



# PermRock Royalty Trust (PRT)

Updated December 4<sup>th</sup>, 2022, by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$7.50	<b>5 Year CAGR Estimate:</b>	8.1%	<b>Market Cap:</b>	\$91 M
<b>Fair Value Price:</b>	\$8.67	<b>5 Year Growth Estimate:</b>	-5.0%	<b>Ex-Dividend Date:</b>	11/29/2022
<b>% Fair Value:</b>	87%	<b>5 Year Valuation Multiple Estimate:</b>	2.9%	<b>Payment Date:</b>	12/14/2022
<b>Dividend Yield:</b>	13.6%	<b>5 Year Price Target</b>	\$7.00	<b>Years of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 \$91 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 can also identify new reserves in the area in the upcoming years.

The trust reported third quarter 2022 results for the period ending September 30<sup>th</sup>, 2022. Net profits income received by the trust was \$3.53 million for the quarter, compared to \$2.27 million in Q3 2021. Significant increases in oil and natural gas sales prices led to a strong year-over-year improvement, offset by a reduction in sales volumes. The average realized sale price of oil (\$/Bbl) was \$107.75 during the quarter, a 59% increase compared to the price of \$67.82 in the prior year period. The average realized sale price of natural gas also shot up massively, from \$4.29 to \$8.95 per Mcf.

Distributable income for the trust came to \$3.36 million, up from \$2.10 million in Q3 2021. Distributable income per unit of \$0.28 was up from \$0.17 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 September 30<sup>th</sup>, 2022 were \$1 million, identical to the end of 2021. The trust did not miss a distribution payment in 2022. In fiscal 2022, the trust has so far declared \$0.9307 in distributions.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>DIPU</b>	---	---	---	---	---	---	\$1.28	\$0.73	\$0.16	\$0.61	<b>\$1.02</b>	<b>\$0.79</b>
<b>DPU</b>	---	---	---	---	---	---	\$1.28	\$0.73	\$0.16	\$0.61	<b>\$1.02</b>	<b>\$0.79</b>
<b>Units<sup>1</sup></b>	---	---	---	---	---	---	12.2	12.2	12.2	12.2	<b>12.2</b>	<b>12.2</b>

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 commodity prices but prices have soared in 2022 due to the ongoing war in Ukraine. As with other O&G royalty trusts,

<sup>1</sup> Unit count in millions

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this one is highly dependent on commodity prices. We estimate a 5% annual earnings contraction on an estimated distributable income of \$1.02 in 2022. This year's results are inflated due to favorable oil and gas prices.

## 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	7.4	8.5
Avg. Yld.	---	---	---	---	---	---	9.5%	13.0%	4.9%	5.4%	13.6%	11.8%

PermRock is currently trading at a price-to-earnings ratio of 7.4 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 below our assumed fair valuation, and so we expect a 2.9% tailwind to total annual returns.

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

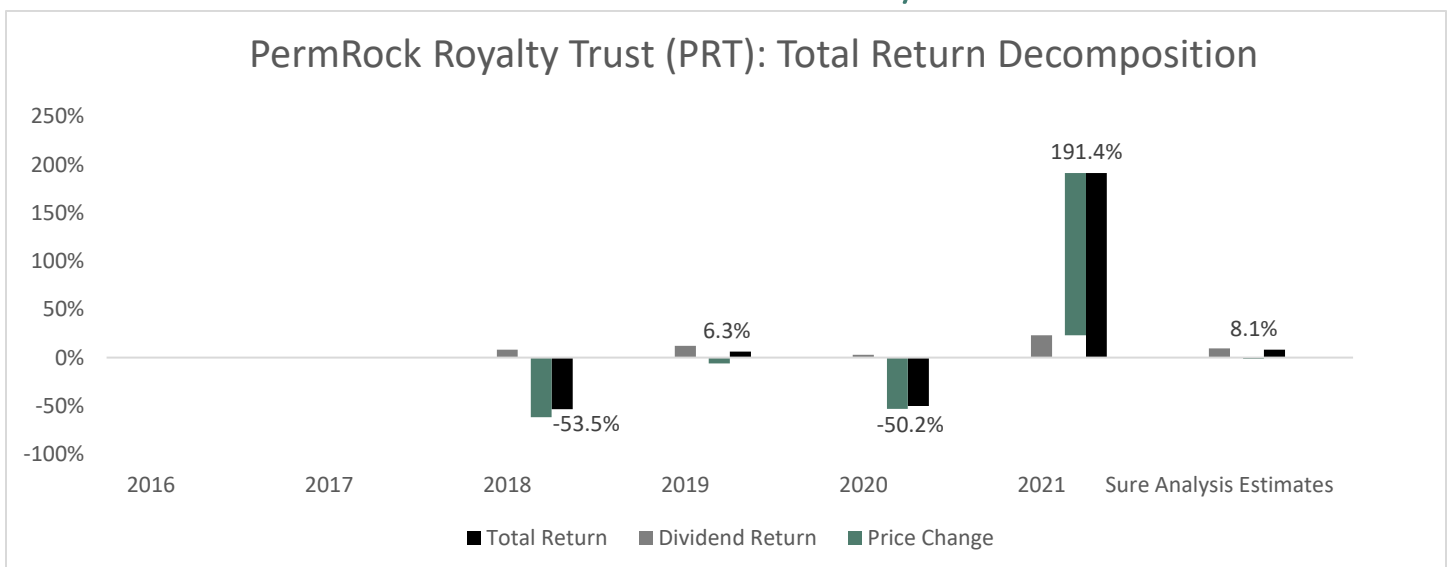
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	100%	100%	100%	100%	100%	100%

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 8.1% over the next half decade composed of the forward 13.6% yield based on estimated distributions for 2022 and the potential for a valuation tailwind, offset by an estimated 5% annual contraction in earnings. 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
<b>Revenue</b>	18	32	16	18	32	16	18	10	3	8
<b>Gross Profit</b>	5	14		5	14		5			
<b>Gross Margin</b>	27.8%	42.6%		27.8%	42.6%		27.8%			
<b>SG&amp;A Exp.</b>	3	3	1	3	3	1	3	1	1	1
<b>Operating Profit</b>	0	6	16	0	6	16	0	9	2	7
<b>Operating Margin</b>	0.5%	19.5%	96.0%	0.5%	19.5%	96.0%	0.5%	90.3%	72.5%	90.5%
<b>Net Profit</b>	-6	-2	16	-6	-2	16	-6	9	2	7
<b>Net Margin</b>	-35.2%	-7.6%	96.0%	-35.2%	-7.6%	96.0%	-35.2%	84.6%	59.9%	90.5%
<b>Free Cash Flow</b>	-45	-20		-45	-20		-45			

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	119	0	94	119	0	94	119	90	89	86
<b>Cash &amp; Equivalents</b>	1			1			1			
<b>Accounts Receivable</b>	4	0	0	4	0	0	4	0	0	0
<b>Total Liabilities</b>	53	0	1	53	0	1	53	1	0	1
<b>Accounts Payable</b>	3			3			3			
<b>Long-Term Debt</b>	36	0	0	36	0	0	36	0	0	0
<b>Shareholder's Equity</b>	66	0	92	66	0	92	66	90	89	85
<b>D/E Ratio</b>	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
<b>Return on Assets</b>		-4.0%	33.3%		-4.0%	33.3%		9.6%	2.13%	8.4%
<b>Return on Equity</b>		-7.3%	33.8%		-7.3%	33.8%		9.7%	2.14%	8.5%
<b>ROIC</b>		-4.7%	33.8%		-4.7%	33.8%		9.7%	2.14%	8.5%
<b>Shares Out.</b>							12.2	12.2	12.2	12.2
<b>Revenue/Share</b>	1.44	2.61	1.33	1.44	2.61	1.33	1.44	0.86	0.26	0.67
<b>FCF/Share</b>	-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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