



PermRock Royalty Trust (PRT)

Updated November 20th, by Quinn Mohammed

Key Metrics

Current Price:	\$2.93	5 Year CAGR Estimate:	0.6%	Market Cap:	\$35M
Fair Value Price:	\$1.10	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	11/29/2020
% Fair Value:	187%	5 Year Valuation Multiple Estimate:	-11.8%	Payment Date:	12/14/2020
Dividend Yield:	4.9%	5 Year Price Target	\$1.00	Years of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	0

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. The Trust derives all its cash flows from profits from the sale of oil and natural gas production from these properties and distributes dividends monthly. PermRock trades with a market capitalization of \$35 million. The stock went public in May 2018. In 2019, PermRock produced 1,804 barrels of oil equivalent per day on average, higher than the 1,646 barrels of oil equivalent produced during 2018.

The Permian Basin is the most prolific oil producing area in the U.S. The properties of PermRock consist of long-life reserves in mature, conventional oil fields, with shallow, predictable decline rates. At the end of 2019, the trust's proved reserves stood at 10.9 million barrels. The trust can pump additional oil via water-flooding techniques, while it will also identify new reserves in the area in the upcoming years. PermRock believes it can produce oil for many more years.

The trust released quarterly results for the period ended September 30th on November 11th. Net profits income received by the trust was \$0.33 million, compared to \$3.0 million in 3Q2019. The reasons for this significant profit decline was decreased oil production and sales, decreased oil prices, and oversupply resulting from the impact of the COVID-19 pandemic. The average realized sale price of oil (per Bbl) this quarter was \$32.85, compared to a favorable price of \$53.62 last year.

Distributable income for the trust came to \$0.122 million, down significantly from the \$2.6 million. As a result, distributable income per unit became positive over last quarter, at \$0.01 on 12.2 million units. In the third quarter of last year, the trust posted distributable income per unit of \$0.21. Year-to-date, distributable income per unit of \$0.11 is down from \$0.60 in 2019, a decrease of 82%.

The dividend suspension was lifted in September (final month of the quarter), and the trust paid out \$0.122 million, compared to \$2.56 million last year. Total cash reserves as of September 30th, 2020 were \$1 million compared to \$600,000 on December 30th, 2019.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
DIPU	---	---	---	---	---	---	---	---	\$1.28	\$0.73	\$0.20	\$0.32
DPU	---	---	---	---	---	---	---	---	\$1.28	\$0.73	\$0.16	\$0.28
Units¹	---	---	---	---	---	---	---	---	12.2	12.2	12.2	12.2

PermRock has expected to grow its production at around a 4.0% annual rate, however oil sales volume declined by 32% YoY in the third quarter. Thanks to the mature nature of the trust's assets, 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

¹ Unit count in millions

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any degree of accuracy. The oil glut so far in 2020 due to the coronavirus has ravaged commodity prices. Considering PermRock could not grow earnings and dividends in 2019, there's little reason (apart from a recovery in commodity prices that we have no way to predict) to expect them to do so in the future. As with other O&G royalty trusts, this one is a hail Mary on commodity prices. We estimate 1% growth on an estimated normalized distributable income power of \$0.30 for 2020, which we think is conservative.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	---	---	---	---	---	---	4.6	6.8	10.3	5.5
Avg. Yld.	---	---	---	---	---	---	---	---	9.5%	13%	4.9%	16%

PermRock is currently trading at a price-to-earnings ratio of 10.3 based on our estimated DIPU for 2020. As the trust has a short history and it is highly exposed to the price of oil, we prefer to be conservative and assume a fair earnings multiple of 5.5. PermRock is trading higher than our assumed fair valuation, and so we see a 12% headwind to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

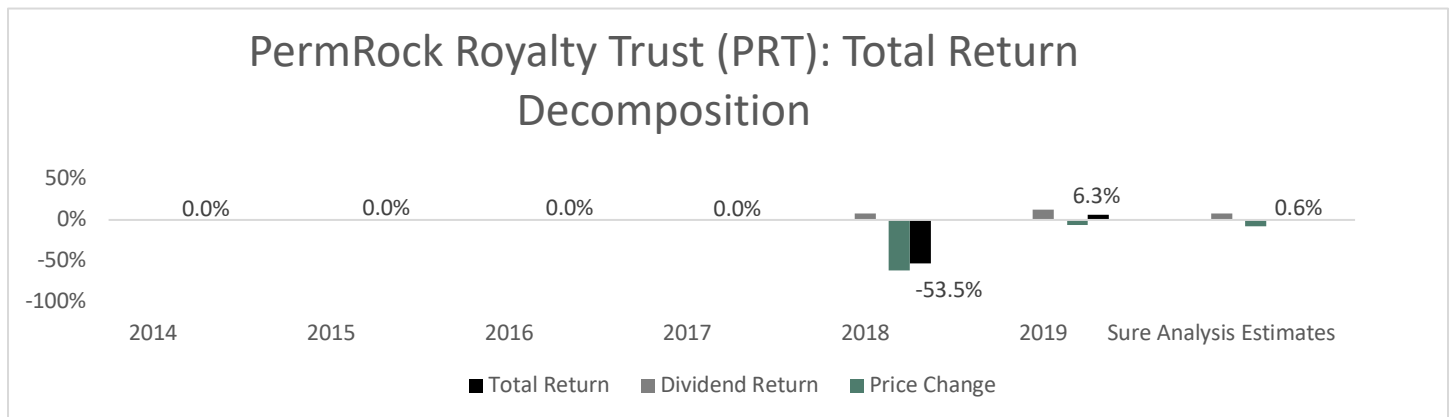
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2024
Payout	---	---	---	---	---	---	---	---	100%	100%	50%	89%

The properties of PermRock are in the Permian Basin, the most prolific oil producing area in the U.S. However, a trust is a poor way to gain exposure to the booming production in this area. You are much better off in a real O&G company, either in corporate or MLP form, even if it is not active in this particular oil field. Given the ongoing coronavirus crisis, oil prices have been decimated and this will continue to reflect very poorly in the revenue for the Trust's operations. Suspending the dividend for the month of April was a cautious move, and although it has been reinstated, we expect the dividend will be reduced with every ongoing year of operations.

Final Thoughts & Recommendation

We are worried about the performance of PermRock Royalty Trust, and do not expect it will do well. We estimate a paltry gain of 0.6% in total returns, offset by the current 4.9% yield based on estimated distributions for 2020, and a minor 1% gain in earnings. In addition to minor gains, the units are trading far above our fair value, almost double, in fact. For this reason, we rate PRT a sell. If you want exposure to the oil and gas industry, we recommend investing in real companies which add value over a royalty trust.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	32	16	18	32	16	18	32	16	18	10
Gross Profit	14		5	14		5	14		5	
Gross Margin	42.6%		27.8%	42.6%		27.8%	42.6%		27.8%	
SG&A Exp.	3	1	3	3	1	3	3	1	3	1
Operating Profit	6	16	0	6	16	0	6	16	0	9
Operating Margin	19.5%	96.0%	0.5%	19.5%	96.0%	0.5%	19.5%	96.0%	0.5%	90.3%
Net Profit	-2	16	-6	-2	16	-6	-2	16	-6	9
Net Margin	-7.6%	96.0%	-35.2%	-7.6%	96.0%	-35.2%	-7.6%	96.0%	-35.2%	84.6%
Free Cash Flow	-20		-45	-20		-45	-20		-45	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	0	94	119	0	94	119	0	94	119	90
Cash & Equivalents			1			1			1	
Accounts Receivable	0	0	4	0	0	4	0	0	4	0
Total Liabilities	0	1	53	0	1	53	0	1	53	1
Accounts Payable			3			3			3	
Long-Term Debt	0	0	36	0	0	36	0	0	36	0
Shareholder's Equity	0	92	66	0	92	66	0	92	66	90
D/E Ratio	0.00	0.00	0.54	0.00	0.00	0.54	0.00	0.00	0.54	0

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	-4.0%	33.3%		-4.0%	33.3%		-4.0%	33.3%		9.6%
Return on Equity	-7.3%	33.8%		-7.3%	33.8%		-7.3%	33.8%		9.7%
ROIC	-4.7%	33.8%		-4.7%	33.8%		-4.7%	33.8%		9.7%
Shares Out.	12.17	12.17	12.17	12.17	12.17	12.17	12.17	12.17	12.17	12.2
Revenue/Share	2.61	1.33	1.44	2.61	1.33	1.44	2.61	1.33	1.44	0.86
FCF/Share	-1.67		-3.68	-1.67		-3.68	-1.67		-3.68	

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

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