

Rating: Buy
S&P 500: 1311

XTO Energy **Distributing Royalty Trust Units**

<i>Symbol</i>	XTO	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	3,540
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	72
<i>Price (US\$/sh)</i>	47.00	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/20/06	<i>Adjusted Reserves/Production NTM</i>	12.1
<i>Shares (mm)</i>	370	<i>EV/Ebitda</i>	5.9
<i>Market Capitalization (US\$mm)</i>	17,400	<i>PV/Ebitda</i>	6.5
<i>Debt (US\$mm)</i>	3,600	<i>Undeveloped Reserves (%)</i>	31
<i>Enterprise Value (EV) (US\$mm)</i>	21,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	39.73
<i>Present Value (PV) (US\$mm)</i>	22,900	<i>Present Value Proven Reserves(US\$/boe)</i>	18.03
<i>Net Present Value (US\$/share)</i>	52	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.00
<i>Debt/Present Value</i>	0.16	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.53
<i>McDep Ratio - EV/PV</i>	0.92	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	0.4	<i>Indicated Annual Dividend (US\$/sh)</i>	0.20

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.

Summary and Recommendation

Owners of buy-recommended **XTO Energy (XTO)** will receive on May 12 about 6 units of **Hugoton Royalty Trust (HGT)** for each 100 shares of XTO. Though the distribution would be worth about \$1.80 a share, we keep our estimate of net present value for XTO at \$52 a share. That estimate is tied to a long-term natural gas price of \$10 a million btu while six-year natural gas futures are quoted at about \$9. The currently quoted price for crude oil for delivery over the next six years implies an equivalent price for natural gas of \$14. Our vision of oil price of \$150 in 2010 implies \$30 natural gas. Latest quarterly results continue a long trend of rising volume. Price hedges placed in early January appear well-timed, at least temporarily. Chairman Bob Simpson downplayed indirectly the likelihood that XTO would acquire a large competitor. Finally, when the HGT distribution is made, we recommend that XTO holders keep the royalty trust units.

Simpson Sense

Delivering his regular colloquy on the quarterly call, Chief Executive Bob Simpson expressed his current belief on natural gas and oil price, his call on interest rates and new emphasis on “managing realizations” previously known as hedging. Listening to him, we lowered our assessment as to whether XTO was likely to acquire Pioneer Natural Resources (PXD).

On commodity price, Mr. Simpson was emphatic that natural gas price would not be too far out of line with oil price. Inventories are not the variable that determines price. In the context of future supply and demand the current storage statistic is not noticeable. Mr. Simpson’s personal forecast for oil price is between \$65 and \$80 a barrel for 2006.

It is “time to change” from a floating rate interest strategy to fixed rate. That was the reasoning behind XTO’s sale of a billion dollars of long-term debt last month.

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Managing realizations elevates price hedging to the third critical activity at the company along with acquisition and exploitation. Fortuitous timing allowed XTO to hedge half of 2006 natural gas production at about \$13 a million btu. Spot price dropped by almost a half for a short time since then. Current one-year futures are about \$10.

Equity is “precious” and Mr. Simpson has previously said he does not want ever again to be exposed to too much debt as he was for a time in the late 1990s. Meanwhile, XTO has never had so many “aces” in its hand with 12 trillion cubic feet of captured resources. XTO doesn’t “have to do a splashy deal”. That lowers our expectation that XTO would want to use the equity and debt needed to acquire fellow producer PXD. But, circumstances can change. Mr. Simpson may find ways to minimize his concerns and a deal could still be tempting.

New Billion Dollar Royalty Trust Float

The widely-held market cap, “float” of **Hugoton Royalty Trust (HGT)** more than doubles to \$1.25 billion on April 24, the ex-date for the distribution of HGT units by **XTO Energy (XTO)**. We end our presentation of HGT market cap on a 46% basis that reflected the limited marketability of the units until now. The increased supply will be fully evident on the payment date of May 12 when certificates will be delivered and accounts will be credited with HGT units. Probably anticipating the potential selling of HGT units by some XTO owners, HGT stock price has declined 18% in 2006 to reach the lowest McDep Ratio among income stocks in our coverage. Unlevered cash flow multiple, EV/Ebitda, at 8.0 is the lowest of long-life natural gas oriented U.S. royalty trusts. After 24% of cash flow is reinvested, the remaining amount expected to be distributed in the next twelve months is 9.3% of unit price. Doing an analysis weekly for most of the past five years, we believe the units are attractive for income investors. Meanwhile lower cash distributions just declared that reflect natural gas production in February contrast with advancing prospects for future distributions with rising oil and natural gas price.

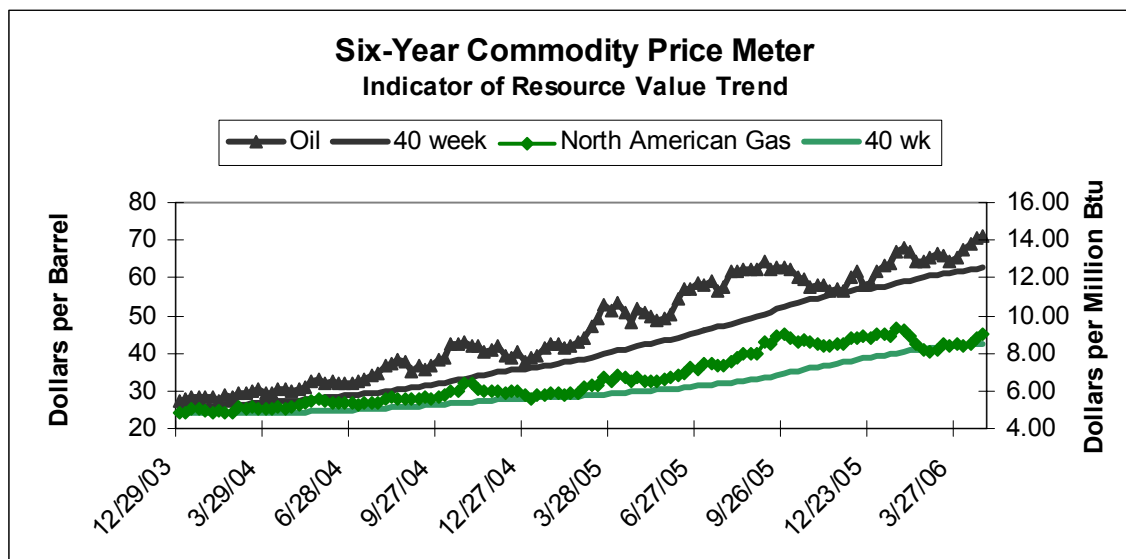
Kurt H. Wulff, CFA

XTO Energy Inc.					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>(US\$mm)</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
				<u><i>(US\$mm)</i></u>	
North American Natural Gas	2,550	12.3	7.5	19,000	83%
Oil	990	11.3	3.8	3,800	17%
	3,540	12.1	6.4	22,800	100%
Debt (US\$mm)				3,600	
Net Present Value (US\$mm)				19,200	
Shares (mm)				370	
Net Present Value - Standard Estimate (US\$/sh)				52	
Net Present Value - Approximation by Correlation (US\$/sh)				56	

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XTO Energy Inc.
Next Twelve Months Operating and Financial Estimates

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>Twelve</i>
									<i>Months</i>
Volume									
Natural Gas (mmcf)	922	1,102	1,033	1,126	1,126	1,126	1,126	1,126	1,126
Oil (mbd)	46	53	49	56	56	56	56	56	56
Total gas & oil (bcf)	109	130	487	133	133	134	134	534	534
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.27	13.00	8.65	8.97	7.87	8.73	10.44	9.00	9.86
Company (\$/mcf)	5.65	9.09	7.05	9.08	6.69	7.42	8.88	8.02	8.38
Oil (\$/bbl)									
WTI Cushing	49.65	60.02	56.31	63.33	71.86	75.02	75.52	71.43	74.45
Company (\$/bbl)	41.65	47.52	44.90	52.54	63.24	66.02	66.45	62.09	65.52
Total gas & oil (\$/mcf)	5.95	8.83	7.15	9.01	7.57	8.24	9.38	8.55	8.96
Revenue (\$mm)									
Natural Gas	474	922	2,665	930	685	769	919	3,304	3,454
Oil	175	230	813	266	320	338	340	1,265	1,335
Other									
Total	649	1,152	3,478	1,197	1,006	1,107	1,260	4,569	4,789
Expense									
Production	144	223	722	228	228	254	294	1,005	1,071
Overhead	50	39	158	40	45	45	45	175	180
Ebitda (\$mm)	456	890	2,599	929	733	808	921	3,390	3,538
Exploration	1	4	24	6	6	6	6	24	24
Deprec., Deplet., & Amort.	129	192	658	196	210	210	210	826	840
Hedging and other	42	(24)	12	(32)	(59)	(34)	7	(118)	(86)
Ebit	284	717	1,905	758	576	626	698	2,658	2,761
Interest	29	42	153	41	46	46	46	179	184
Ebt	255	675	1,752	717	530	580	652	2,479	2,577
Income Tax	89	236	613	251	185	203	228	868	902
Net Income (\$mm)	165	439	1,139	466	344	377	423	1,611	1,675
Shares (millions)									
Per share (\$)	0.47	1.18	3.10	1.26	0.93	1.02	1.14	4.35	4.53
Ebitda Margin - O&G	70%	77%	75%	78%	73%	73%	73%	74%	74%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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Natural Gas and Oil Royalty Trusts
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 20-Apr 2006</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/un)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
U.S. Royalty Trusts							
Sabine Royalty Trust	SBR	45.69	14.6	670	42.00	-	1.09
Permian Basin RT	PBT	16.25	46.6	760	15.00	-	1.08
San Juan Basin Royalty Trust	SJT B	42.64	46.6	1,990	40.00	-	1.07
Dorchester Minerals, L.P.	DMLP	27.61	28.2	780	26.00	-	1.06
Cross Timbers Royalty Trust	CRT	47.29	6.0	280	45.00	-	1.05
Hugoton Royalty Trust (46%)	HGT	31.14	40.0	1,250	34.00	-	0.92
Mesa Royalty Trust	MTR	67.50	1.9	130	75.00	-	0.90
	<i>Total or Median</i>			<i>5,900</i>			<i>1.06</i>
Canadian Income Trusts							
Pengrowth Energy Trust	PGH	24.15	160.0	3,860	18.00	0.16	1.28
Enerplus Resources Fund	ERF	52.41	114.2	5,980	42.00	0.15	1.21
Penn West Energy Trust	PWTFF B	38.30	165.1	6,320	33.00	0.12	1.14
Canadian Oil Sands Trust (US\$)	COSWF B	152.49	93.4	14,240	136.00	0.12	1.11
	<i>Total or Median</i>			<i>30,400</i>		<i>0.13</i>	<i>1.18</i>

B = Buy, H = Hold

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

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