



PermRock Royalty Trust (PRT)

Updated November 15th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$5.23	5 Year CAGR Estimate:	7.1%	Market Cap:	\$63 M
Fair Value Price:	\$4.16	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	11/29/2023
% Fair Value:	126%	5 Year Valuation Multiple Estimate:	-4.5%	Payment Date:	12/14/2023
Dividend Yield:	9.9%	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 \$63 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.

On November 14th, 2023, PermRock Royalty reported third quarter 2023 results for the period ending September 30th, 2023. Net profits income received by the trust was \$1.69 million, compared to \$3.53 million in Q3 2022. The average realized sale price of oil declined 35% year-over-year, while natural gas plummeted by 70%. Distributable income for the trust came to \$1.47 million, down from \$3.36 million in the prior year period and distributable income per unit of \$0.12 was down from \$0.28 in the prior year.

Total cash reserves as of September 30th, 2023 were \$1 million, identical to September 30th, 2022. The trust has not missed a distribution payment so far in 2023. For fiscal 2023, the trust has so far declared \$0.4441 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	\$0.52	\$0.57
DPU	---	---	---	---	---	\$1.28	\$0.73	\$0.16	\$0.61	\$1.01	\$0.52	\$0.57
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 one new operated well in Crane County.

Given the mature nature of the trust's assets, future production and reserve estimates are somewhat 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 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. Significant increases in oil and natural gas sales prices led to blowout results in 2022, which we believe will be a cyclical peak in the company's results. 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. We estimate 2% annual growth in distributable income per unit into 2028.

¹ Unit count in millions

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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	10.1	8.0
Avg. Yld.	---	---	---	---	---	9.5%	13.0%	4.9%	5.4%	9.6%	9.9%	12.5%

PermRock is currently trading at a P/DI ratio of 10.1 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 well above our assumed fair valuation, thus we expect a -4.5% headwind to total annual returns from a contracting valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

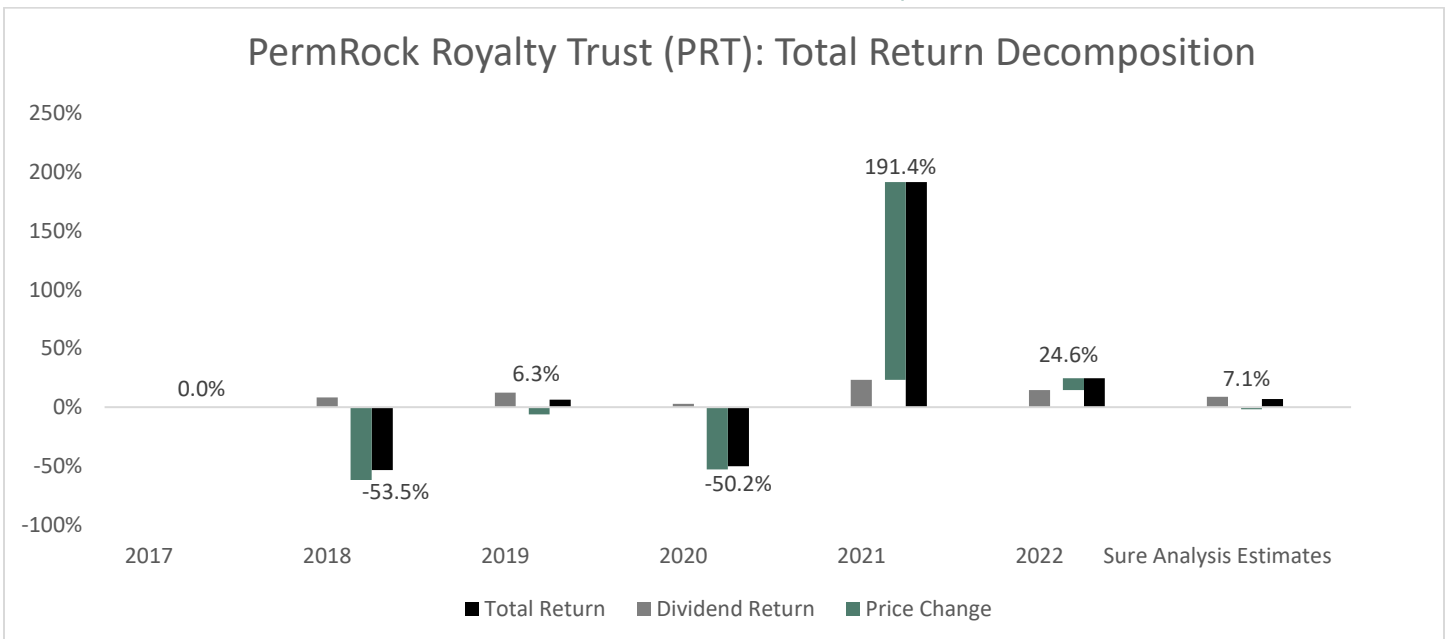
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	100%	100%	100%	100%	100%	100%	100%

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 outlook, it may not surpass its prior dividend level in the intermediate term.

Final Thoughts & Recommendation

PermRock Royalty Trust operates in a highly cyclical industry, which renders its results and distributions very volatile from year to year. We estimate annualized total returns of 7.1% over the next half decade stemming from the 9.9% yield and 2.0% distributable income per share growth, offset by the potential for a valuation headwind. Today we rate PRT a hold given its high yield, though it is fully dependent upon distributable income, which is 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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