



PermRock Royalty Trust (PRT)

Updated May 15th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$5.67	5 Year CAGR Estimate:	7.1%	Market Cap:	\$68 M
Fair Value Price:	\$5.60	5 Year Growth Estimate:	-3.0%	Ex-Dividend Date:	05/29/2023
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.2%	Payment Date:	06/14/2023
Dividend Yield:	12.3%	5 Year Price Target	\$5.00	Years of Dividend Growth:	2
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 \$68 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.

For fiscal 2022, net profits income received by the trust was \$13.16 million, compared to \$8.14 million in 2021.

Significant increases in oil and natural gas sales prices led to a strong year-over-year improvement. The average realized sale price of oil (\$/Bbl) was \$93.15 during the year, a 55% increase compared to the price of \$60.13 in the prior year.

Distributable income for the trust came to \$12.3 million, up from \$7.37 million in 2021. Distributable income per unit of \$1.01 was up from \$0.61 in the prior year. The trust paid out all distributable income to shareholders as distributions, for a payout ratio of 100%.

On May 15th, 2023, PermRock Royalty reported first quarter 2023 results for the period ending March 31st, 2023. Net profits income received by the trust was \$2.37 million, compared to \$2.79 million in Q1 2022. The average realized sale price of oil was roughly flat year-over-year, while natural gas declined significantly. Distributable income for the trust came to \$2.2 million, down from \$2.5 million in the prior year period and distributable income per unit of \$0.18 was down from \$0.21 in the prior year.

Total cash reserves as of March 31st, 2023 were \$1 million, identical to March 31st, 2022. The trust has not missed a distribution payment in 2022 or so far in 2023. In fiscal 2023, the trust has so far declared \$0.212 in distributions.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
DIPU	---	---	---	---	---	\$1.28	\$0.73	\$0.16	\$0.61	\$1.01	\$0.70	\$0.60
DPU	---	---	---	---	---	\$1.28	\$0.73	\$0.16	\$0.61	\$1.01	\$0.70	\$0.60
Units¹	---	---	---	---	---	12	12	12	12	12	12	12

PermRock previously guided for production growth, however, oil and natural gas production volumes have declined every year since 2019. Still, the average realized sales price was higher for both oil and natural gas in 2021 and 2022. In 2023, 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

¹ Unit count in millions

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impossible to predict future earnings with any degree of accuracy. The oil glut in 2020 due to the coronavirus ravaged commodity prices but prices soared in 2022 due to the ongoing war in Ukraine. As with other O&G royalty trusts, this one is highly dependent on commodity prices. We estimate a 3% annual earnings contraction on an estimated distributable income of \$0.70 in 2023. Last year's results are inflated due to favorable oil and gas prices, which have been on a downtrend in the last one year period.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/DI	---	---	---	---	---	4.6	6.8	10.3	10.8	8.3	8.1	8.0
Avg. Yld.	---	---	---	---	---	9.5%	13.0%	4.9%	5.4%	9.6%	12.3%	12.5%

PermRock is currently trading at a price-to-earnings ratio of 8.1 based on our estimated DIPU for 2023. 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 8.0. PermRock is trading just above our assumed fair valuation, and so we expect a -0.2% headwind to total annual returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

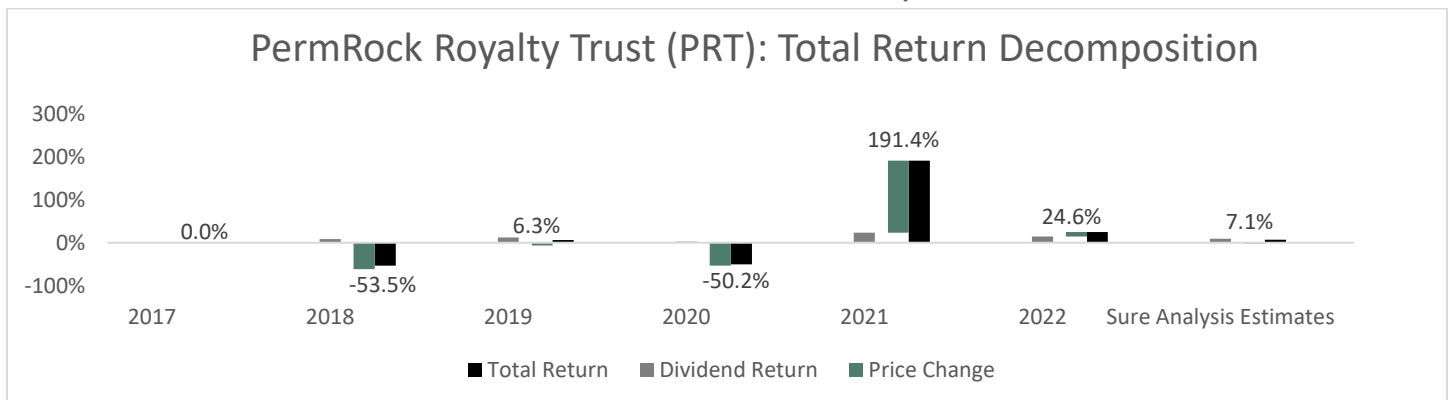
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	100%	100%	100%	100%	100%	100%	100%

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 in the 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 fair based on increasing commodity prices. We estimate annualized total returns of 7.1% over the next half decade composed entirely of the forward 12.3% yield based on estimated distributions for 2023, offset by the potential for a valuation headwind and an estimated 3% annual contraction in earnings. Today we rate PRT a hold given its high yield, though it is fully dependent upon distributable income, which are highly volatile.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	32	16	18	32	16	18	10	3	8	13
Gross Profit	14		5	14		5				
Gross Margin	42.6%		27.8%	42.6%		27.8%				
SG&A Exp.	3	1	3	3	1	3	1	1	1	1
Operating Profit	6	16	0	6	16	0	9	2	7	12
Operating Margin	19.5%	96.0%	0.5%	19.5%	96.0%	0.5%	90.3%	72.5%	90.5%	93.3%
Net Profit	-2	16	-6	-2	16	-6	9	2	7	12
Net Margin	-7.6%	96.0%	-35.2%	-7.6%	96.0%	-35.2%	84.6%	59.9%	90.5%	93.3%
Free Cash Flow	-20		-45	-20		-45				

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	0	94	119	0	94	119	90	89	86	82
Cash & Equivalents			1			1				
Accounts Receivable	0	0	4	0	0	4	0	0	0	0
Total Liabilities	0	1	53	0	1	53	1	0	1	1
Accounts Payable			3			3				
Long-Term Debt	0	0	36	0	0	36	0	0	0	0
Shareholder's Equity	0	92	66	0	92	66	90	89	85	81
D/E Ratio	0.00	0.00	0.54	0.00	0.00	0.54	0.00	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	-4.0%	33.3%		-4.0%	33.3%		9.6%	2.13%	8.4%	14.7%
Return on Equity	-7.3%	33.8%		-7.3%	33.8%		9.7%	2.14%	8.5%	14.8%
ROIC	-4.7%	33.8%		-4.7%	33.8%		9.7%	2.14%	8.5%	14.8%
Shares Out.						12.2	12.2	12.2	12.2	12.2
Revenue/Share	2.61	1.33	1.44	2.61	1.33	1.44	0.86	0.26	0.67	1.08
FCF/Share	-1.67		-3.68	-1.67		-3.68				

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

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