



Permian Basin Royalty Trust (PBT)

Updated November 22nd, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$20	5 Year CAGR Estimate:	-11.6%	Market Cap:	\$932 M
Fair Value Price:	\$16	5 Year Growth Estimate:	-15.0%	Ex-Dividend Date:	11/29/22
% Fair Value:	125%	5 Year Valuation Multiple Estimate:	-4.7%	Dividend Payment Date:	12/14/22
Dividend Yield:	6.1%	5 Year Price Target	\$7	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	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 mid-November, PBT reported (11/14/22) financial results for the third quarter of fiscal 2022. Its average realized prices of oil and gas grew 59% and 96%, respectively, over last year's quarter thanks to the multi-year high benchmark prices, which resulted from the sanctions of Europe and the U.S. on Russia for its invasion in Ukraine. Oil volumes nearly doubled while gas volumes more than doubled. As a result, distributable income per unit jumped from \$0.06 to \$0.58.

After several months of disappointing distributions, which resulted from high operating expenses on the Waddell Ranch properties, PBT has finally boosted its distributions. In the first eleven months of 2022, it has offered total distributions of \$1.10 per unit, which correspond to a 6.1% annualized yield. Thanks to the tailwind from the war in Ukraine, PBT is on track to post an 8-year high distributable cash flow per unit this year.

Growth on a Per-Unit Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
DCFU	\$1.16	\$0.87	\$1.02	\$0.34	\$0.42	\$0.63	\$0.66	\$0.42	\$0.24	\$0.23	\$1.21	\$0.54
DPU	\$1.16	\$0.87	\$1.02	\$0.34	\$0.42	\$0.63	\$0.66	\$0.42	\$0.24	\$0.23	\$1.21	\$0.54
Units¹	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 \$0.60/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, the trust is on track to post 8-year high distributable cash flow per unit this year thanks to the aforementioned rally of oil and gas prices, which has resulted from the sanctions of western countries on Russia. Given the extremely high comparison base formed this year, we expect distributable cash flow per unit to decline by -15% per year on average over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/DCFU	15.5	15.5	12.8	22.9	15.8	14.4	13.2	13.6	13.3	23.9	16.5	13.0
Avg. Yld.	6.5%	6.4%	7.8%	4.4%	6.3%	6.9%	7.6%	7.4%	7.5%	4.2%	6.1%	7.7%

¹ 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. PBT is currently trading at a valuation multiple of 16.5. If PBT trades at our assumed fair valuation level in five years, it will incur a -4.7% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

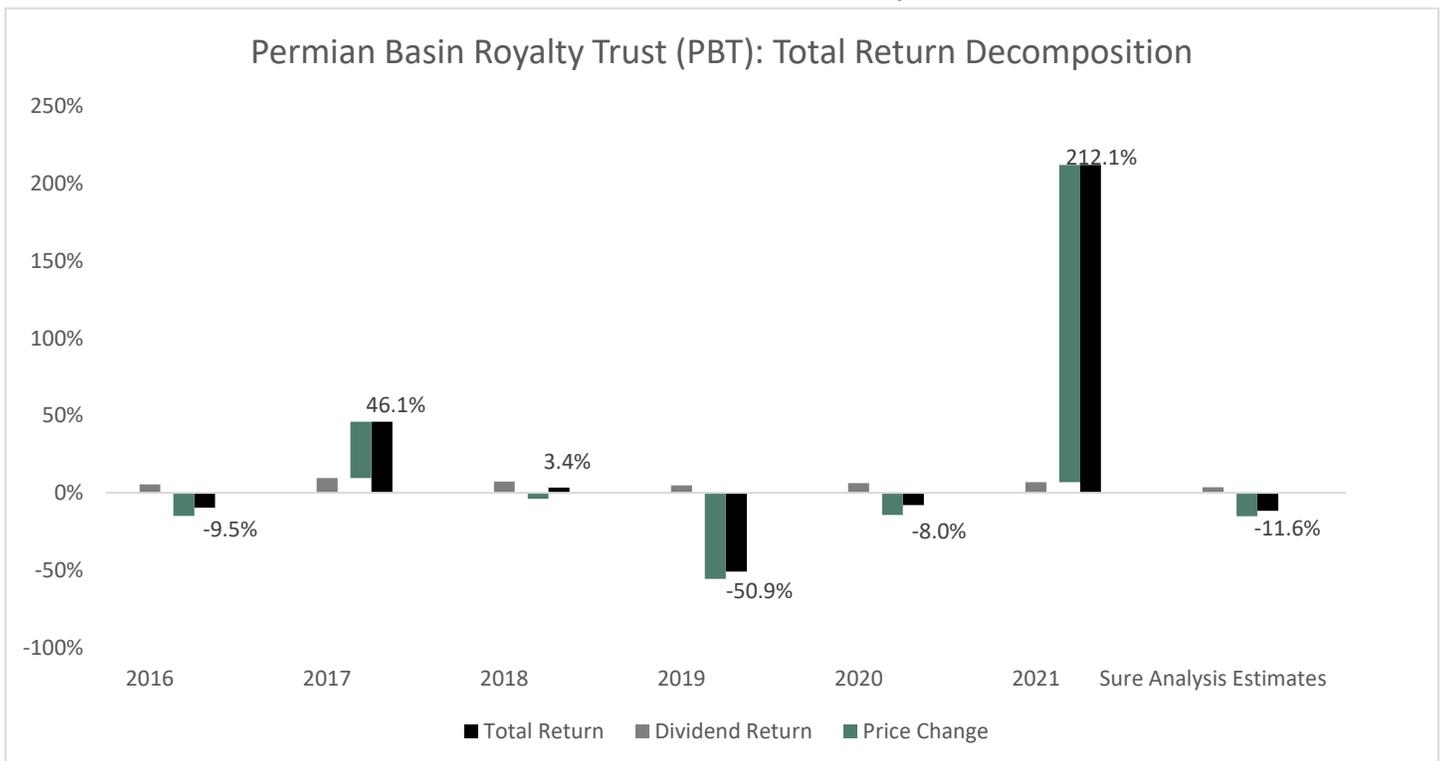
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

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 with generous distributions. On the other hand, whenever the energy market enters another downcycle, the trust is likely to exhibit poor performance.

Final Thoughts & Recommendation

After many quarters of disappointing distributions, which resulted from high operating expenses, PBT has finally boosted its distributions significantly, in line with its peers. PBT is thriving right now thanks to the sanctions of western countries on Russia. However, we expect oil and gas prices to deflate in the upcoming years due to the record number of renewable energy projects that are in their development phase. We expect PBT to offer an -11.6% average annual return over the next five years, as its 6.1% initial distribution may be offset by a -15% decline of distributable income per unit and a -4.7% valuation headwind. As a result, PBT 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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