



Permian Basin Royalty Trust (PBT)

Updated May 27th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$4.30	5 Year CAGR Estimate:	6.4%	Market Cap:	\$200 M
Fair Value Price:	\$3.10	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	3/30/21
% Fair Value:	138%	5 Year Valuation Multiple Estimate:	-6.2%	Dividend Payment Date:	4/14/21
Dividend Yield:	5.6% 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 an 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 mid-May, PBT reported (5/17/21) financial results for the first quarter of fiscal 2021. Its average realized price of gas jumped 67% but its average realized price of oil decreased -24% over last year's quarter. Despite a 7% increase in oil production, total royalty income plunged -66% due to increased drilling costs on the Waddell Ranch properties, which eliminated the royalty from these properties.

The performance of PBT was disappointing compared to its peers SBR and CRT due to the high operating expenses on the Waddell Ranch properties. PBT has offered a poor total distribution of only \$0.08 per unit in the first five months of 2021 even though the oil and gas prices have returned to pre-COVID levels. Thanks to the elevated commodity 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	17.9	13.0
Avg. Yld.	6.4%	6.5%	6.4%	7.8%	4.4%	6.3%	6.9%	7.6%	7.4%	7.5%	5.6%	7.7%

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

¹ Forward expected distribution yield.

² Average Weighted Unit count is in millions.

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cash flows, PBT is now trading at a valuation multiple of 17.9. If PBT trades at our assumed fair valuation level in five years, it will incur a -6.2% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

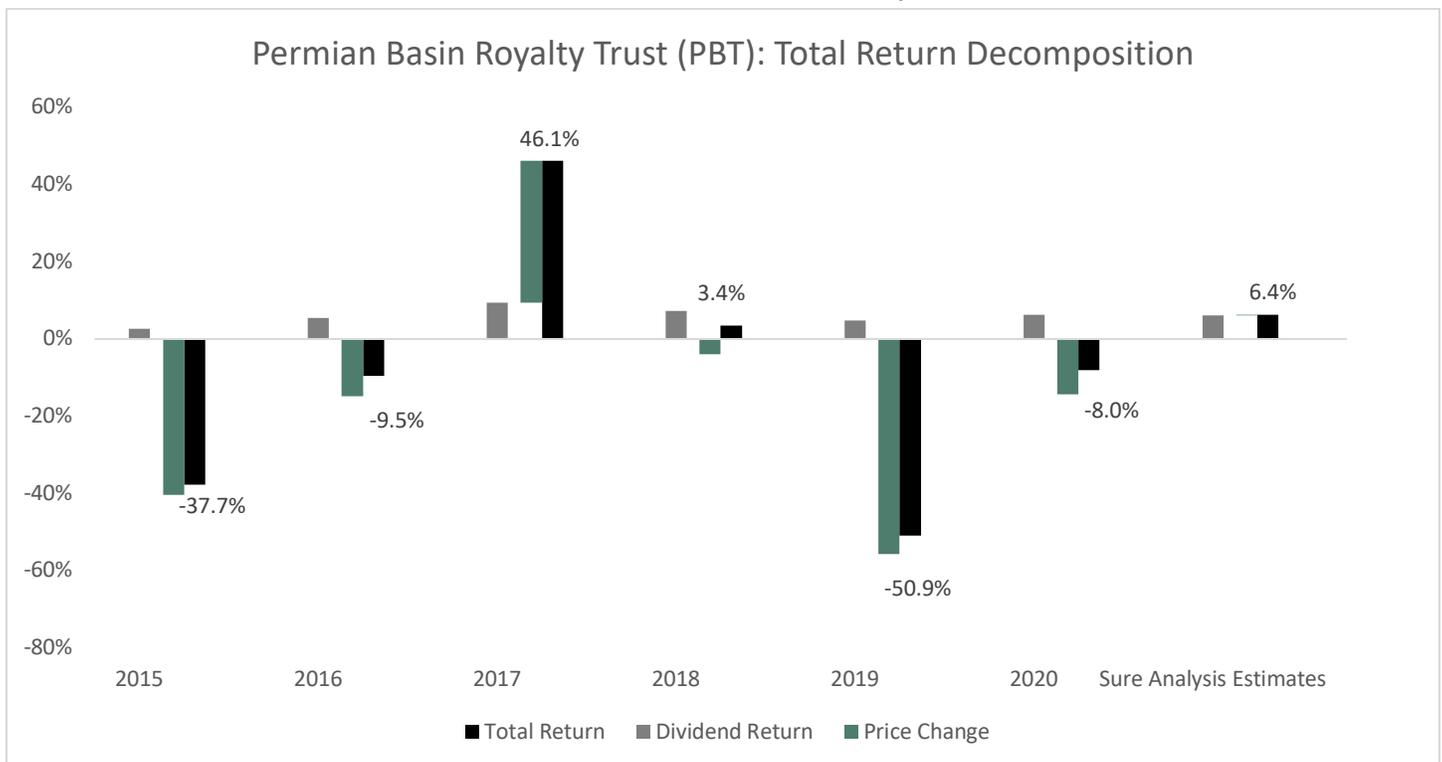
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

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 remain elevated, the trust will offer a double reward to its unit holders, as it will enhance its currently suppressed distributions 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 doubled in the last seven months and thus it has become less attractive. We expect PBT to offer a 6.4% average annual return over the next five years, primarily thanks to its 5.6% forward expected distribution yield, and thus it receives a hold rating. 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



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	64.58	55.13	41.75	49.01	17.80	21.09	30.57	32.11	20.51	12.05
SG&A Exp.	1.17	1.15	1.23	1.29	1.25	1.19	1.25	1.32	1.09	1.04
Operating Profit	63.41	53.98	40.52	47.72	16.05	19.35	29.33	30.79	19.42	10.96
Operating Margin	98%	98%	97%	97%	90%	92%	96%	96%	95%	91%
Net Profit	63.41	53.98	40.52	47.72	16.05	19.35	29.33	30.79	19.42	10.96
Net Margin	98%	98%	97%	97%	90%	92%	96%	96%	95%	91%

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5.62	3.40	3.92	2.83	2.15	4.40	3.95	3.99	3.29	2.11
Total Liabilities	4.73	2.57	3.14	2.11	1.46	3.80	3.42	3.53	2.86	1.73
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	0.89	0.83	0.78	0.72	0.68	0.60	0.53	0.47	0.42	0.38
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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Shares Out.	46.61	46.61	46.61	46.61	46.61	46.61	46.61	46.61	46.61	46.61
Revenue/Share	1.39	1.18	0.90	1.05	0.38	0.45	0.66	0.69	0.44	0.26

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

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