



San Juan Basin Royalty Trust (SJT)

Updated November 16th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$7.30	5 Year CAGR Estimate:	6.5%	Market Cap:	\$335 M
Fair Value Price:	\$10.40	5 Year Growth Estimate:	-12.0%	Ex-Dividend Date¹:	11/29/23
% Fair Value:	70%	5 Year Valuation Multiple Estimate:	7.3%	Div. Payment Date:	12/13/23
Dividend Yield:	17.8%	5 Year Price Target	\$5.50	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

San Juan Basin Royalty Trust (SJT) is a medium sized gas trust (it produces a negligible amount of oil), set up in 1980 by Southland Royalty Company. The producing properties are all in northern New Mexico, in the San Juan Basin. They are currently operated by Hilcorp San Juan, L.P., which acquired the interests in 2017. 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. SJT had royalty income of \$79.0 million in 2022, and has a current market capitalization of \$335 million.

In 2011, SJT had a remaining expected life of 9 years. We were unable to find a reported current estimated life for the trust (which is probably not a good sign). Moreover, due to the volatility of the price of natural gas, the trust revises its estimated reserves pronouncedly every year, as lower prices mean that some reserves are not economical to produce. As a result, it is essentially impossible to calculate the lifetime of reserves with any degree of precision.

In mid-November, SJT reported (11/14/2023) financial results for the third quarter of fiscal 2023. Production of gas dipped -1% and the price of gas plunged -68% vs. blowout levels in last year's quarter. As a result, distributable income per unit slumped -81%. Gas prices have plunged this year due to an abnormally warm winter and thus SJT has dramatically reduced its distributions since April. Based on the distributions so far this year, SJT is offering an annualized yield of 17.8% but we expect the yield to decrease sharply due to lower distributions in the upcoming months.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
DCFU	\$0.783	\$1.285	\$0.365	\$0.299	\$0.840	\$0.386	\$0.174	\$0.159	\$0.77	\$1.66	\$1.30	\$0.69
DPU	\$0.783	\$1.285	\$0.365	\$0.299	\$0.840	\$0.386	\$0.174	\$0.159	\$0.77	\$1.66	\$1.30	\$0.69
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 (cash) the trust receives is passed through to unit holders. The trust has generated an average annual distributable and distributed cash flow of \$0.67 per unit for the past 10 years. However, distributions have been extremely volatile due to the dramatic swings of the price of natural gas. That's why the trust offers no guidance. This year, the price of natural gas has plunged due to an abnormally warm winter but this plunge has just begun to be reflected in the distributions of the trust. Due to a high comparison base and given the natural decline of production of SJT in the long run, we expect distributable income per unit to decline by -12% per year on average over the next five years. Gas prices have plunged to reasonable levels this year, in line with our expectations, and we do not expect a sustainable rebound anytime soon due to a record number of renewable energy projects underway.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/DCFU	19.3	12.1	25.2	18.0	8.9	16.9	21.2	16.6	6.5	6.1	5.6	8.0
Avg. Yld.	5.2%	8.3%	4.0%	5.6%	11.3%	5.9%	4.7%	6.0%	15.4%	16.3%	17.8%	12.5%

¹ Estimated date.

² Average Weighted Unit count is in millions.

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SJT has traded at an average price-to-DCFU of 15.1 over the last decade. The trust is currently trading at a price-to-DCFU ratio of 5.6. Due to the natural decline of the production of SJT in the long run and the uncertainty over the lifetime of its reserves, we assume a fair price-to-DCFU of 8.0 for this trust. If SJT trades at this valuation level in five years, it will enjoy a 7.3% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

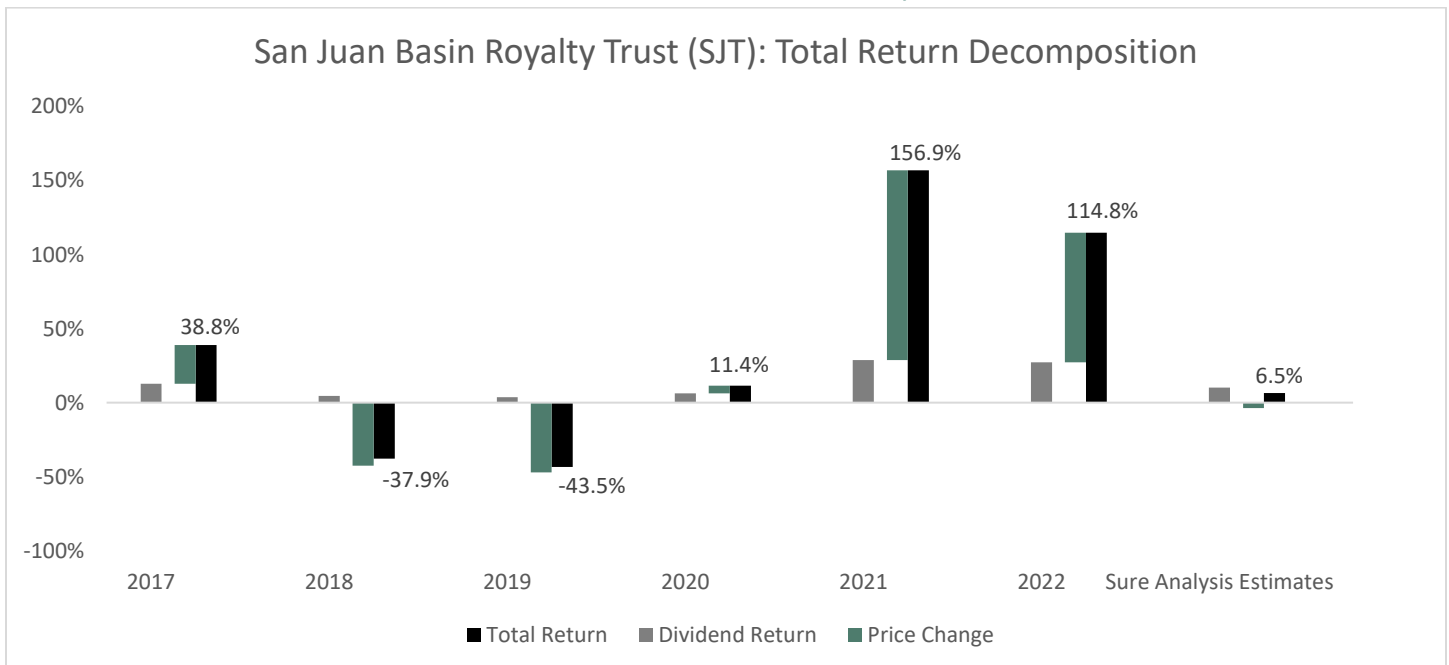
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

SJT has been in continuous existence for 43 years and has offered an average 8.3% yield for the last 10 years (albeit with considerable volatility in the distributions). Having said that, it is impossible to forecast future distributions beyond this year due to the dramatic swings of gas prices. SJT has proved highly vulnerable to the downturns of the energy market, as evidenced in 2015-2016 and 2020. It suspended its distribution for six months in 2019 and four months in 2020 due to low natural gas prices. At high gas prices, the trust can extend its life, as it will have an incentive to apply ever-evolving technology to squeeze extra amounts of gas out of the fields. On the other hand, when the music begins to slow down on trusts (i.e., the end of reserves comes into view), or the market gets the slightest hint that the music will slow, the price of a unit can plummet overnight. And this particular trust has an operator that is not as clearly aligned with trust unit holder interests as one would like.

Final Thoughts & Recommendation

SJT offered a 10-year high distribution yield last year but gas prices have reverted to normal levels this year. We also expect gas prices to remain around current levels in the upcoming years due to the execution of numerous renewable energy projects around the globe. SJT could offer a 6.5% average annual total return over the next five years, as its 17.8% initial distribution and a 7.3% valuation tailwind may be partly offset by a -12% decline of distributable income. As a result, SJT receives a hold rating. Even at more opportune stock prices, SJT is suitable only for the investors who can stomach the extreme volatility of natural gas prices and the resultant volatility of the stock price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	38	62	20	18	41	19	10	9	38	79
SG&A Exp.	---	---	---	---	---	1	2	1	2	1
Operating Profit		62	20	18	41	18	8	7	36	78
Net Profit	36	60	17	14	39	18	8	7	36	78
Net Margin	95.9%	97.2%	87.1%	79.5%	96.1%	92.5%	81.7%	83.9%	95.6%	98.2%

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	16	13	11	12	11	8	7	6	10	8
Total Liabilities	5	4	2	4	4	2	1	1	6	5
Long-Term Debt	---	---	---	---	---	---	---	---	---	---
Partner's Equity	11	9	9	8	7	6	5	5	4	3

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	250%	413%	142%	125%	345%	190%	112%	115%	440%	844%
Return on Equity	316%	589%	188%	169%	545%	289%	143%	140%	816%	2330%
ROIC	316%	589%	188%	169%	545%	289%	143%	140%	816%	2330%
Shares Out.	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Revenue/Share	0.82	1.32	0.42	0.38	0.87	0.42	0.21	0.19	0.81	1.70

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

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