



Permian Basin Royalty Trust (PBT)

Updated November 19th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$2.75	5 Year CAGR Estimate:	13.3%	Market Cap:	\$128 M
Fair Value Price:	\$2.90	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	11/25/20
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.8%	Dividend Payment Date:	12/11/20
Dividend Yield:	8.0%	5 Year Price Target	\$3.80	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	N/A

Overview & Current Events

Permian Basin Royalty Trust (PBT) is a medium sized oil and gas trust (about 70% oil and 30% gas), which was founded in 1980. It is based in Dallas, Texas. It is a combination trust: unit holders have a 75% net overriding royalty interest in *Waddell Ranch Properties in Texas*, which include 332 net productive oil wells, 106 net productive gas wells and 120 net injection wells; and a 95% net overriding royalty interest in the *Texas Royalty Properties*, which include various oil wells. 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. PBT had royalty income of \$32.1 million in 2018 and \$20.5 million in 2019.

In early November, PBT reported (11/9/20) financial results for the third quarter of fiscal 2020. Due to the pandemic, its average realized prices of oil and gas decreased -47% and -4%, respectively, over last year's quarter. As evident from the trend in prices, the natural gas market has been hurt by the pandemic much less than the oil market. However, PBT is more sensitive to the oil price, as 70% of its output is oil. The decline in prices and a -13% decline in the production of PBT led the distributable income per unit to slump -79%. PBT does not provide any guidance for the running year.

In the first eleven months of this year, PBT distributed total dividends of \$0.21 per unit. Notably, due to the decrease in the realized oil and gas prices of PBT caused by the pandemic, the trust paid less than \$0.01 per month for three months in a row for the first time in its history. However, the oil price has somewhat recovered lately while we also expect the pandemic to subside at some point next year and thus we expect improved distributions next year.

Growth on a Per-Unit Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
DCFU	\$1.38	\$1.33	\$1.16	\$0.87	\$1.02	\$0.34	\$0.42	\$0.63	\$0.66	\$0.42	\$0.22	\$0.29
DPU	\$1.38	\$1.33	\$1.16	\$0.87	\$1.02	\$0.34	\$0.42	\$0.63	\$0.66	\$0.42	\$0.22	\$0.29
Units²	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6

Essentially all the royalty income the trust receives is passed through to unit holders. The trust has generated an average distributable and distributed cash flow of \$0.83/unit annually for the past 10 years, though with a noticeable decrease in the last six years. Given the natural decline of the production of oil wells and gas wells, the long-term downtrend in cash flows should be expected. Over the last five years, the production of oil and gas of PBT has declined at an average annual rate of 6% and 3%, respectively. On the other hand, given the low comparison base formed this year due to the coronavirus, we expect PBT to grow its distributable cash flow per unit by 6.0% per year on average over the next five years, from \$0.22 this year to \$0.29 in 2025.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/DCFU	13.7	15.5	15.5	15.5	12.8	22.9	15.8	14.4	13.2	13.6	12.5	13.0
Avg. Yld.	7.3%	6.4%	6.5%	6.4%	7.8%	4.4%	6.3%	6.9%	7.6%	7.4%	8.0%	7.7%

¹ Estimated date.

² Average Weighted Unit count is in millions.

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The trust's DCFU price multiple has averaged 15.3 over the past 10 years. We assume a fair valuation multiple of 13.0 for the trust due to our natural expectations for declining production volumes in the long run. Due to the impact of the pandemic on the price of oil and gas and its declining production volumes, PBT has fallen to a nearly all-time low level and thus it is now trading at a valuation multiple of 12.5. If PBT trades at our assumed fair valuation level in five years, it will enjoy a 0.8% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

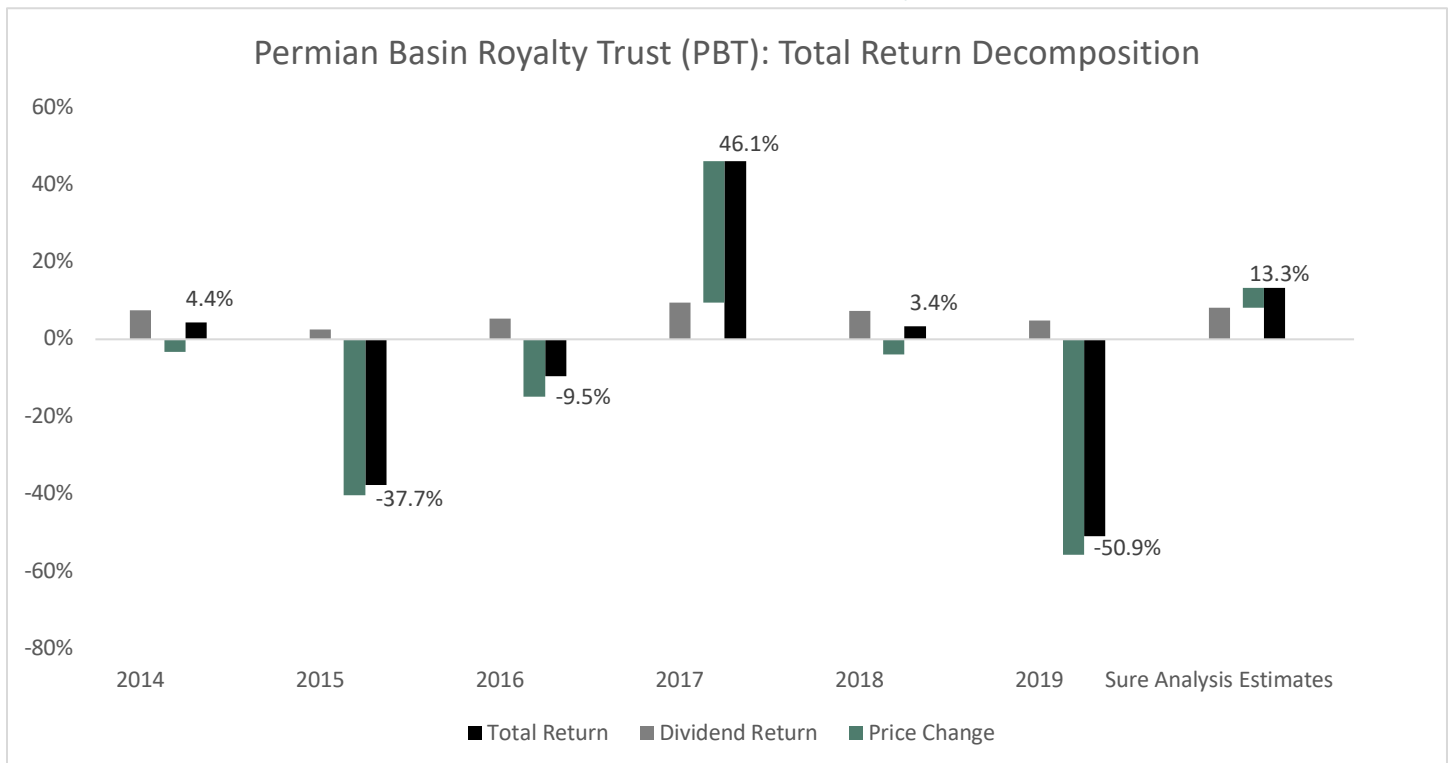
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

PBT has been in continuous existence for 40 years paying an average 6.7% yield in the last decade (albeit with high volatility in the distributions). However, future distributions are highly unpredictable due to the absence of any guidance and the unknown path of oil and gas prices. If oil and gas prices recover towards last year's levels, the trust will offer a double reward to its unit holders, as it will enhance its dividend yield and the unit price could recover. On the other hand, if the downturn from the pandemic extends beyond next year, the trust is likely to exhibit poor performance.

Final Thoughts & Recommendation

PBT has collapsed to near an all-time low level due to the coronavirus crisis and the resultant collapse of the realized oil and gas prices of the trust. We expect the pandemic to attenuate starting next year and thus we expect PBT to offer a 13.3% average annual return over the next five years, primarily thanks to its 8.0% dividend yield. While we note the material downside risk in the event the pandemic lasts longer than currently expected, we view PBT as attractive at its current depressed price and thus we rate it as a buy. On the other hand, due to the natural decline of its production, we do not believe PBT is a buy-and-hold-forever stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	65.27	64.58	55.13	41.75	49.01	17.80	21.09	30.57	32.11	20.51
SG&A Exp.	1.15	1.17	1.15	1.23	1.29	1.25	1.19	1.25	1.32	1.09
Operating Profit	64.12	63.41	53.98	40.52	47.72	16.05	19.35	29.33	30.79	19.42
Operating Margin	98%	98%	98%	97%	97%	90%	92%	96%	96%	95%
Net Profit	64.12	63.41	53.98	40.52	47.72	16.05	19.35	29.33	30.79	19.42
Net Margin	98%	98%	98%	97%	97%	90%	92%	96%	96%	95%

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	5.55	5.62	3.40	3.92	2.83	2.15	4.40	3.95	3.99	3.29
Total Liabilities	4.58	4.73	2.57	3.14	2.11	1.46	3.80	3.42	3.53	2.86
Long-Term Debt	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Book Value	0.97	0.89	0.83	0.78	0.72	0.68	0.60	0.53	0.47	0.42
D/E Ratio	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Shares Out.	46.61	46.61	46.61	46.61	46.61	46.61	46.61	46.61	46.61	46.61
Revenue/Share	1.40	1.39	1.18	0.90	1.05	0.38	0.45	0.66	0.69	0.44

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

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