



PermRock Royalty Trust (PRT)

Updated May 31st, 2022, by Quinn Mohammed

Key Metrics

| | | | | | |
|-----------------------------|--------|--|--------|----------------------------------|------------|
| Current Price: | \$10.1 | 5 Year CAGR Estimate: | 7.0% | Market Cap: | \$123 M |
| Fair Value Price: | \$7.23 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date: | 05/27/2022 |
| % Fair Value: | 140% | 5 Year Valuation Multiple Estimate: | -6.4% | Payment Date: | 06/14/2022 |
| Dividend Yield: | 8.4% | 5 Year Price Target | \$9.00 | Years of Dividend Growth: | 1 |
| Dividend Risk Score: | F | Retirement Suitability Score: | C | Rating: | Hold |

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 \$123 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 reported first quarter 2022 results for the period ending March 31st. Net profits income received by the trust was \$2.79 million for the quarter, compared to \$1.29 million in Q1 2021. Significant increases in oil and natural gas sales volumes and prices led to a massive year-over-year improvement. The average realized sale price of oil (\$/Bbl) was \$76.02 during the quarter, a 73% increase compared to the price of \$44.03 in the prior year period. The average realized sale price of natural gas also shot up massively, from \$2.93 to \$7.14 per Mcf.

Distributable income for the trust came to \$2.53 million, up from \$1.05 million in Q1 2021. Distributable income per unit of \$0.21 was up from \$0.09 in the prior year period. The trust paid out all distributable income to shareholders as distributions, for a payout ratio of 100%.

Total cash reserves as of March 31st, 2022 were \$1 million, identical to the end of 2021. The trust did not miss a distribution payment in 2021. So far in 2022, the trust has declared \$0.371 in distributions.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------------------------|------|------|------|------|------|------|--------|--------|--------|--------|---------------|---------------|
| DIPU | --- | --- | --- | --- | --- | --- | \$1.28 | \$0.73 | \$0.16 | \$0.61 | \$0.85 | \$1.08 |
| DPU | --- | --- | --- | --- | --- | --- | \$1.28 | \$0.73 | \$0.16 | \$0.61 | \$0.85 | \$1.08 |
| Units¹ | --- | --- | --- | --- | --- | --- | 12.2 | 12.2 | 12.2 | 12.2 | 12.2 | 12.2 |

PermRock previously guided for production growth, however, oil and natural gas property sales have declined every year since 2019. Still, the average realized sales price is higher for both oil and natural gas in 2021 and so far in 2022. In 2022, Boaz Energy is expecting to drill new producing wells in the Permian Shelf area. It will also try to increase production at existing wells and reactivate wells which were inactive due to pandemic pricing conditions.

Given the mature nature of the trust's assets, future production and reserve estimates are generally predictable. Moreover, management believes that it can grow production rates via expanded water-flooding operations and drilling of additional wells. Nevertheless, 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

¹ Unit count in millions

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commodity prices but prices have soared in the first half of 2022. 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 \$0.85 in 2022.

Valuation Analysis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|-----------|------|------|------|------|------|------|------|-------|------|------|-------------|--------------|
| Avg. P/DI | --- | --- | --- | --- | --- | --- | 4.6 | 6.8 | 10.3 | 10.8 | 11.9 | 8.5 |
| Avg. Yld. | --- | --- | --- | --- | --- | --- | 9.5% | 13.0% | 4.9% | 5.4% | 8.4% | 11.8% |

PermRock is currently trading at a price-to-earnings ratio of 11.9 based on our estimated DIPU for 2022. 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 8.5. PermRock is trading higher than our assumed fair valuation, and so we expect a 6.4% headwind to total annual returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

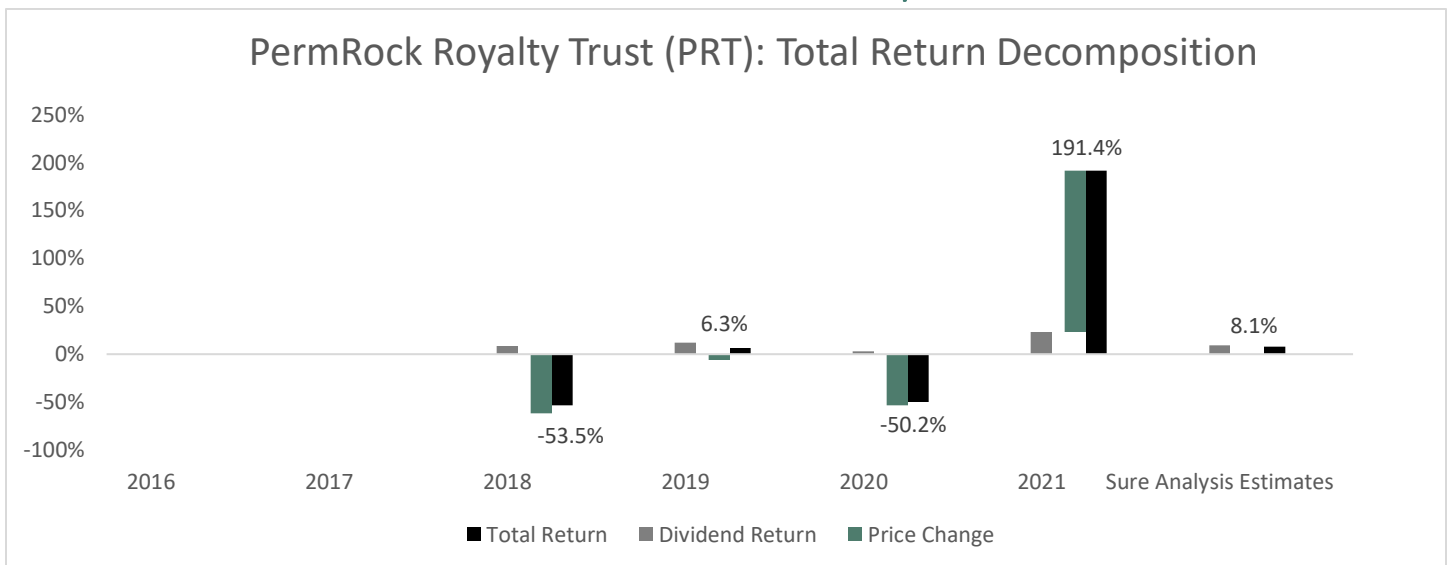
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Payout | --- | --- | --- | --- | --- | --- | 100% | 100% | 100% | 100% | 100% | 100% |

The properties of PermRock are in the Permian Basin, the most prolific oil producing area in the U.S. However, a trust may be a poor way to gain exposure to the booming production in the area. A real oil & gas company, either in corporate or MLP form, even if it is not active in this particular oil field, may produce better overall returns long-term. The large increases in crude oil prices have led to great revenue benefits for the Trust and its operations. Suspending the dividend for a few months in 2020 was a cautious move, and with the current favorable outlook, it may surpass its prior dividend level yet again in the future.

Final Thoughts & Recommendation

The performance of PermRock Royalty Trust appears to be fairly strong based on increasing commodity prices. We estimate annualized total returns of 7.0% over the next half decade composed of the forward 8.4% yield based on estimated distributions for 2022, and 5% annual growth in earnings, offset by multiple compression of (6.4%). Today we rate PRT a hold given its high yield, though it is fully dependent upon distributable income, which can be highly volatile.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------------------|--------|-------|-------|--------|-------|-------|--------|-------|-------|-------|
| Revenue | 18 | 32 | 16 | 18 | 32 | 16 | 18 | 10 | 3 | 8 |
| Gross Profit | 5 | 14 | | 5 | 14 | | 5 | | | |
| Gross Margin | 27.8% | 42.6% | | 27.8% | 42.6% | | 27.8% | | | |
| SG&A Exp. | 3 | 3 | 1 | 3 | 3 | 1 | 3 | 1 | 1 | 1 |
| Operating Profit | 0 | 6 | 16 | 0 | 6 | 16 | 0 | 9 | 2 | 7 |
| Operating Margin | 0.5% | 19.5% | 96.0% | 0.5% | 19.5% | 96.0% | 0.5% | 90.3% | 72.5% | 90.5% |
| Net Profit | -6 | -2 | 16 | -6 | -2 | 16 | -6 | 9 | 2 | 7 |
| Net Margin | -35.2% | -7.6% | 96.0% | -35.2% | -7.6% | 96.0% | -35.2% | 84.6% | 59.9% | 90.5% |
| Free Cash Flow | -45 | -20 | | -45 | -20 | | -45 | | | |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------------|------|------|------|------|------|------|------|------|------|------|
| Total Assets | 119 | 0 | 94 | 119 | 0 | 94 | 119 | 90 | 89 | 86 |
| Cash & Equivalents | 1 | | | 1 | | | 1 | | | |
| Accounts Receivable | 4 | 0 | 0 | 4 | 0 | 0 | 4 | 0 | 0 | 0 |
| Total Liabilities | 53 | 0 | 1 | 53 | 0 | 1 | 53 | 1 | 0 | 1 |
| Accounts Payable | 3 | | | 3 | | | 3 | | | |
| Long-Term Debt | 36 | 0 | 0 | 36 | 0 | 0 | 36 | 0 | 0 | 0 |
| Shareholder's Equity | 66 | 0 | 92 | 66 | 0 | 92 | 66 | 90 | 89 | 85 |
| D/E Ratio | 0.54 | 0.00 | 0.00 | 0.54 | 0.00 | 0.00 | 0.54 | 0.00 | 0.00 | 0.00 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------------------|-------|-------|-------|-------|-------|-------|-------|------|-------|------|
| Return on Assets | | -4.0% | 33.3% | | -4.0% | 33.3% | | 9.6% | 2.13% | 8.4% |
| Return on Equity | | -7.3% | 33.8% | | -7.3% | 33.8% | | 9.7% | 2.14% | 8.5% |
| ROIC | | -4.7% | 33.8% | | -4.7% | 33.8% | | 9.7% | 2.14% | 8.5% |
| Shares Out. | | | | | | | 12.2 | 12.2 | 12.2 | 12.2 |
| Revenue/Share | 1.44 | 2.61 | 1.33 | 1.44 | 2.61 | 1.33 | 1.44 | 0.86 | 0.26 | 0.67 |
| 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.

Disclaimer

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