9	4.0	15.5
Production	5.4	8.0	7.0	27.4	7.0	7.0	7.0	7.0	28.1
Overhead	2.3	2.6	2.6	9.8	2.6	2.6	2.6	2.6	10.2
Total	11.5	17.8	14.5	60.8	13.6	13.2	13.4	13.6	53.9
Cash flow (\$mm)									
Development	11.3	11.5	12.0	46.0	8.7	7.5	8.1	8.6	32.9
Excess costs				0.9					
Net proceeds (\$mm)									
	18.0	54.7	25.1	150.5	20.2	17.5	19.0	20.2	76.8
Royalty income (\$mm)									
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%	80%
Administration	(0.1)	0.1	0.1	0.6	0.1	0.1	0.2	0.2	0.5
Distributable income (\$mm)									
	14.6	43.7	17.5	116.6	16.1	13.9	15.0	15.9	60.9
Tax and other/revenue	9.3%	8.6%	9.5%	9.1%	9.5%	9.5%	9.5%	9.5%	9.5%
Production cost (\$/mcf)	0.70	1.05	0.95	0.90	0.92	0.94	0.92	0.92	0.92
Overhead cost (\$/mcf)	0.30	0.34	0.35	0.32	0.33	0.34	0.33	0.33	0.33
Development/Cash flow	0.38	0.17	0.32	0.23	0.30	0.30	0.30	0.30	0.30
Producton/Revenue	0.13	0.10	0.14	0.11	0.17	0.18	0.17	0.17	0.17
Overhead/Revenue	0.06	0.03	0.05	0.04	0.06	0.07	0.06	0.06	0.06
Distributable Income/Revenu	0.36	0.52	0.34	0.45	0.38	0.36	0.37	0.38	0.37



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 26, 2008

Hugoton Royalty Trust Present Value

Oil Volume Decline (%/yr):	2	Oil Price Post 2009 (2009\$/bbl)	75.00
Nat Gas Volume Decline (%/yr):	2	Nat Gas Price Post 2009 (2009\$/mcf)	10.00
		Real Discount Rate (%/yr):	7.0
Variable Cost (%):	20	PV/EBITDA 2009:	12.8
Cumul. Vol/Prod 2007:	22.7	Capex/Cash Flow (%):	28

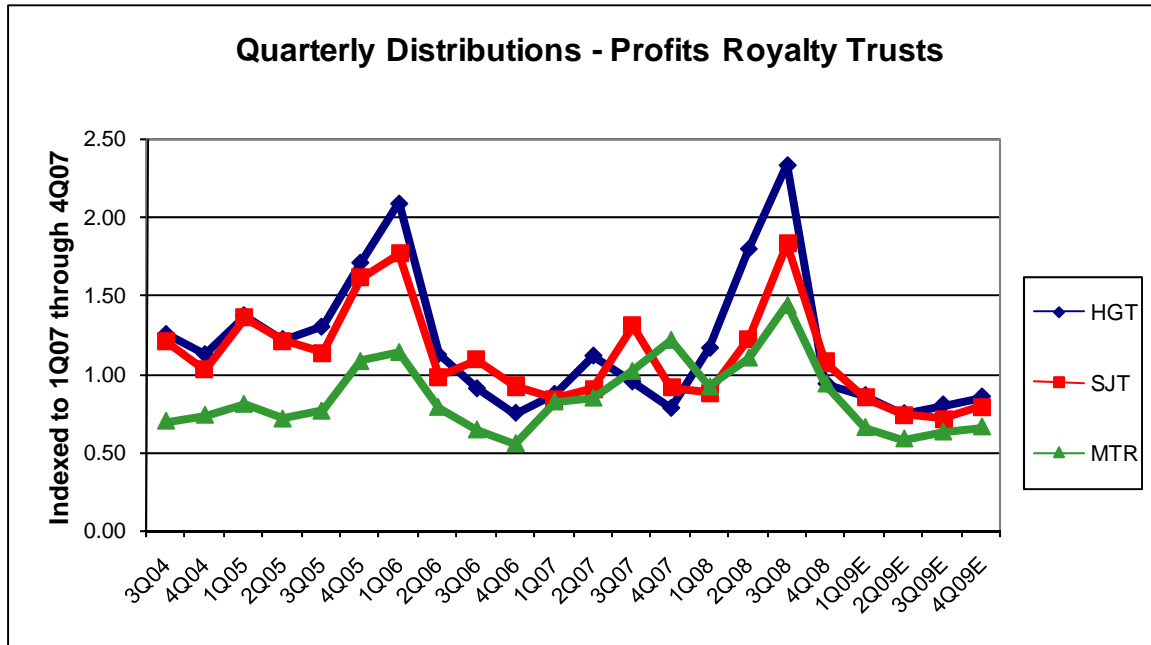
Year	Volume Oil (mmb)	Nat Gas (bcf)	Price (\$/bbl)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var. Cost (\$mm)	Cap Ex (\$mm)	Distribution (\$mm)	Distribution (\$/unit)	Disc Factor	Present Value (\$/unit)
Total 2009 through 2038; years ending on 12/31												
	6.9	514			4740	523	948	822	2447	61.18	0.46	28.00
2009	0.30	22.60	41.94	5.23	130.9	17.4	26.2	26.3	60.9	1.52	0.97	1.47
2010	0.30	22.15	73.67	8.40	207.9	17.4	41.6	37.2	111.7	2.79	0.90	2.52
2011	0.29	21.71	73.67	8.40	203.7	17.4	40.7	36.4	109.2	2.73	0.84	2.30
2012	0.28	21.27	73.67	8.40	199.7	17.4	39.9	35.6	106.7	2.67	0.79	2.11
2013	0.28	20.85	73.67	8.40	195.7	17.4	39.1	34.8	104.3	2.61	0.74	1.92
2014	0.27	20.43	73.67	8.40	191.8	17.4	38.4	34.0	102.0	2.55	0.69	1.76
2015	0.27	20.02	73.67	8.40	187.9	17.4	37.6	33.2	99.7	2.49	0.64	1.61
2016	0.26	19.62	73.67	8.40	184.2	17.4	36.8	32.5	97.4	2.44	0.60	1.47
2017	0.26	19.23	73.67	8.40	180.5	17.4	36.1	31.7	95.2	2.38	0.56	1.34
2018	0.25	18.85	73.67	8.40	176.9	17.4	35.4	31.0	93.1	2.33	0.53	1.22
2019	0.25	18.47	73.67	8.40	173.3	17.4	34.7	30.3	90.9	2.27	0.49	1.12
2020	0.24	18.10	73.67	8.40	169.9	17.4	34.0	29.6	88.9	2.22	0.46	1.02
2021	0.24	17.74	73.67	8.40	166.5	17.4	33.3	28.9	86.8	2.17	0.43	0.93
2022	0.23	17.38	73.67	8.40	163.1	17.4	32.6	28.3	84.8	2.12	0.40	0.85
2023	0.23	17.04	73.67	8.40	159.9	17.4	32.0	27.6	82.9	2.07	0.37	0.78
2024	0.22	16.69	73.67	8.40	156.7	17.4	31.3	27.0	80.9	2.02	0.35	0.71
2025	0.22	16.36	73.67	8.40	153.5	17.4	30.7	26.4	79.1	1.98	0.33	0.65
2026	0.21	16.03	73.67	8.40	150.5	17.4	30.1	25.7	77.2	1.93	0.31	0.59
2027	0.21	15.71	73.67	8.40	147.5	17.4	29.5	25.1	75.4	1.89	0.29	0.54
2028	0.21	15.40	73.67	8.40	144.5	17.4	28.9	24.5	73.6	1.84	0.27	0.49
2029	0.20	15.09	73.67	8.40	141.6	17.4	28.3	24.0	71.9	1.80	0.25	0.45
2030	0.20	14.79	73.67	8.40	138.8	17.4	27.8	23.4	70.2	1.76	0.23	0.41
2031	0.19	14.49	73.67	8.40	136.0	17.4	27.2	22.8	68.5	1.71	0.22	0.37
2032	0.19	14.20	73.67	8.40	133.3	17.4	26.7	22.3	66.9	1.67	0.20	0.34
2033	0.19	13.92	73.67	8.40	130.6	17.4	26.1	21.8	65.3	1.63	0.19	0.31
2034	0.18	13.64	73.67	8.40	128.0	17.4	25.6	21.2	63.7	1.59	0.18	0.28
2035	0.18	13.37	73.67	8.40	125.5	17.4	25.1	20.7	62.2	1.56	0.17	0.26
2036	0.17	13.10	73.67	8.40	122.9	17.4	24.6	20.2	60.7	1.52	0.16	0.24
2037	0.17	12.84	73.67	8.40	120.5	17.4	24.1	19.7	59.2	1.48	0.15	0.22
2038	0.17	12.58	73.67	8.40	118.1	17.4	23.6	19.3	57.8	1.44	0.14	0.20



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 26, 2008



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