



Cross Timbers Royalty Trust (CRT)

Updated December 21st, 2019 by Trond Odegaard

Key Metrics

Current Price:	\$7.57	5 Year CAGR Estimate:	4.8%	Market Cap:	\$45M
Fair Value Price:	\$5.19	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	12/27/19
% Fair Value:	146%	5 Year Valuation Multiple Estimate:	-7.3%	Dividend Payment Date:	01/13/20
Dividend Yield:	11.4%	5 Year Price Target	\$5.19	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	N/A

Overview & Current Events

Cross Timbers Royalty Trust (CRT) is a medium sized oil and gas trust (about 50/50), set up 28 years ago by XTO Energy, Inc. It is a combination trust: specifically, unit holders have a 90% net profits interest in *producing properties* in Texas, Oklahoma, and New Mexico; and a 75% net profits interest in *working interest properties* in Texas and Oklahoma. A working interest property is one where the unit holder shares in production expense and development cost. This means that should development costs exceed profits, no further profits will be paid from these properties until excess costs have been recovered.

The trust's assets are static in that no further properties can be added. The trust has no operations, but is merely a pass-through vehicle for the royalties. CRT had royalty income of \$9.1 million in 2018.

Through November, the trust has declared dividends of \$0.7923/share. The trust provides no guidance.

Growth on a Per-Unit Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
DCFU	\$1.886	\$2.788	\$2.993	\$2.482	\$2.315	\$2.658	\$1.355	\$1.061	\$1.009	\$1.426	\$0.87	\$0.87
DPU	\$1.886	\$2.788	\$2.993	\$2.482	\$2.315	\$2.658	\$1.355	\$1.061	\$1.009	\$1.426	\$0.87	\$0.87
Units¹	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0

Essentially all the royalty income (cash) the trust receives is passed through to unit holders. The trust has generated an average distributable and distributed cash flow of \$2.0/unit annually for the past 10 years, though with a noticeable decrease the past 5 years (especially including this year). The distribution trend essentially parallels the trend in natural gas prices.

For the current year estimate, we assume a linear extrapolation of results through 3Q (thru November for dividends).

For the 2024 estimate, we assume no growth going forward.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/DCFU	16.3	13.2	14.8	15.3	12.2	8.8	11.2	14.6	16.2	9.0	8.8	6.0
Avg. Yld.	6.1%	7.6%	6.7%	6.5%	8.2%	11.4%	8.9%	6.8%	6.2%	11.1%	11.4%	16.7%

The trust's DCFU price multiple has averaged 13.1 over the past 10 years. It's trading lower than this currently, but still higher than it's worth.

If a growing and well managed midstream oil and gas company has averaged 12 historically, and is worth maybe 8 to 10 going forward, then a royalty trust should not be worth more than 8 going forward. Even though this trust has a nice 50/50 blend of oil and gas, dividends got wacked this year, and we think 6 is probably more appropriate long term.

¹ Average Weighted Unit count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report and does not intend to obtain one.



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Safety, Quality, Competitive Advantage, & Recession Resiliency

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

On the positive side, the trust has been in continuous existence for 28 years paying an average 8.0% yield for the last 10 (albeit with some volatility in the distributions). Having said this, how much cash this trust distributes annually going forward, and for how long, is anybody's guess. If oil and gas prices maintain at their current level, the trust will probably continue paying a nice dividend and the unit price won't decrease much from here – unless investors sense that reserves are beginning to dry up. If oil and gas prices increase, then the trust should do well (higher distributions, higher unit price) and extend its life – since the producer will have an incentive to apply ever-evolving technology to squeeze that extra measure out of the fields. On the other hand, if oil and gas prices head south, so will distributions and the unit price - with alacrity.

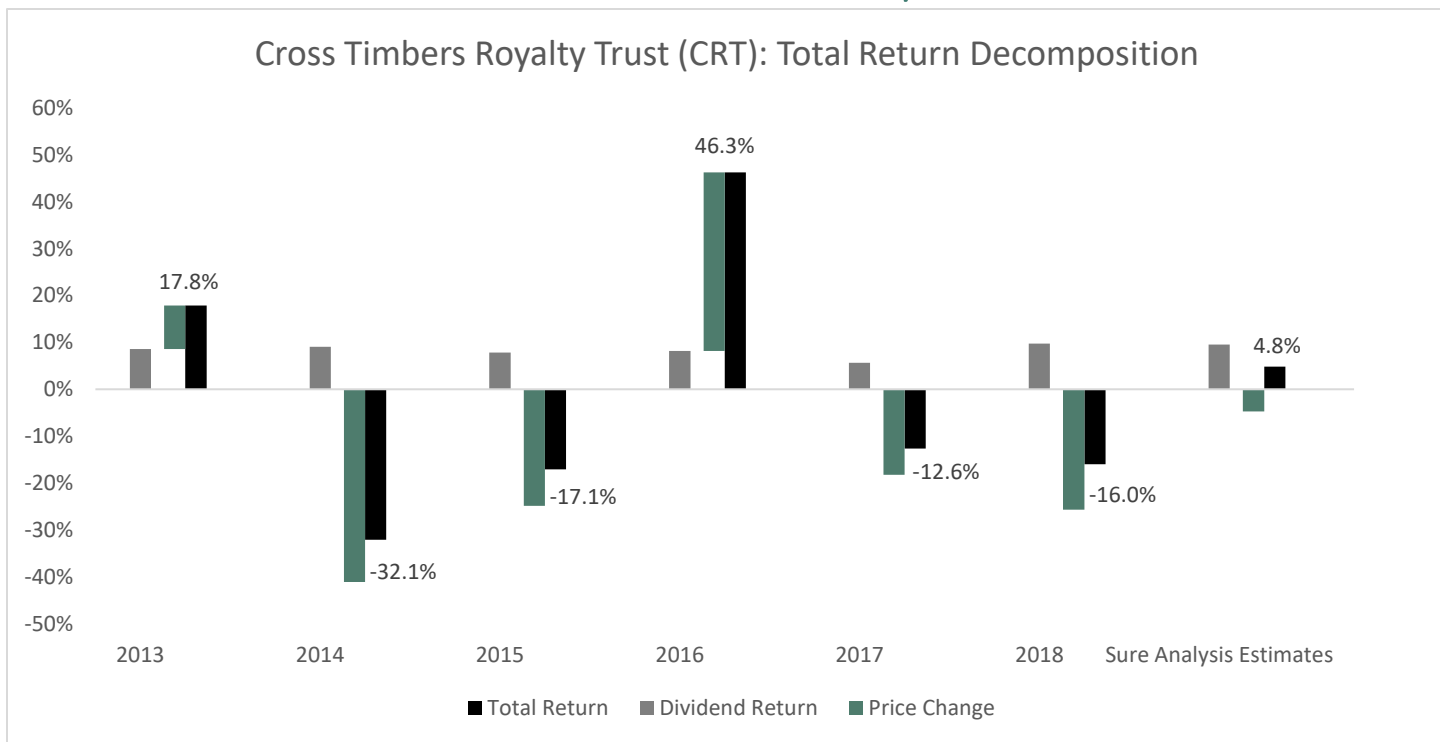
Final Thoughts & Recommendation

CRT is a sell. However, it's trading near the bottom of its long-term price range of \$7.6 to \$64/unit. For those who own it, you might want to try to pick your spot to exit, as technicals suggest it could get a bounce from here. This is not a prediction, merely a suggestion. But fundamentally CRT is not worth its current multiple.

Investors desiring exposure to the oil and gas industry, or who want a high yield and can stomach some price volatility, can do better with a midstream/upstream business in an MLP or corporate structure.

As two examples, consider IPPLF and ENB, each with good yield and good growth. These are real companies adding real value, not paper shells created by Wall St. investment bankers to provide cheap financing for the sponsoring company.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	12	17	18	15	14	16	9	8	7	9
Gross Margin	0	0	0	0	0	1	0	0	1	1
SG&A Exp.	1	2				1	0	1	1	
D&A Exp.	11	17	18	15	14	16	8	6	6	9
Operating Profit	96.4%	97.6%	97.7%	97.4%	97.2%	96.9%	91.5%	84.1%	91.3%	93.5%
Operating Margin	11	17	18	15	14	16	8	6	6	9
Net Profit	96.4%	97.6%	97.7%	97.4%	97.2%	96.9%	91.5%	84.4%	91.4%	93.7%
Net Margin	10	15				15	8	6	5	
Distr. Cash Flow	12	17	18	15	14	16	9	8	7	9

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	17	16	15	14	13	12	12	11	11	10
Total Liabilities	1	1	1	1	1	1	1	2	1	2
Partner's Equity	16	15	13	13	12	11	11	10	9	9

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	62.8%	100.8%	118%	105%	104%	127%	68.4%	55.4%	54.5%	81.9%
Return on Equity	67.7%	108.9%	129%	115%	114%	140%	75.5%	62.3%	63.0%	96.0%
ROIC	67.7%	108.9%	129%	115%	114%	140%	75.5%	62.3%	63.0%	96.0%
Shares Out.	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Revenue/Share	1.96	2.86	3.06	2.55	2.38	2.74	1.48	1.26	1.10	1.52
DCF/Share	1.71	2.51				2.52	1.28	0.95	0.91	

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

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