



Pacific Coast Oil Trust (ROYT)

Updated June 9th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$2.08	5 Year CAGR Estimate:	5.2%	Volatility Percentile:	99.0%
Fair Value Price:	\$1.75	5 Year Growth Estimate:	-2.0%	Momentum Percentile:	72.9%
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.4%	Growth Percentile:	0.9%
Dividend Yield:	10.6%	5 Year Price Target	\$1.61	Valuation Percentile:	25.9%
Dividend Risk Score:	F	Retirement Suitability Score:	B	Total Return Percentile:	56.9%

Overview & Current Events

Pacific Coast Oil Trust acquires and holds royalty interests in various oil and natural gas properties located in California. Its properties are located in the Santa Maria Basin as well as the Los Angeles Basin. The trust has around 19 million barrels of oil equivalent in proven reserves, and was founded in 2012. Pacific sells oil and natural gas, but oil makes up nearly all of the trust's revenue today. It operates in two segments: Developed Properties, and Remaining Properties. The trust trades with a market capitalization of just \$80 million.

Pacific posted Q1 earnings on 5/1/19 and results were weaker than the year-ago period. Pacific reported underlying sales at its Developed Properties fell 2.4% year-over-year to 201,341 barrel of oil equivalents, or BOE. In addition, the average price for each BOE fell from \$61.91 last year to \$57.62 this year, while production costs per BOE rose from \$31.67 to \$39.59. This not only drove revenue lower, but greatly reduced margins as well.

A somewhat different story unfolded for the trust's Remaining Properties, which saw underlying sales volume rise 29.5% in Q1 to 59,036 BOE. Pricing fell for this segment as well, declining from \$59.23 to \$54.71 year-over-year. Production costs rose as well, but only slightly, increasing from \$30.42 to \$31.12.

We see total distributable income per unit at \$0.25 for this year, which would represent a meaningful decline from last year's showing of 33 cents. The trust is grappling with higher production costs and lower oil prices, which should keep a lid on profitability. In addition, production volumes are lower in the trust's core Developed Properties segment.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
DI/Unit	---	---	---	\$1.06	\$1.80	\$1.40	\$0.26	\$0.01	\$0.11	\$0.33	\$0.25	\$0.23
DPS	---	---	---	\$1.20	\$1.66	\$1.40	\$0.26	\$0.01	\$0.14	\$0.30	\$0.22	\$0.20
Shares	---	---	---	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6

We use distributable income per unit for Pacific because it is a trust that is required to distribute nearly all of its income to unitholders. Earnings-per-share therefore isn't a meaningful metric here. Distributable income is a great measure of what the dividend will look like for this stock – which is typically owned solely for the dividend.

Pacific's distributable income per share has been quite erratic since it came public in 2012. The trust came public at the right time considering it is so heavily leveraged to the price of crude oil, which was very high in 2012 to 2014. This is reflected in the trust's distributable income per share, which averaged \$1.42 during that three-year span. However, since oil prices collapsed and haven't recovered, Pacific has suffered for years, and so has its dividend.

We see total distributable income growth of -2% in the coming years given declining production volumes in the trust's core segment, as well as no clear catalyst for sustained higher oil prices. These factors combined should keep a lid on the trust's distributable income, although we'll note that Pacific's results can be quite volatile from year to another, depending upon the factors discussed. The bottom line is that Pacific's outlook is murky at best.

The dividend is projected to be 22 cents this year as the trust has declared 4.6 cents per share of distributions thus far this year. However, this is dependent upon the behavior of oil prices in the coming months, and we'll continue to evaluate as the year goes on. We are, however, reasonably sure the dividend will be lower in 2019 than 2018.

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.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/DI	---	---	---	17.1	9.5	8.2	13.3	---	15.0	6.8	8.3	7.0
Avg. Yld.	---	---	---	6.6%	9.7%	12.3%	7.5%	0.4%	8.5%	13.3%	10.6%	12.6%

As one would expect, Pacific's valuation has moved around quite a bit over time. Indeed, this is true for the yield too, just given how much the payout has soared and plummeted in any particular year. We see 7 times distributable income as fair value for Pacific, which compares somewhat unfavorably to the current valuation of 8.3 times this year's distributable income. That implies a 3.4% annual headwind from the valuation declining in the years to come.

Pacific's current yield of 10.6%, which is based upon the projected \$0.22 of total distributions this year, is somewhat high based upon the trust's history. However, we see the declining valuation and largely flat distribution as producing a higher yield over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	113%	92%	100%	100%	59%	128%	91%	88%	89%

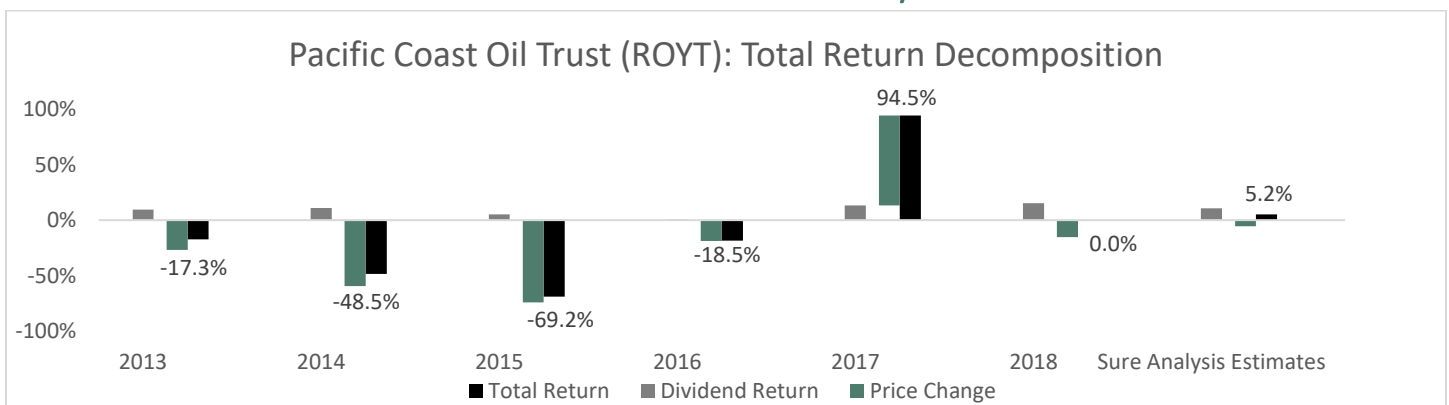
Pacific's payout ratio has always been very high, but that is due to the nature of its structure. It pays out essentially all of its income in the form of unitholder distributions, so its payout ratio will always seem very high. We are forecasting a nearly-90% payout ratio for this year and beyond as the trust is forecast to have distributable income for this year, and should in the coming years as well. Investors should keep in mind that dividend cuts are the norm for Pacific based upon oil prices, so one year's dividend has virtually no bearing on the next year's dividend.

Pacific doesn't have any competitive advantages as it is simply a pass-through vehicle. The trust is heavily dependent upon oil prices and has essentially no influence on its operating results. During a recession, when one would expect oil prices to move lower, Pacific would suffer mightily and its dividend could be entirely eliminated, as was nearly the case in 2015. Pacific is nothing close to a safe or recession-resistance stock.

Final Thoughts & Recommendation

We see total annual returns coming in at 5.2% for Pacific, consisting of the current 10.6% dividend yield, a 2% headwind from distributable income growth, and a 3.4% headwind from the valuation reverting lower. Given this, and Pacific's reliance upon oil prices to generate income, we are rating the stock a sell. There is far too much risk here to warrant owning shares, and we think investors are better served elsewhere.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	6.7	62.7	112.0	41.3	71.1	56.0	11.9			
Gross Profit	-32.0	24.4	72.6	41.3	71.1	56.0	11.8	-1.1	-1.1	-1.1
Gross Margin	5.8	6.5	8.8	0.5	1.7	1.9	1.8	0.7	0.9	1.5
SG&A Exp.	-80.1	-8.8	43.0	40.8	69.4	54.1	10.0	-1.7	-1.9	-2.6
Operating Profit	-91.0	-18.8	34.6	40.8	69.4	54.1	10.0	0.2	4.4	12.6
Operating Margin	17.6	0.3	40.6							
Net Profit	6.7	62.7	112.0	41.3	71.1	56.0	11.9			
Net Margin	-32.0	24.4	72.6	41.3	71.1	56.0	11.8	-1.1	-1.1	-1.1
Free Cash Flow	5.8	6.5	8.8	0.5	1.7	1.9	1.8	0.7	0.9	1.5

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	398.2	393.3	392.7	271.2	250.9	236.1	229.1	227.7	217.3	204.6
Cash & Equivalents	1.3	0.1	1.4	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Accounts Receivable	11.2	11.1	13.4							
Total Liabilities	167.5	181.9	146.6	0.0	0.0	0.0	0.0	1.1	0.0	0.0
Accounts Payable	4.0	9.1	7.6							
Long-Term Debt	143.0	142.0	104.0	0.0	0.0	0.0	0.0			
Shareholder's Equity	230.7	211.4	246.1	271.2	250.9	236.1	229.1	226.5	217.3	204.6
D/E Ratio	0.62			0.00	0.00	0.00	0.00			

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets		-4.8%	8.8%	12.3%	26.6%	22.2%	4.3%			
Return on Equity		-8.5%	15.1%	15.8%	26.6%	22.2%	4.3%			
ROIC					26.6%	22.2%	4.3%			
Shares Out.				38.6	38.6	38.6	38.6	38.6	38.6	38.6
Revenue/Share	0.17	1.63	2.90	1.07	1.84	1.45	0.31			
FCF/Share	0.46	0.01	1.05							

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

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