



Permian Basin Royalty Trust (PBT)

Updated April 1st, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$4.00	5 Year CAGR Estimate:	7.9%	Market Cap:	\$186 M
Fair Value Price:	\$3.10	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	3/30/21
% Fair Value:	128%	5 Year Valuation Multiple Estimate:	-4.8%	Dividend Payment Date:	4/14/21
Dividend Yield:	6.0% ¹	5 Year Price Target	\$4.40	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	N/A

Overview & Current Events

Permian Basin Royalty Trust (PBT), based in Dallas, Texas, is a medium sized oil and gas trust (about 70% oil and 30% gas), which was founded in 1980. It is a combination trust: unit holders have a 75% net overriding royalty interest in *Waddell Ranch Properties in Texas*, which includes 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 includes 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 \$20.5 million in 2019 and \$12.0 million in 2020.

In late March, PBT reported (3/31/21) financial results for the full fiscal 2020. Due to the pandemic, its average realized prices of oil and gas decreased -24% and -44%, respectively, over the prior year. The trust grew its gas production 5% but reduced its oil production by 5%. As a result, the distributable income per unit slumped -43%, from \$0.42 to \$0.24.

The performance of PBT was disappointing compared to its peer SBR, primarily due to the daunting realized gas prices of the former. Benchmark gas prices have remained fairly resilient throughout the pandemic and hence the realized gas prices of PBT are dismal. Even worse, management stated that the realized prices of oil and gas of PBT have remained well below benchmark prices so far this year. This helps explain why PBT has offered a poor total distribution of \$0.04 per unit in the first quarter of 2021 even though the oil price has returned to pre-COVID levels. Thanks to the elevated benchmark oil prices, we expect PBT to improve its results later this year, though the time of the recovery is uncertain.

Growth on a Per-Unit Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DCFU	\$1.36	\$1.16	\$0.87	\$1.02	\$0.34	\$0.42	\$0.63	\$0.66	\$0.42	\$0.24	\$0.24	\$0.34
DPU	\$1.36	\$1.16	\$0.87	\$1.02	\$0.34	\$0.42	\$0.63	\$0.66	\$0.42	\$0.24	\$0.24	\$0.34
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 \$0.71/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 six years, the production of oil and gas of PBT has declined at an average annual rate of -6% and -2%, respectively. On the other hand, given the low comparison base formed this year due to the pandemic, we expect PBT to grow its distributable cash flow per unit by 7% per year on average over the next five years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/DCFU	15.5	15.5	15.5	12.8	22.9	15.8	14.4	13.2	13.6	13.3	16.7	13.0
Avg. Yld.	6.4%	6.5%	6.4%	7.8%	4.4%	6.3%	6.9%	7.6%	7.4%	7.5%	6.0%	7.7%

¹ Forward expected distribution yield.

² 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.



Permian Basin Royalty Trust (PBT)

Updated April 1st, 2021 by Aristofanis Papadatos

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 its current depressed cash flows, PBT is now trading at a valuation multiple of 16.7. If PBT trades at our assumed fair valuation level in five years, it will incur a -4.8% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

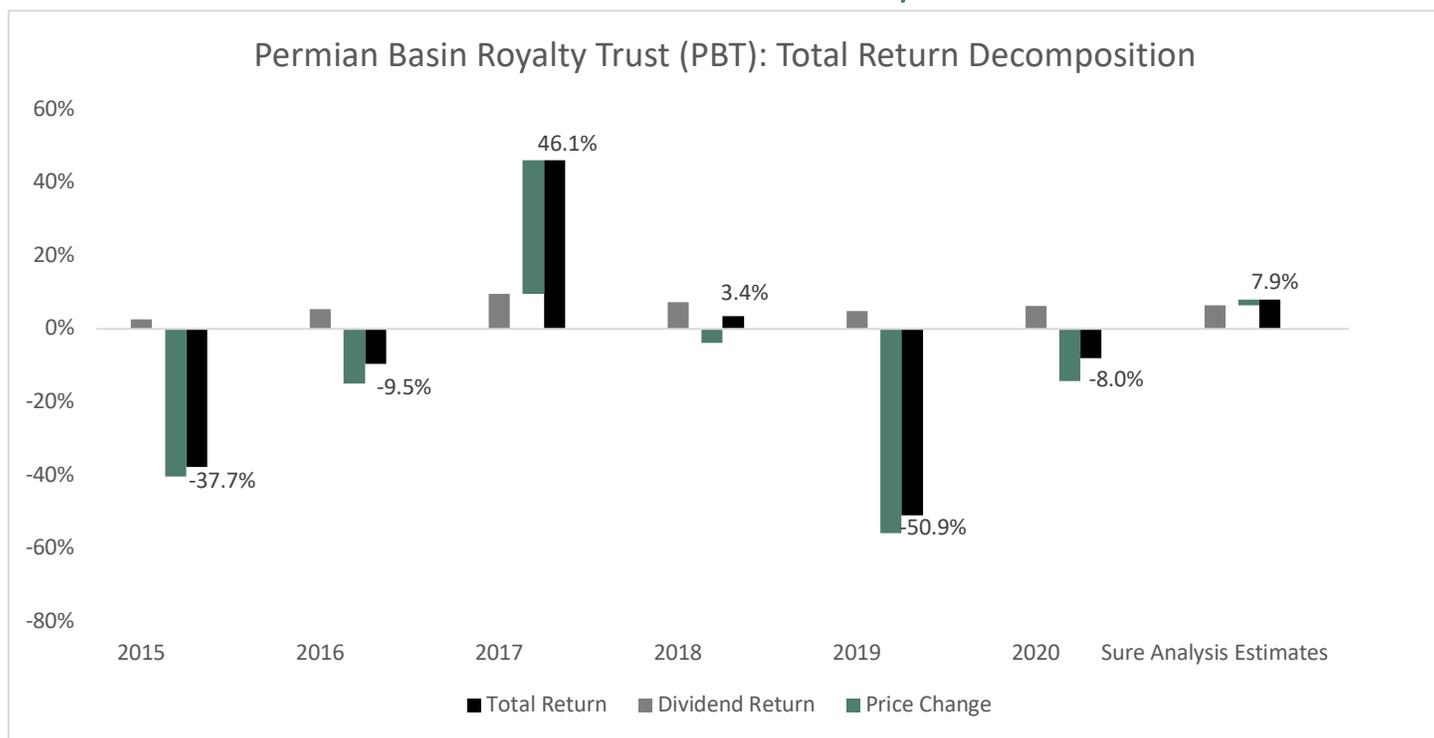
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

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 the realized oil and gas prices of PBT recover towards their levels in 2019, 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 this year or PBT continues to realize much worse oil and gas prices than the benchmark prices, the trust is likely to exhibit poor performance.

Final Thoughts & Recommendation

PBT has exhibited poor cash flows and distributions in the last 12 months due to the coronavirus crisis and the resultant poor realized oil and gas prices of the trust. We expect the pandemic to attenuate in the second half of this year thanks to the ongoing vaccination program. However, PBT has rallied 33% since our last research report, in November, and thus it has become less attractive. We expect PBT to offer a 7.9% average annual return over the next five years, primarily thanks to its 6.0% forward expected dividend yield, and thus we lower our rating from "buy" to "hold". We also reiterate that we do not believe PBT is a buy-and-hold-forever stock due to the natural decline of its production in the long run.

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 does not intend to obtain one.



Permian Basin Royalty Trust (PBT)

Updated April 1st, 2021 by Aristofanis Papadatos

Income Statement Metrics

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

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	5.62	3.40	3.92	2.83	2.15	4.40	3.95	3.99	3.29
Total Liabilities	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
Book Value	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

Profitability & Per Share Metrics

Year	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
Revenue/Share	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.

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.