



Cross Timbers Royalty Trust (CRT)

Updated November 16th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$19	5 Year CAGR Estimate:	-1.5%	Market Cap:	\$117 M
Fair Value Price:	\$18	5 Year Growth Estimate:	-10.0%	Ex-Dividend Date¹:	11/28/23
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Dividend Payment Date:	12/13/23
Dividend Yield:	10.3%	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-November, CRT reported (11/13/23) financial results for the third quarter of fiscal 2023. Oil volumes and gas volumes grew 29% and 4%, respectively, over last year's quarter thanks to timing of sales. However, the average realized prices of oil and gas plunged -27% and -53% vs. blowout levels in last year's period amid the core of the global energy crisis. As a result, distributable cash flow (DCF) per unit decreased -34%.

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 ten months of the year, CRT is offering an annualized yield of 10.3%.

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	\$1.96	\$1.16
DPU	\$2.315	\$2.658	\$1.355	\$1.061	\$1.009	\$1.426	\$0.87	\$0.77	\$1.10	\$1.96	\$1.96	\$1.16
Units²	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 -10% 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	9.7	9.0
Avg. Yld.	8.2%	11.4%	8.9%	6.8%	6.2%	11.1%	8.1%	11.1%	10.0%	10.9%	10.3%	11.1%

¹ Estimated date.

² Average Weighted Unit count is in millions.

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The trust's DCFU price multiple has averaged 11.3 over the past 10 years. CRT is now trading at a valuation multiple of 9.7 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 incur a -1.5% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

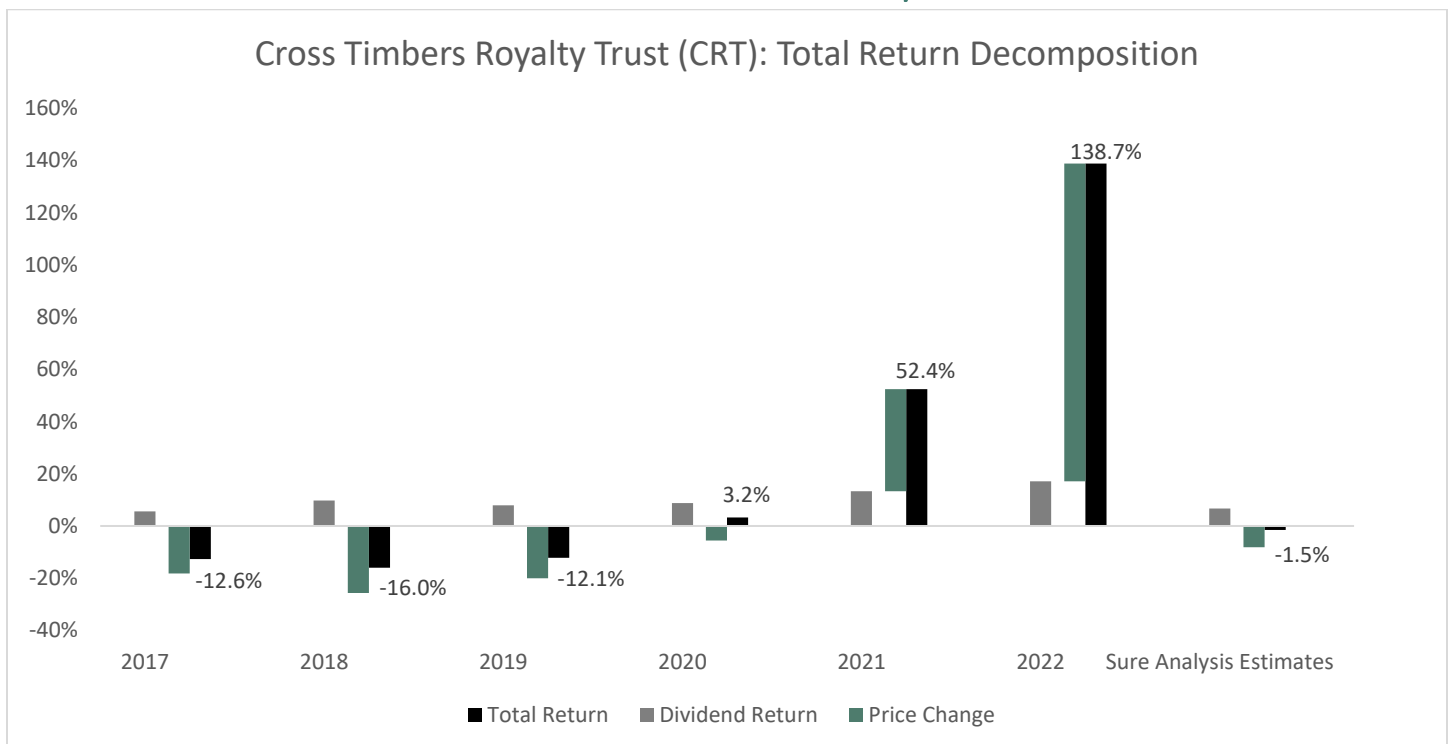
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

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 -1.5% average annual return over the next five years, as its 10.3% starting distribution yield may be offset by a -1.5% valuation headwind and a -10% decline of distributable income. The 10.3% 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 -37% decline off its peak in February, CRT maintains its sell rating.

Total Return Breakdown by Year



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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.

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