Permianville Royalty Trust (PVL)

Updated May 22nd, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$2.45	**5 Year CAGR Estimate:**	9.0%	**Market Cap:**	$80 M
Fair Value Price:	$3.20	**5 Year Growth Estimate:**	-6.0%	**Ex-Dividend Date:**	5/30/23
% Fair Value:	77%	**5 Year Valuation Multiple Estimate:**	5.5%	**Dividend Payment Date:**	6/14/23
Dividend Yield:	13.9%	**5 Year Price Target**	$2.35	**Years Of Dividend Growth:**	1
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Permianville Royalty Trust (PVL) was incorporated in 2011 and is based in Houston, Texas. It operates as a statutory trust and owns a net profits interest representing the right to receive 80% of the net profits from the sale of oil and natural gas production from properties located in the states of Texas, Louisiana and New Mexico. The company was formerly known as Enduro Royalty Trust and changed its name to Permianville Royalty Trust in September 2018. It has a market capitalization of $80 million. The trust's assets are static in that no further properties can be added. In addition, the trust is passive, as it has no control over operating costs and the rate of production.

Due to its pure upstream nature, PVL is highly sensitive to the cycles of oil and gas prices. Due to the collapse in these prices caused by the pandemic, PVL suspended its distribution for 13 consecutive months, from mid-2020 to mid-2021.

In mid-May, PVL reported (5/15/23) financial results for the first quarter of fiscal 2023. Oil volumes and gas volumes decreased -11% and -16%, respectively, over the prior year's quarter but the average realized prices of oil and gas grew 16% and 43%, respectively, thanks to the sanctions of Europe and the U.S. on Russia for its invasion in Ukraine. As a result, distributable income grew 50%, from $2.94 million to $4.40 million. PVL has offered distributions of $0.14 per unit so far this year, which correspond to a 13.9% annualized yield. However, gas prices have plunged due to an abnormally warm winter while oil prices have corrected vs. last year. As a result, the yield of PVL is likely to decrease significantly in the upcoming months.

Growth on a Per-Unit Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
DCFU	$1.46	$0.80	$0.38	$0.24	$0.21	$0.42	$0.31	$0.13	$0.12	$0.44	***$0.34***	***$0.25***
DPU	$1.46	$0.80	$0.38	$0.24	$0.21	$0.42	$0.31	$0.13	$0.12	$0.44	***$0.34***	***$0.25***
Units[1]	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	***33.0***	***33.0***

PVL has generated an average distributable and distributed cash flow of $0.45/unit per year for the past decade, though with a noticeable decrease in the last eight 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 nine years, the total production of PVL has declined at an average annual rate of -1.5%. On the other hand, the trust posted 8-year high distributable cash flow per unit last year thanks to multi-year high oil and gas prices, which resulted from the sanctions of western countries on Russia. Given the high comparison base formed this year and the natural decline of producing wells, we expect distributable cash flow per unit to decline by -6% per year on average over the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/DCFU	7.4	10.4	7.2	9.9	12.5	7.8	8.3	8.9	14.6	7.4	***7.2***	***9.4***
Avg. Yld.	13.5%	9.6%	13.8%	10.1%	8.0%	12.8%	12.1%	11.2%	6.9%	13.5%	***13.9%***	***10.6%***

[1] Average Weighted Unit count is in millions.

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The trust's DCFU price multiple has averaged 9.4 over the past 10 years. We consider this a fair valuation multiple due to our natural expectations for declining production volumes in the long run. PVL is currently trading at a valuation multiple of 7.2. If it trades at our assumed fair valuation level in five years, it will enjoy a 5.5% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

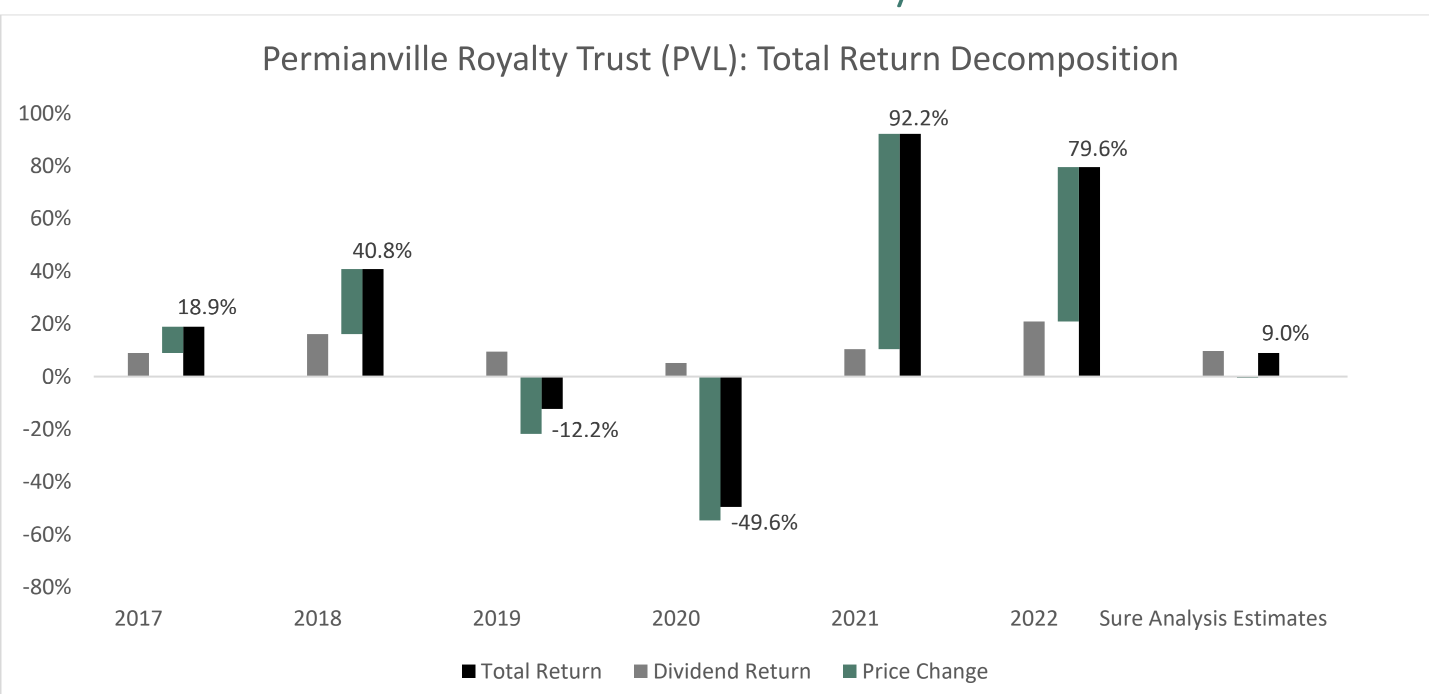
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	***100%***	***100%***

As PVL was formed only in 2011, it has a short history but it has offered an average 11.2% distribution yield over 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 prices of PBT remain high and gas prices increase, 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. The suspension of the distribution for 13 months in 2020-2021 and the 67% plunge of the stock in the first month of the pandemic are stern reminders of the risk and high sensitivity of PVL to recessions and downturns of the energy market.

Final Thoughts & Recommendation

PVL is thriving right now thanks to the sanctions of western countries on Russia and the deep production cuts of OPEC, which have enabled the U.S. to grow its production to pre-pandemic levels. However, gas prices have slumped this year and we expect oil prices to deflate in the upcoming years due to the record number of renewable energy projects that are in their development phase. We expect PVL to offer a 9.0% average annual return over the next five years, as its 13.9% initial distribution and a 5.5% valuation tailwind may be partly offset by a -6.0% decline of distributable income per unit. As a result, the stock receives a hold rating. PVL is not a buy-and-hold-forever stock due to the natural decline of its production in the long run. On the other hand, it is much more attractively valued than most of the other oil and gas trusts right now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	49	29	14	9	8	15	9	6	4	15
SG&A Exp.	1	1	1	1	1	1	1	1	1	1
Operating Profit	48	28	14	8	7	14	9	5	3	13
Operating Margin	98.8%	97.2%	95.1%	92.1%	88.7%	89.5%	98.3%	90.3%	70.5%	88.8%
Net Profit	48	28	14	8	45	14	10	5	3	13
Net Margin	98.8%	97.2%	95.1%	92.1%	585%	94.5%	100%	90.3%	74.3%	89.7%

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	571	528	121	107	94	84	77	71	65	61
Total Liabilities	---	---	---	---	---	---	---	---	---	---
Long-Term Debt	---	---	---	---	---	---	---	---	---	---
Book Value	571	528	121	107	94	84	77	71	65	61
LTD/E Ratio	---	---	---	---	---	---	---	---	---	---

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Shares Out.	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0
Revenue/Share	1.49	0.89	0.44	0.28	0.23	0.46	0.29	0.17	0.13	0.46

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