



PermRock Royalty Trust (PRT)

Updated April 8th, by Quinn Mohammed

Key Metrics

Current Price:	\$5.48	5 Year CAGR Estimate:	-1.2%	Market Cap:	\$66M
Fair Value Price:	\$2.45	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	04/29/2020
% Fair Value:	224%	5 Year Valuation Multiple Estimate:	-14.9%	Payment Date:	05/14/2020
Dividend Yield:	4.9%	5 Year Price Target	\$3.00	Years of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	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 \$66 million. The stock went public in May 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. 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 years.

The trust released annual results for the period ending December 31st. Net profits income received by the trust was \$3.2 million for the full year, compared to \$10.4 million in 2019. The reasons for this significant profit decline were decreased oil and natural gas prices and increased development costs. The average realized sale price of oil (\$/Bbl) in 2020 was \$40.56, compared to a favorable price of \$51.06 last year.

Distributable income for the trust came to \$1.9 million, down significantly from the \$8.8 million earned in 2019. Distributable income per unit of \$0.16 fell 78% from \$0.73 in 2019. The trust paid out all distributable income to shareholders as distributions, for a payout ratio of 100%.

Total cash reserves as of December 30th, 2020 were \$1 million compared to \$600,000 on December 30th, 2019. The trust has not missed a distribution payment thus far in 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DIPU	---	---	---	---	---	---	---	\$1.28	\$0.73	\$0.16	\$0.35	\$0.45
DPU	---	---	---	---	---	---	---	\$1.28	\$0.73	\$0.16	\$0.35	\$0.45
Units¹	---	---	---	---	---	---	---	12	12	12	12.2	12.2

PermRock has previously guided for production growth at around a 4.0% annual rate, however oil and natural gas sales volumes actually declined in 2020 due to lower sales and prices, partially due to the COVID-19 pandemic. Thanks to the mature nature of the trust's assets, future production and reserve estimates are generally 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 any degree of accuracy. The oil glut in 2020 due to the coronavirus 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 highly dependent on commodity prices. We estimate 5% growth on an estimated distributable income of \$0.35 for 2020.

¹ Unit count in millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	---	---	---	---	4.6	6.8	10.3	15.7	7.0
Avg. Yld.	---	---	---	---	---	---	---	9.5%	13.0%	4.8%	6.4%	14.3%

PermRock is currently trading at a price-to-earnings ratio of 15.7 based on our estimated DIPU for 2021. 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 7. PermRock is trading higher than our assumed fair valuation, and so we see a significant 14.9% headwind to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

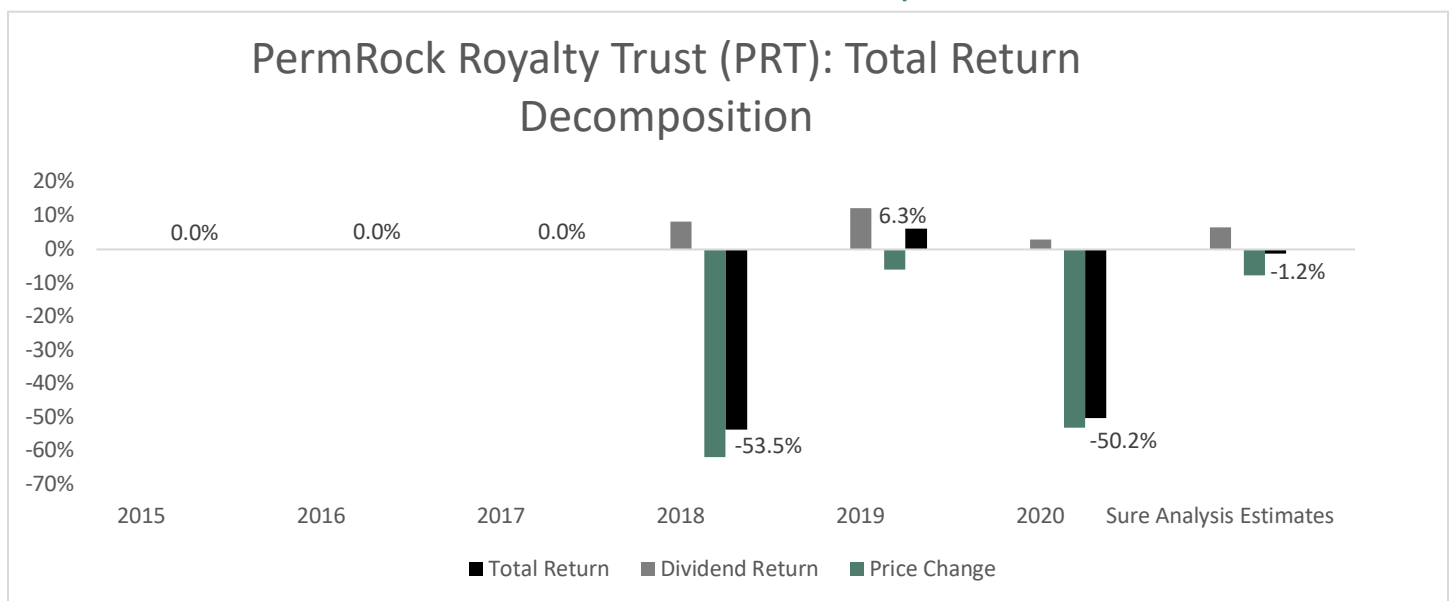
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	---	100%	100%	100%	100%	100%

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 a few months in 2020 was a cautious move, and although it has been reinstated, we expect the dividend will likely not return to its previous high in the future.

Final Thoughts & Recommendation

We are worried about the performance of PermRock Royalty Trust, and do not expect it to do well. We estimate annualized total returns of -1.2% over the next half decade as the current 6.4% yield based on estimated distributions for 2020, and a 5% gain in earnings are offset by massive multiple compression. For this reason, we rate PRT a sell. If you want exposure to the oil and gas industry, we recommend investing elsewhere.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	16	18	32	16	18	32	16	18	10	3
Gross Profit		5	14		5	14		5		
ss		27.8%	42.6%		27.8%	42.6%		27.8%		
SG&A Exp.	1	3	3	1	3	3	1	3	1	1
Operating Profit	16	0	6	16	0	6	16	0	9	2
Operating Margin	96.0%	0.5%	19.5%	96.0%	0.5%	19.5%	96.0%	0.5%	90.3%	72.5%
Net Profit	16	-6	-2	16	-6	-2	16	-6	9	2
Net Margin	96.0%	-35.2%	-7.6%	96.0%	-35.2%	-7.6%	96.0%	-35.2%	84.6%	59.9%
Free Cash Flow		-45	-20		-45	-20		-45		

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	94	119	0	94	119	0	94	119	90	89
Cash & Equivalents		1			1			1		
Accounts Receivable	0	4	0	0	4	0	0	4	0	0
Total Liabilities	1	53	0	1	53	0	1	53	1	0
Accounts Payable		3			3			3		
Long-Term Debt	0	36	0	0	36	0	0	36	0	0
Shareholder's Equity	92	66	0	92	66	0	92	66	90	89
D/E Ratio	0.00	0.54	0.00	0.00	0.54	0.00	0.00	0.54	0	0

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	33.3%		-4.0%	33.3%		-4.0%	33.3%		9.6%	2.13%
Return on Equity	33.8%		-7.3%	33.8%		-7.3%	33.8%		9.7%	2.14%
ROIC	33.8%		-4.7%	33.8%		-4.7%	33.8%		9.7%	2.14%
Shares Out.								12	12	12
Revenue/Share	1.33	1.44	2.61	1.33	1.44	2.61	1.33	1.44	0.86	0.26
FCF/Share		-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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