



Cross Timbers Royalty Trust (CRT)

Updated May 22nd, 2023 by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|-------|--|--------|----------------------------------|---------|
| Current Price: | \$21 | 5 Year CAGR Estimate: | -3.2% | Market Cap: | \$127 M |
| Fair Value Price: | \$23 | 5 Year Growth Estimate: | -15.0% | Ex-Dividend Date: | 5/30/23 |
| % Fair Value: | 93% | 5 Year Valuation Multiple Estimate: | 1.4% | Dividend Payment Date: | 6/14/23 |
| Dividend Yield: | 11.9% | 5 Year Price Target | \$10 | Years Of Dividend Growth: | 2 |
| Dividend Risk Score: | F | Retirement Suitability Score: | C | Rating: | Sell |

Overview & Current Events

Cross Timbers Royalty Trust (CRT) is an oil and gas trust (about 50/50), set up in 1991 by XTO Energy. It is a combination trust: unit holders have a 90% net profit interest in *producing properties* in Texas, Oklahoma, and New Mexico; and a 75% net profit interest in *working interest properties* in Texas and Oklahoma. A working interest property is one where the unit holder shares in production expense and development cost. This means that should development costs exceed profits no further profits will be paid from these properties until excess costs have been recovered.

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. CRT had royalty income of \$7.4 million in 2021 and \$12.5 million in 2022.

In mid-May, CRT reported (5/12/23) financial results for the first quarter of fiscal 2023. Production of oil decreased -63% due to an adjustment in last year's quarter but gas output more than tripled thanks to timing of sales. In addition, the average realized price of gas dipped -21% but the average price of oil grew 34%. As a result, distributable cash flow (DCF) per unit essentially doubled.

The price of gas has plunged this year due to unfavorable (warm) weather but the price of oil has remained high thanks to the war in Ukraine and deep production cuts of OPEC and Russia. Based on its distributions in the first five months of the year, CRT is offering an annualized yield of 11.9%.

Growth on a Per-Unit Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------------------------|---------|---------|---------|---------|---------|---------|--------|--------|--------|--------|---------------|---------------|
| DCFU | \$2.315 | \$2.658 | \$1.355 | \$1.061 | \$1.009 | \$1.426 | \$0.87 | \$0.77 | \$1.10 | \$1.96 | \$2.50 | \$1.11 |
| DPU | \$2.315 | \$2.658 | \$1.355 | \$1.061 | \$1.009 | \$1.426 | \$0.87 | \$0.77 | \$1.10 | \$1.96 | \$2.50 | \$1.11 |
| Units¹ | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 |

Essentially all the royalty income (cash) the trust receives is passed through to unit holders. The trust has generated an average distributable and distributed cash flow of \$1.45/unit annually for the past 10 years, though with a noticeable decrease in the past seven years, until last year. The distribution trend essentially parallels the trend in oil and gas prices. Moreover, CRT estimates that the rate of natural production decline of its oil and gas properties is 6%-8% per year. This is a significant headwind for future returns. We also expect the price of oil to deflate in the upcoming years due to the record number of renewable energy projects that are under development right now, as most countries are doing their best to diversify away from fossil fuels. Given the exceptionally high comparison base formed this year thanks to favorable oil prices, we expect a -15% average annual decline of distributable cash flow until 2028.

Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|------------------|------|-------|------|------|------|-------|------|-------|-------|-------|--------------|--------------|
| P/DCFU | 12.2 | 8.8 | 11.2 | 14.6 | 16.2 | 9.0 | 12.3 | 9.0 | 10.0 | 9.2 | 8.4 | 9.0 |
| Avg. Yld. | 8.2% | 11.4% | 8.9% | 6.8% | 6.2% | 11.1% | 8.1% | 11.1% | 10.0% | 10.9% | 11.9% | 11.1% |

¹ Average Weighted Unit count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report and does not intend to obtain one.



Cross Timbers Royalty Trust (CRT)

Updated May 22nd, 2023 by Aristofanis Papadatos

The trust's DCFU price multiple has averaged 11.3 over the past 10 years. CRT is now trading at a valuation multiple of 8.4 but we assume a fair valuation multiple of 9.0 for the trust due to its declining production volume. If CRT trades at our assumed fair valuation level in five years, it will enjoy a 1.4% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

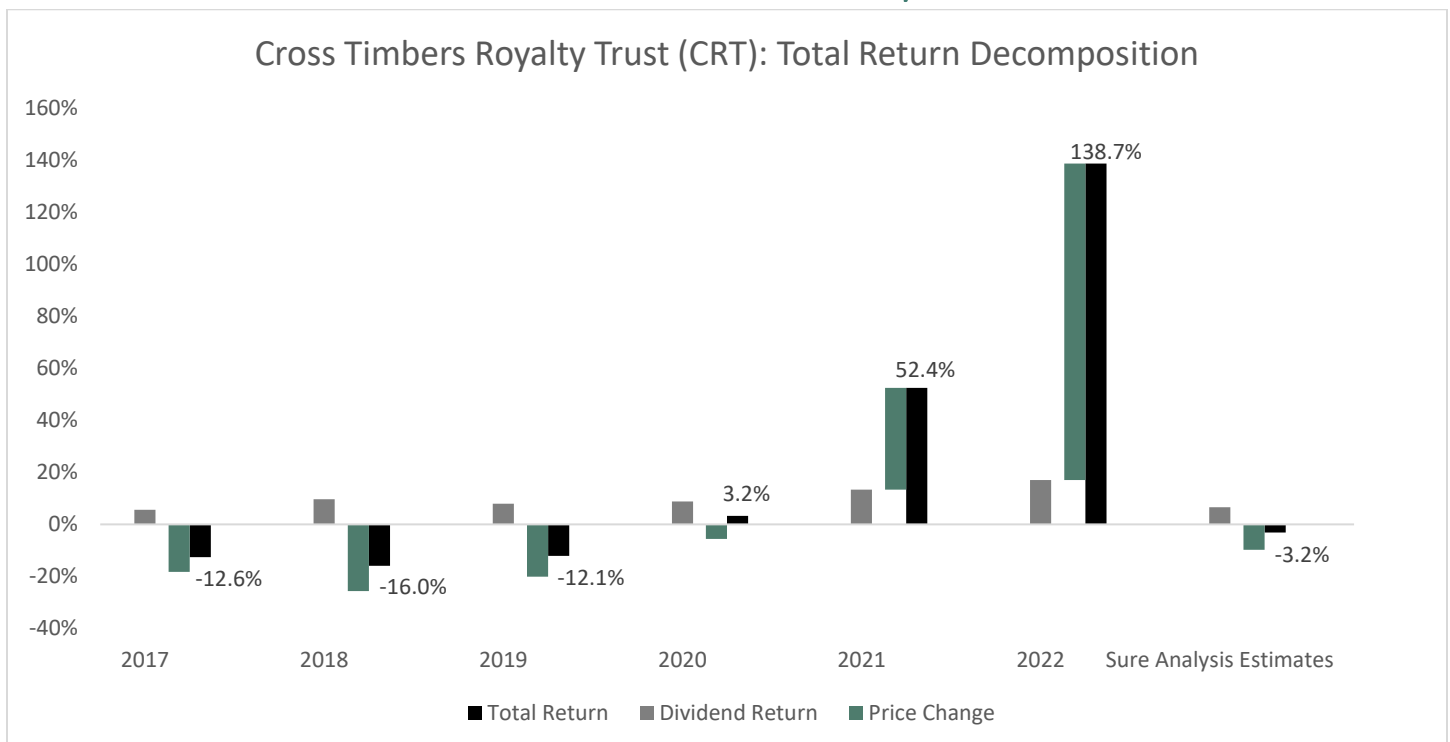
| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Payout | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

On the positive side, the trust has been in continuous existence for 32 years paying an average 9.3% yield in the last decade (albeit with some 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 oil and gas prices remain around current levels or increase, the trust will continue offering a nice yield. In such a case, the trust should do well and will be able to extend its life – since the producer will have an incentive to apply ever-evolving technology to squeeze extra volume out of the fields. On the other hand, if oil and gas prices go through a major downturn, the trust is likely to exhibit poor performance.

Final Thoughts & Recommendation

CRT slumped -50% in early 2020 due to the coronavirus crisis and the resultant collapse of the oil price. However, the pandemic has subsided and the price of oil is above average thanks to the war in Ukraine and deep production cuts of OPEC and Russia. Nevertheless, we expect the oil price to deflate in the upcoming years and CRT to offer a -3.2% average annual return over the next five years, as its 11.9% starting distribution yield and a -1.4% valuation tailwind may be offset by a -15% decline of distributable income. The 11.9% distribution is enticing, but investors should be aware of the high cyclical nature of oil and gas prices, the long-term decline of the production of CRT and its high operating costs. Despite its -30% decline off its peak in February, CRT maintains its sell rating.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report and does not intend to obtain one.



Cross Timbers Royalty Trust (CRT)

Updated May 22nd, 2023 by Aristofanis Papadatos

Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 14 | 16 | 9 | 8 | 7 | 9 | 6 | 5 | 7 | 12 |
| SG&A Exp. | --- | 1 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 |
| D&A Exp. | 14 | 16 | 8 | 6 | 6 | 9 | 5 | 5 | 7 | --- |
| Operating Profit | 97.2% | 96.9% | 91.5% | 84.1% | 91.3% | 93.5% | 88.2% | 88.0% | 89.7% | 12 |
| Operating Margin | 14 | 16 | 8 | 6 | 6 | 9 | 5 | 5 | 7 | 93.4% |
| Net Profit | 97.2% | 96.9% | 91.5% | 84.4% | 91.4% | 93.7% | 88.6% | 88.1% | 89.7% | 12 |
| Net Margin | --- | 15 | 8 | 6 | 5 | --- | --- | --- | --- | 94.0% |
| Distr. Cash Flow | 14 | 16 | 9 | 8 | 7 | 9 | --- | --- | --- | --- |

Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------|------|------|------|------|------|------|------|------|------|------|
| Total Assets | 13 | 12 | 12 | 11 | 11 | 10 | 10 | 9 | 5 | 5 |
| Total Liabilities | 1 | 1 | 1 | 2 | 1 | 2 | 2 | 1 | 2 | 2 |
| Partner's Equity | 12 | 11 | 11 | 10 | 9 | 9 | 8 | 8 | 3 | 3 |

Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|------------------|-------|------|-------|-------|-------|-------|-------|-------|-------|------|
| Return on Assets | 104% | 127% | 68.4% | 55.4% | 54.5% | 81.9% | 53.1% | 50.4% | 95.4% | 236% |
| Return on Equity | 114 % | 140% | 75.5% | 62.3% | 63.0% | 96.0% | 63.0% | 59.6% | 124% | 377% |
| ROIC | 114% | 140% | 75.5% | 62.3% | 63.0% | 96.0% | 63.0% | 59.6% | 124% | 377% |
| Shares Out. | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 |
| Revenue/Share | 2.38 | 2.74 | 1.48 | 1.26 | 1.10 | 1.52 | 0.99 | 0.88 | 1.24 | 2.08 |
| DCF/Share | --- | 2.52 | 1.28 | 0.95 | 0.91 | --- | --- | --- | --- | --- |

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.