



PermRock Royalty Trust (PRT)

Updated November 16th, by Quinn Mohammed

Key Metrics

Current Price:	\$6.92	5 Year CAGR Estimate:	4.1%	Market Cap:	\$86 M
Fair Value Price:	\$4.13	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/29/2020
% Fair Value:	168%	5 Year Valuation Multiple Estimate:	-9.8%	Payment Date:	12/14/2020
Dividend Yield:	7.9%	5 Year Price Target	\$5.00	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 \$86 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 third quarter results for the period ending September 30th. Net profits income received by the trust was \$2.27 million for the quarter, compared to \$0.33 million in 2020. The reason for the increase was due to higher prices and volumes. The average realized sale price of oil (\$/Bbl) was \$67.82 during the quarter, a significant increase compared to the price of \$35.84 last year.

Distributable income for the trust came to \$2.1 million, up from \$0.1 million in Q2 2020. Distributable income per unit of \$0.17 was up from \$0.01 in the prior year. The trust paid out all distributable income to shareholders as distributions, for a payout ratio of 100%.

Total cash reserves as of June 30th, 2021 were \$1 million, identical to the end of 2020. 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	\$0.55	\$0.70
DPU	---	---	---	---	---	---	---	\$1.28	\$0.73	\$0.16	\$0.55	\$0.70
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% annual growth on an estimated distributable income of \$0.55 in 2021.

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	12.6	7.5
Avg. Yld.	---	---	---	---	---	---	---	9.5%	13.0%	4.8%	7.9%	13.3%

PermRock is currently trading at a price-to-earnings ratio of 12.6 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 7.5. PermRock is trading higher than our assumed fair valuation, and so we see a significant 7.9% headwind to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

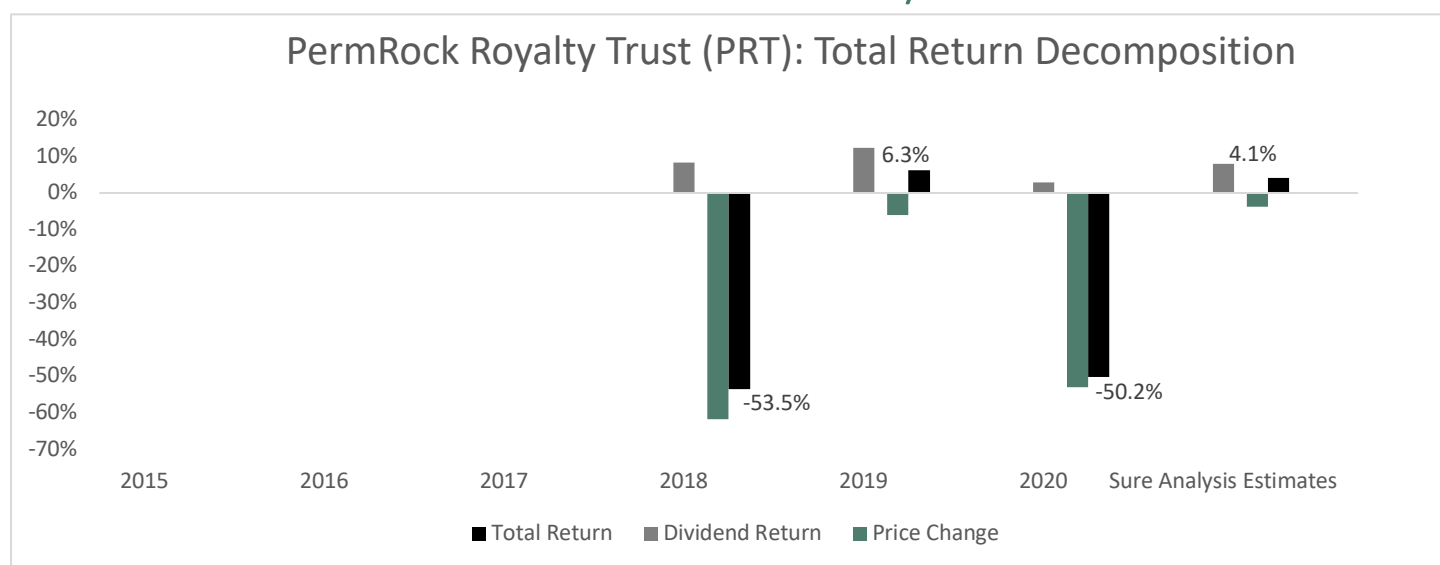
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	---	100%	100%	100%	100%	100%

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

The performance of PermRock Royalty Trust does not appear too bright but increasing commodity prices is a favorable trend for the Trust. We estimate annualized total returns of 4.1% over the next half decade composed of the forward 7.9% yield based on estimated distributions for 2021, and a 5% gain in earnings, offset by massive multiple compression of (9.8%). Today we rate PRT a Hold given its high yield, though it is fully dependent upon distributable income, which can be volatile.

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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