PermRock Royalty Trust (PRT)

Updated June 11th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$8.20	**5 Year CAGR Estimate:**	14.8%	**Volatility Percentile:**	0.1%
Fair Value Price:	$8.10	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	3.2%
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.2%	**Growth Percentile:**	23.8%
Dividend Yield:	11.0%	**5 Year Price Target**	$9.90	**Valuation Percentile:**	56.4%
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Total Return Percentile:**	93.4%

Overview & Current Events

PermRock Royalty Trust (PRT) is a trust formed in November 2017 by Boaz Energy, a company that is focused on the acquisition, development and operation of oil and natural gas properties in the Permian Basin. It receives 80% of the net profits from the sale of oil and natural gas production from its properties and distributes dividends every month. In 2018, PRT produced 1,646 barrels of oil equivalent per day on average, with oil comprising 83% of the output. PRT trades with a market capitalization of $100 million.

The Permian Basin is the most prolific oil producing area in the U.S. The properties of PRT consist of long-life reserves in mature, conventional oil fields, with shallow, predictable decline rates. At the end of 2018, proved reserves of PRT stood at 6.4 million barrels, sufficient for about 10 years at the current production rate. However, the trust can pump additional oil via water-flooding techniques while it will also identify new reserves in the area in the upcoming years. Based on third-party reports, PRT expects to continue producing oil and natural gas economically for at least 75 years.

In 2018, PRT produced 1,646 barrels of oil equivalent per day on average and posted net profits of $1.28 per share. Based on the average price of oil and natural gas in 2018, PRT estimated that the future net cash flows of its proved reserves are $346.6 million. With the use of a 10% annual discount factor, the present value of the future net cash flows is $165.8 million or $13.6 per share.

In mid-May, PRT reported (5/15/19) financial results for the first quarter of fiscal 2019. Due to low oil prices, the trust had a weak start in the year, with earnings-per-share of $0.17 in the quarter. Meanwhile, PRT has distributed dividends of $0.32 per share in the first five months of this year. PRT has thus paid only one-quarter of last year's dividends in almost half of this year. However, we expect improved earnings and dividends in the remainder of the year thanks to more favorable oil prices. The trust distributes all its net profits, after the deduction of fees and expenses, in dividends.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	---	---	---	---	---	---	---	---	---	$1.28	***$0.90***	***$1.10***
DPS	---	---	---	---	---	---	---	---	---	$1.28	***$0.90***	***$1.10***
Shares	---	---	---	---	---	---	---	---	---	12.2	***12.2***	***12.2***

PRT expects to grow its production at a 4.0% annual rate. Thanks to the mature nature of the assets of PRT, future production and reserve estimates are highly predictable. Moreover, management believes that it can grow production above this rate via expanded water-flooding operations and drilling of additional wells. Nevertheless, while production growth estimates are reliable, the results of the trust are extremely sensitive to the price of oil and hence it is impossible to predict future earnings with any degree of accuracy. Assuming that PRT will grow its production by 4% per year on average and the oil price will remain around its current healthy levels in the upcoming years, we expect PRT to grow its earnings-per-share by approximately 4.0% per year on average over the next five years.

PermRock Royalty Trust (PRT)

Updated June 11th, 2019 by Aristofanis Papadatos

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	---	---	---	---	---	---	---	---	10.1	***9.1***	***9.0***
Avg. Yld.	---	---	---	---	---	---	---	---	---	9.5%	***11.0%***	***11.1%***

PRT is currently trading at a price-to-earnings ratio of 9.1. As the trust has a very short history and it is highly exposed to the price of oil, we prefer to be conservative and assume a fair earnings multiple of 9.0. PRT is trading very close to our assumed fair valuation level and hence valuation is not likely to affect future returns significantly.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	---	---	---	---	100%	***100%***	***100%***

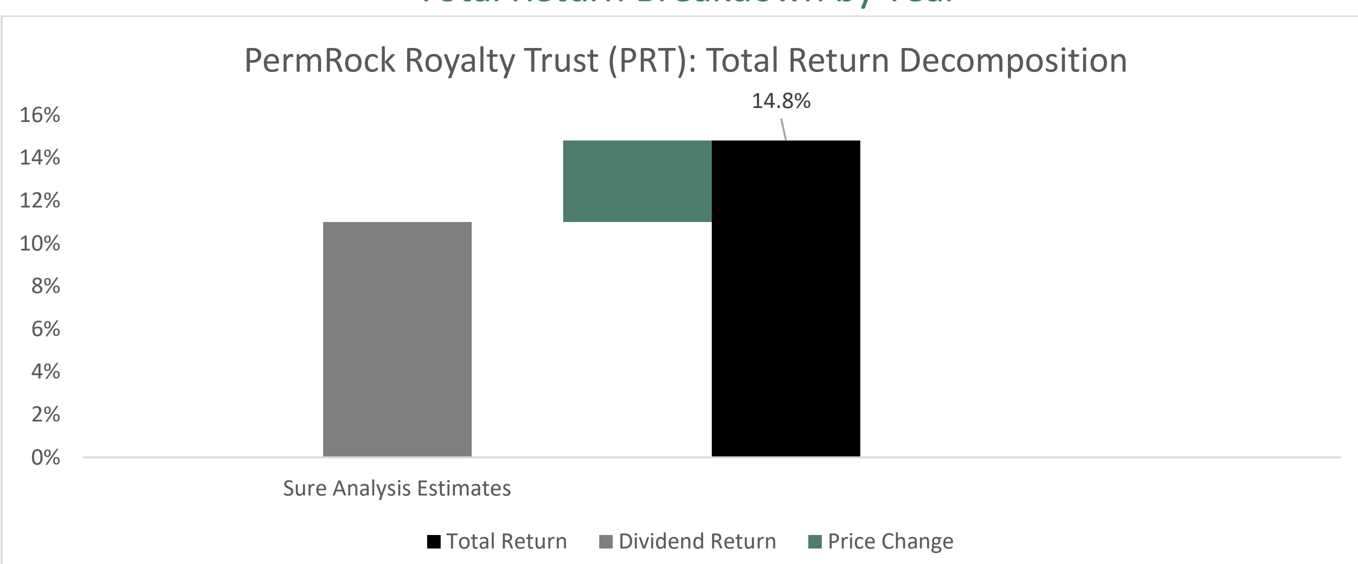
The properties of PRT are in the Permian Basin, the most prolific oil producing area in the U.S. The trust is suitable for those who want to gain exposure to the booming production in this area. Moreover, Boaz Energy, which manages the trust, has an effective ownership of 58.9% of the net profits of PRT. This alignment of interests between Boaz Energy and the shareholders of PRT is certainly beneficial for the latter.

On the other hand, PRT is a pure upstream trust and thus it is far more vulnerable to the gyrations of the price of oil than the well-known oil majors. Moreover, its production is less than 1/2,000th the output of Exxon Mobil and hence its scale is extremely small compared to the oil majors. This means that PRT is much riskier than the oil majors. Whenever the price of oil incurs a strong downtrend, like the one in 2014-2016, PRT will be severely affected. Investors should not allocate a major portion of their portfolio to PRT unless they have strong conviction on high oil prices in the future.

Final Thoughts & Recommendation

PRT has had a weak start this year but it is likely to improve its performance in the remainder of the year. In the absence of a downturn in the oil price, the trust could offer a 14.8% average annual return over the next five years, mostly thanks to its 11.0% dividend yield. However, as this is a small-scale, pure upstream stock, that is extremely sensitive to the price of oil and will be severely affected in the event of a downturn in the energy sector. We thus rate it as a hold.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

PermRock Royalty Trust (PRT)

Updated June 11th, 2019 by Aristofanis Papadatos

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue										16
Gross Profit										16
Gross Margin										100.0%
SG&A Exp.										1
Operating Profit										16
Operating Margin										96.0%
Net Profit										16
Net Margin										96.0%
Free Cash Flow										

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets										94
Cash & Equivalents										
Accounts Receivable										0
Total Liabilities										1
Accounts Payable										
Long-Term Debt										0
Shareholder's Equity										92
D/E Ratio										0.00

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets										33.3%
Return on Equity										33.8%
ROIC										33.8%
Shares Out.										12.2
Revenue/Share										1.33
FCF/Share										

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.