



Permian Basin Royalty Trust (PBT)

Updated November 16th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$18	5 Year CAGR Estimate:	-14.1%	Market Cap:	\$879 M
Fair Value Price:	\$5.30	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	11/28/23
% Fair Value:	338%	5 Year Valuation Multiple Estimate:	-21.6%	Dividend Payment Date:	12/13/23
Dividend Yield:	2.3%	5 Year Price Target	\$6.20	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	F	Rating:	Sell

Overview & Current Events

Permian Basin Royalty Trust (PBT), based in Dallas, Texas, is an oil and gas trust (about 70% oil and 30% gas), which was founded in 1980. It is a combination trust: unit holders have a 75% net overriding royalty interest in Waddell Ranch Properties in Texas, which includes several oil and gas wells; and a 95% net overriding royalty interest in the Texas Royalty Properties, which includes various oil wells.

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. PBT had royalty income of \$11.8 million in 2021 and \$54.4 million in 2022.

In early November, PBT reported (11/8/23) financial results for the third quarter of fiscal 2023. Its average realized prices of oil and gas plunged -35% and -69%, respectively, off blowout levels in the prior year's quarter amid the early phases of the war in Ukraine. In addition, there was no profit from Waddell Ranch due to an excess in working interest costs. As a result, distributable income per unit slumped -88%, from \$0.58 to \$0.07.

After several months of disappointing distributions, which resulted from high operating expenses on the Waddell Ranch properties, PBT boosted its distributions in the second half of 2022. However, it has reduced them again this year due to high operating expenses on the Waddell Ranch properties and a plunge in gas prices (vs. last year) amid unfavorable weather. In the first ten months of this year, it has offered total distributions of \$0.34 per unit, which correspond to a 2.3% annualized yield. We are concerned over the unreliable and volatile business performance of PBT.

Growth on a Per-Unit Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
DCFU	\$0.87	\$1.02	\$0.34	\$0.42	\$0.63	\$0.66	\$0.42	\$0.24	\$0.23	\$1.15	\$0.41	\$0.48
DPU	\$0.87	\$1.02	\$0.34	\$0.42	\$0.63	\$0.66	\$0.42	\$0.24	\$0.23	\$1.15	\$0.41	\$0.48
Units²	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6

Essentially all the royalty income the trust receives is passed through to unit holders. The trust has generated an average distributable and distributed cash flow of \$0.60/unit annually for the past 10 years, though with a noticeable decrease in the last seven years, until last year. Given the natural decline of the production of oil wells and gas wells, the long-term downtrend in cash flows should be expected. The trust posted 10-year high distributable cash flow in 2022 thanks to the sanctions of western countries on Russia but gas prices have plunged due to a warm winter. We also expect oil prices to deflate in the upcoming years due to a record number of clean energy projects underway. Nevertheless, given the low comparison base formed so far this year, we expect distributable cash flow to grow 3% per year on average until 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/DCFU	15.5	12.8	22.9	15.8	14.4	13.2	13.6	13.3	23.9	14.5	43.9	13.0
Avg. Yld.	6.4%	7.8%	4.4%	6.3%	6.9%	7.6%	7.4%	7.5%	4.2%	6.9%	2.3%	7.7%

¹ Estimated date.

² Average Weighted Unit count is in millions.

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The trust's DCFU price multiple has averaged 16.0 over the past 10 years. We assume a fair valuation multiple of 13.0 for the trust due to our natural expectations for declining production volumes in the long run. PBT is currently trading at a valuation multiple of 43.9 due to the low comparison base formed so far this year. If PBT trades at our assumed fair valuation level in five years, it will incur a -21.6% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

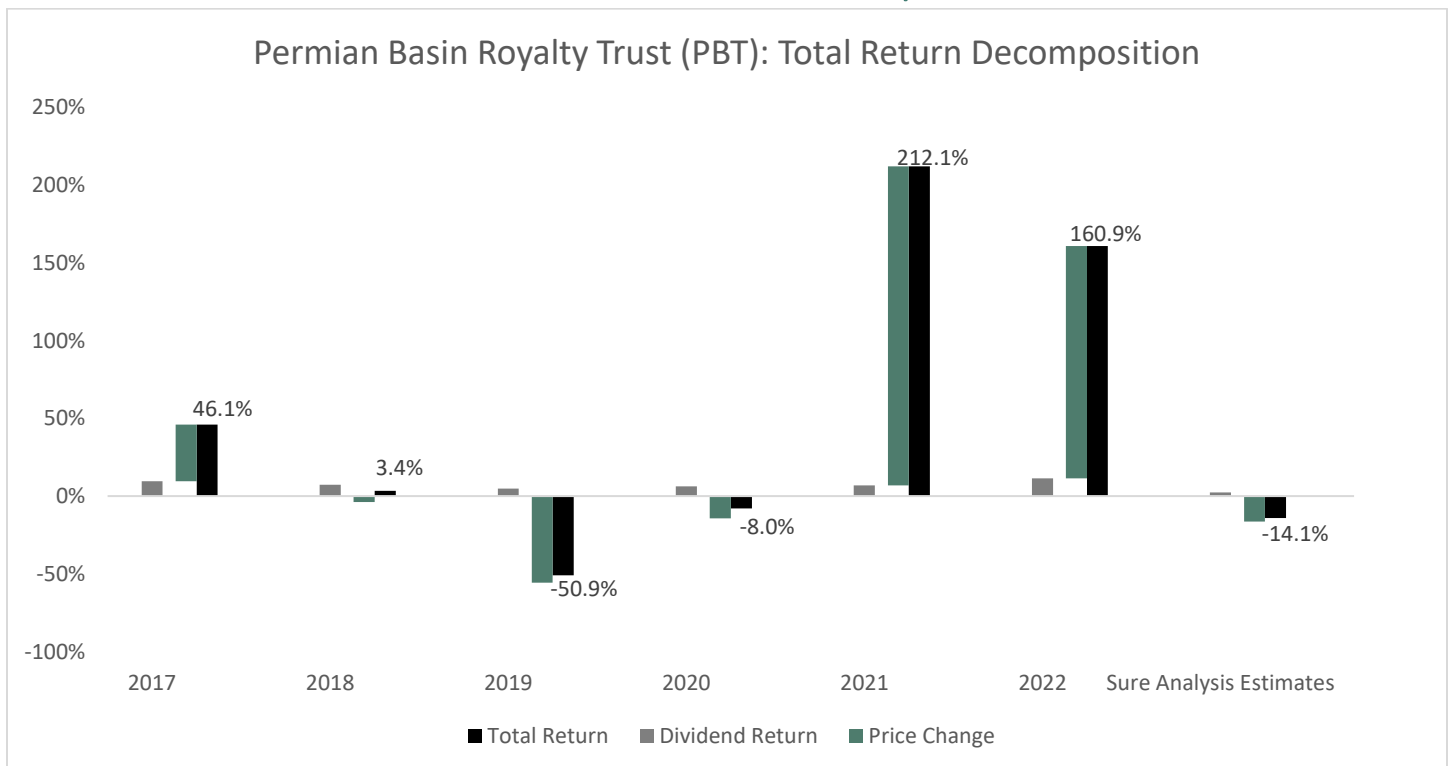
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

PBT has been in continuous existence for 43 years paying an average 6.5% yield in 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 price of oil of PBT remains elevated and the price of gas increases, 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.

Final Thoughts & Recommendation

After many quarters of disappointing distributions, which resulted from high operating expenses, PBT boosted its distributions in the back half of 2022 but it has reduced them again this year. Moreover, 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. PBT has corrected -19% this year, but it remains unattractive. We expect PBT to offer a -14.1% average annual return over the next five years, as its 2.3% initial distribution and 3.0% growth of distributable income per unit may be offset by a -21.6% valuation headwind. As a result, PBT maintains its sell rating. We also reiterate that we do not believe PBT is a buy-and-hold-forever stock due to the natural decline of its production in the long run.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	41.75	49.01	17.80	21.09	30.57	32.11	20.51	12.05	11.81	54.47
SG&A Exp.	1.23	1.29	1.25	1.19	1.25	1.32	1.09	1.04	1.09	0.92
Operating Profit	40.52	47.72	16.05	19.35	29.33	30.79	19.42	10.96	10.72	53.54
Operating Margin	97%	97%	90%	92%	96%	96%	95%	91%	91%	98%
Net Profit	40.52	47.72	16.05	19.35	29.33	30.79	19.42	10.96	10.72	53.54
Net Margin	97%	97%	90%	92%	96%	96%	95%	91%	91%	98%

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3.92	2.83	2.15	4.40	3.95	3.99	3.29	2.11	2.60	3.13
Total Liabilities	3.14	2.11	1.46	3.80	3.42	3.53	2.86	1.73	2.25	2.86
Long-Term Debt	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Book Value	0.78	0.72	0.68	0.60	0.53	0.47	0.42	0.38	0.35	0.28
LTD/E Ratio	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Shares Out.	46.61	46.61	46.61	46.61	46.61	46.61	46.61	46.61	46.61	46.61
Revenue/Share	0.90	1.05	0.38	0.45	0.66	0.69	0.44	0.26	0.25	1.17

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

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