



# Permian Basin Royalty Trust (PBT)

Updated April 5<sup>th</sup>, 2022 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$12.60	<b>5 Year CAGR Estimate:</b>	-6.6%	<b>Market Cap:</b>	\$599 M
<b>Fair Value Price:</b>	\$5.20	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	3/30/22
<b>% Fair Value:</b>	242%	<b>5 Year Valuation Multiple Estimate:</b>	-16.2%	<b>Dividend Payment Date:</b>	4/14/22
<b>Dividend Yield:</b>	3.2%	<b>5 Year Price Target</b>	\$6.65	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	F	<b>Rating:</b>	Sell

## 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 \$12.0 million in 2020 and \$11.8 million in 2021.

In late March, PBT reported (3/30/22) financial results for the full fiscal 2021. Its average realized price of gas more than doubled off depressed level in the prior year amid the pandemic, while the average realized price of oil grew 60%.

Volumes of oil and gas sold increased significantly, but capital expenses and operating expenses increased significantly as well. As a result, distributable income per unit dipped from \$0.24 in 2020 to \$0.23 in 2021.

The performance of PBT remained markedly 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 three months of 2022 even though the price of oil has rallied to a nearly 13-year high thanks to tight global supply and the invasion of Russia in Ukraine. Its latest quarterly distribution is still about half of pre-COVID distributions. Thanks to the elevated commodity prices, we expect PBT to improve its results in the upcoming months, though the time of the recovery is uncertain.

## Growth on a Per-Unit Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>DCFU</b>	\$1.16	\$0.87	\$1.02	\$0.34	\$0.42	\$0.63	\$0.66	\$0.42	\$0.24	\$0.23	<b>\$0.40</b>	<b>\$0.51</b>
<b>DPU</b>	\$1.16	\$0.87	\$1.02	\$0.34	\$0.42	\$0.63	\$0.66	\$0.42	\$0.24	\$0.23	<b>\$0.40</b>	<b>\$0.51</b>
<b>Units<sup>1</sup></b>	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	<b>46.6</b>	<b>46.6</b>

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 \$0.60/unit annually for the past 10 years, though with a noticeable decrease in the last seven 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 somewhat low comparison base formed this year, we expect PBT to grow its distributable cash flow per unit by 5% per year on average over the next five years.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>P/DCFU</b>	15.5	15.5	12.8	22.9	15.8	14.4	13.2	13.6	13.3	23.9	<b>31.5</b>	<b>13.0</b>
<b>Avg. Yld.</b>	6.5%	6.4%	7.8%	4.4%	6.3%	6.9%	7.6%	7.4%	7.5%	4.2%	<b>3.2%</b>	<b>7.7%</b>

<sup>1</sup> Average Weighted Unit count is in millions.

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The trust's DCFU price multiple has averaged 16.1 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 31.5. If PBT trades at our assumed fair valuation level in five years, it will incur a -16.2% annualized drag in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

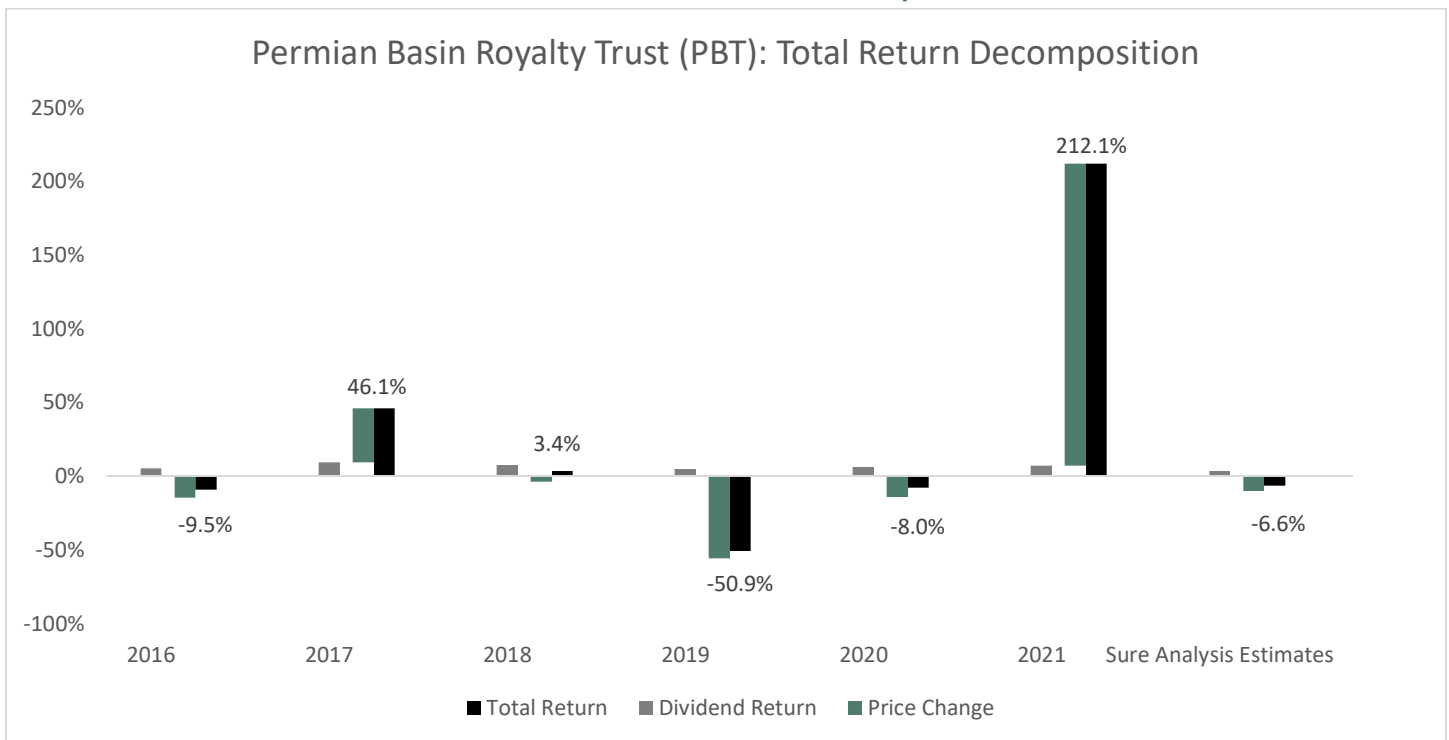
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

PBT has been in continuous existence for 42 years paying an average 6.5% 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 reward its unit holders, as it will enhance its currently suppressed distributions. On the other hand, if the energy market enters another downcycle 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 disappointing cash flows and distributions in recent months, mostly due to its high operating expenses. The price of oil has rallied to a nearly 13-year high but PBT has hardly benefited so far due to its high operating expenses. Moreover, PBT has more than tripled in the last 12 months and thus it has become much less attractive. We expect PBT to offer a poor average annual return over the next five years and thus the trust receives a sell 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	55.13	41.75	49.01	17.80	21.09	30.57	32.11	20.51	12.05	11.81
SG&A Exp.	1.15	1.23	1.29	1.25	1.19	1.25	1.32	1.09	1.04	1.09
Operating Profit	53.98	40.52	47.72	16.05	19.35	29.33	30.79	19.42	10.96	10.72
Operating Margin	98%	97%	97%	90%	92%	96%	96%	95%	91%	91%
Net Profit	53.98	40.52	47.72	16.05	19.35	29.33	30.79	19.42	10.96	10.72
Net Margin	98%	97%	97%	90%	92%	96%	96%	95%	91%	91%

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3.40	3.92	2.83	2.15	4.40	3.95	3.99	3.29	2.11	2.60
Total Liabilities	2.57	3.14	2.11	1.46	3.80	3.42	3.53	2.86	1.73	2.25
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	0.83	0.78	0.72	0.68	0.60	0.53	0.47	0.42	0.38	0.35
LTD/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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Shares Out.	46.61	46.61	46.61	46.61	46.61	46.61	46.61	46.61	46.61	46.61
Revenue/Share	1.18	0.90	1.05	0.38	0.45	0.66	0.69	0.44	0.26	0.25

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

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