



Pacific Coast Oil Trust (ROYT)

Updated October 8th, 2019 by Trond Odegaard

Key Metrics

Current Price:	\$1.56	5 Year CAGR Estimate:	7.1%	Volatility Percentile:	98.6%
Fair Value Price:	\$1.18	5 Year Growth Estimate:	0.0%	Momentum Percentile:	4.8%
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.4%	Growth Percentile:	2.0%
Dividend Yield:	12.6%	5 Year Price Target	\$1.18	Valuation Percentile:	22.4%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	51.3%

Overview & Current Events

Pacific Coast Oil Trust (ROYT) 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 about \$60 million.

ROYT's first half 2019 revenues (\$6.143 million) and distributable income (\$0.12467/share) were virtually unchanged year-over-year.

About a week ago, the trust announced that there will be no October distribution. It seems that expenses exceeded revenues. The way this trust is (unfavorably for shareholders) structured, any deficits must be recovered before additional dividends are paid. Hence, we assume no additional dividends this year. Further we assume no growth in either distributable income or dividends going forward from this year's base, and this may well be optimistic.

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	\$0.20	\$0.20
DPS	---	---	---	\$1.20	\$1.66	\$1.40	\$0.26	\$0.01	\$0.14	\$0.30	\$0.20	\$0.20
Shares¹	---	---	---	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.

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	7.9	6.0
Avg. Yld.	---	---	---	6.6%	9.7%	12.3%	7.5%	0.4%	8.5%	13.3%	12.6%	16.7%

Not surprisingly, Pacific's valuation has moved around quite a bit over time. Indeed, this is true for the yield too, given how much the payout has soared and plummeted from one year to another.

¹ Share count is in millions.

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.



Pacific Coast Oil Trust (ROYT)

Updated October 8th, 2019 by Trond Odegaard

We see 6 times distributable income as fair value for Pacific, which compares somewhat unfavorably to the current valuation of 7.9 times this year's distributable income. That implies a headwind from the valuation declining in the years to come.

Pacific's current yield of 12.6%, which is based upon the projected \$0.20 of total distributions this year, is somewhat high based upon the trust's history. With that said, don't be fooled into what is essentially a yield trap.

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%	100%	100%

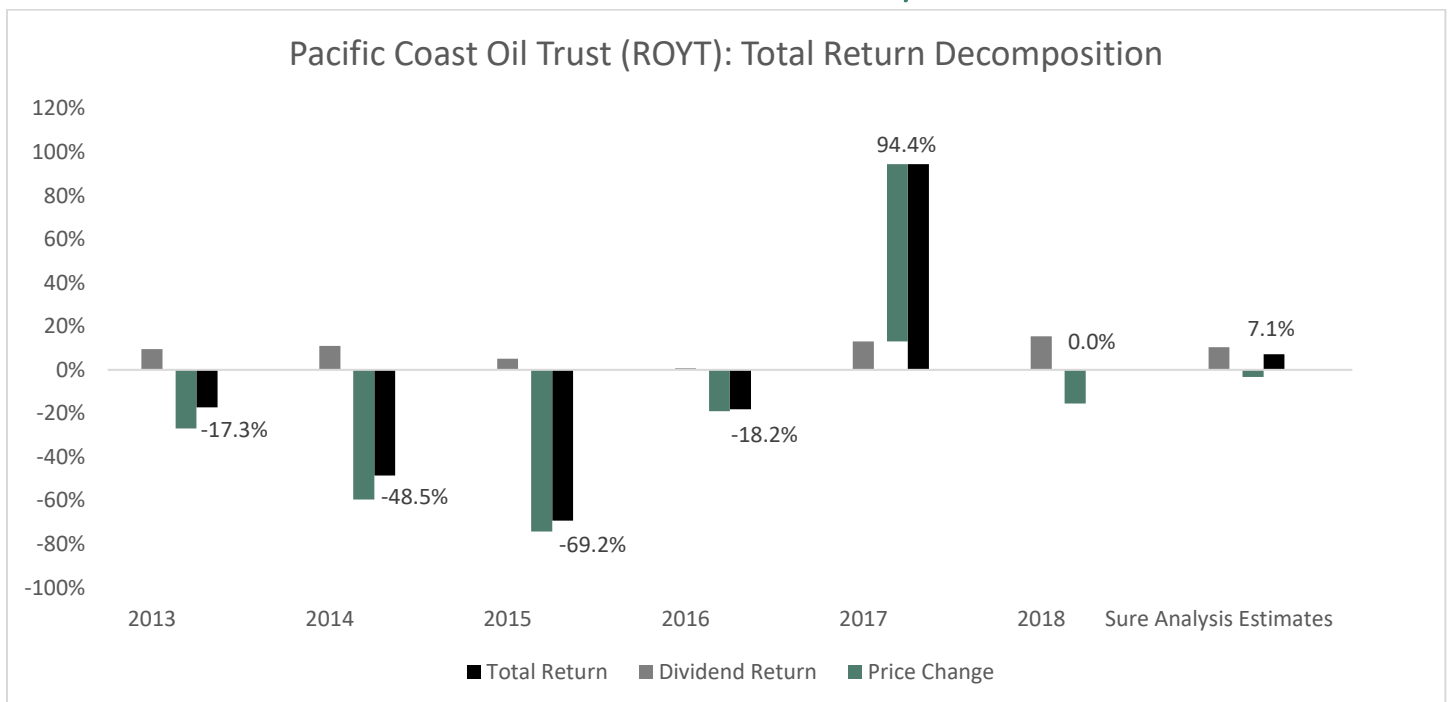
Pacific's payout ratio has always been very high, but that is due to the nature of its structure. It pays out essentially all of its income in the form of unitholder distributions.

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

Despite the seemingly high dividend yield, ROYT is a SELL. You can do much better with a real company or MLP in the oil and gas business, such as Antero Midstream (AM), Enbridge (ENB), or Inter Pipeline LTD (IPPLF). You will still have exposure to a volatile sector, but you'll have serious growth opportunities along with a high dividend. Trusts like ROYT are just Wall Street creations, designed to provide low cost funding to the sponsors. They are not meant to serve investors. You might get lucky and oil prices might soar, but that's not investing – that's gambling.

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.



Pacific Coast Oil Trust (ROYT)

Updated October 8th, 2019 by Trond Odegaard

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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.