# Permian Basin Royalty Trust (PBT)

*Updated March 6th, 2024 by Aristofanis Papadatos*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $12 | **5 Year CAGR Estimate:** | -6.3% | **Market Cap:** | $559 M |
| **Fair Value Price:** | $6.00 | **5 Year Growth Estimate:** | 1.0% | **Ex-Dividend Date:** | 2/28/24 |
| **% Fair Value:** | 200% | **5 Year Valuation Multiple Estimate:** | -13.0% | **Dividend Payment Date:** | 3/14/24 |
| **Dividend Yield:** | 3.8% | **5 Year Price Target** | $6.30 | **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, which was founded in 1980. In 2023, about 55% of output was oil and 45% was gas, but 85% of revenues came from oil. PBT 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 $54.4 million in 2022 and $29.0 million in 2023.

In late February, PBT reported (2/29/24) financial results for the full fiscal 2023. Its average realized prices of oil and gas decreased -19% and -57%, respectively, off blowout levels in the prior year amid the early phases of the war in Ukraine. In addition, there was no profit from Waddell Ranch in the third quarter due to an excess in working interest costs. As a result, distributable income per unit slumped -48%, from $1.15 to $0.60.

After some months of disappointing distributions, which resulted from high operating expenses on the Waddell Ranch properties, PBT boosted its distributions in the last two months of 2023. However, it has reduced them again this year due to high operating expenses on the Waddell Ranch properties and low gas prices amid unfavorable weather. In the first two months of this year, it has offered total distributions of $0.0765 per unit, which correspond to a 3.8% annualized yield. We are concerned over the unreliable and volatile business performance of PBT.

## Growth on a Per-Unit Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **DCFU** | $1.02 | $0.34 | $0.42 | $0.63 | $0.66 | $0.42 | $0.24 | $0.23 | $1.15 | $0.60 | ***$0.46*** | ***$0.48*** |
| **DPU** | $1.02 | $0.34 | $0.42 | $0.63 | $0.66 | $0.42 | $0.24 | $0.23 | $1.15 | $0.60 | ***$0.46*** | ***$0.48*** |
| **Units[1]** | 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 $0.57/unit annually for the past 10 years, though with a noticeable decrease in 2015-2021. 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 somewhat low comparison base formed this year, we expect distributable cash flow to grow 1% per year on average until 2029.

## Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **P/DCFU** | 12.8 | 22.9 | 15.8 | 14.4 | 13.2 | 13.6 | 13.3 | 23.9 | 14.5 | 37.1 | ***26.1*** | ***13.0*** |
| **Avg. Yld.** | 7.8% | 4.4% | 6.3% | 6.9% | 7.6% | 7.4% | 7.5% | 4.2% | 6.9% | 2.7% | ***3.8%*** | ***7.7%*** |

[1] Average Weighted Unit count is in millions.

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The trust's DCFU price multiple has averaged 18.2 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 26.1 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 -13.0% annualized drag in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

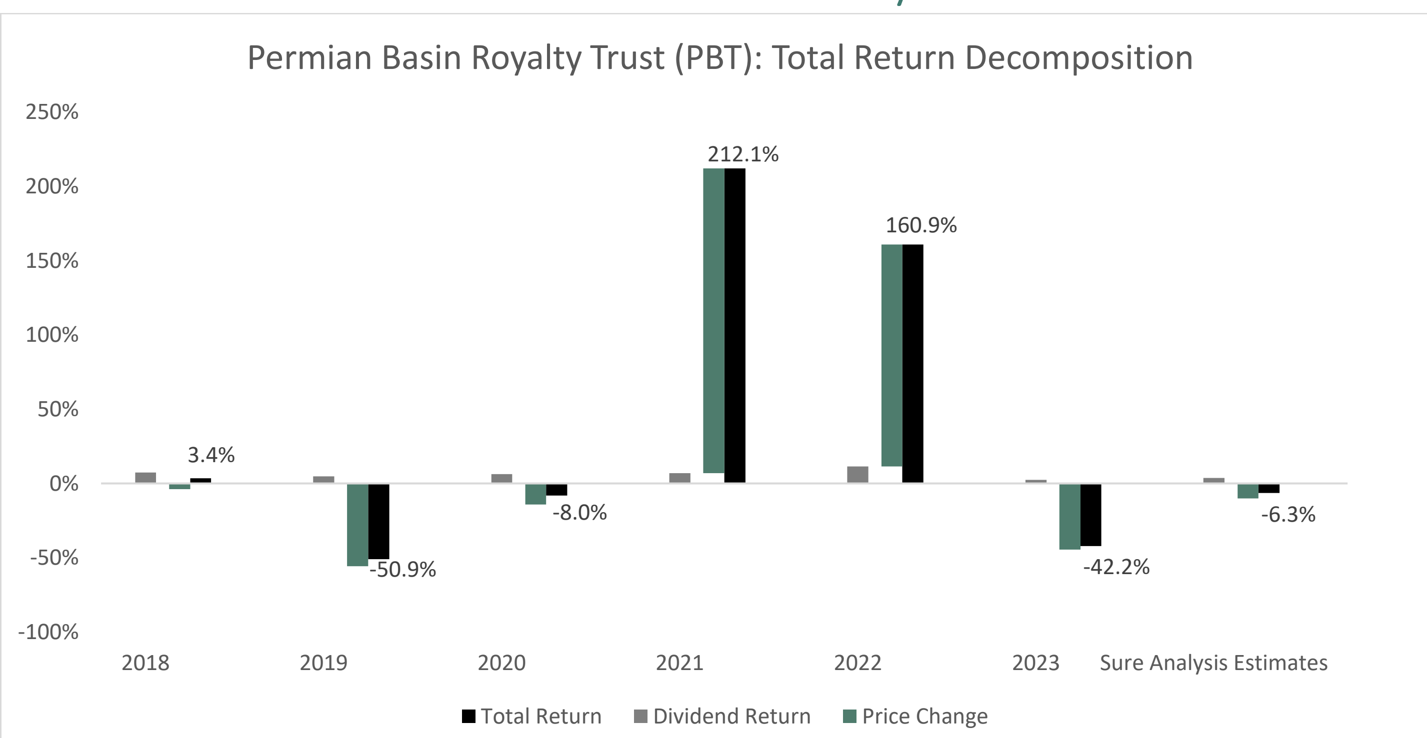
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | ***100%*** | ***100%*** |

PBT has been in continuous existence for 44 years paying an average 6.2% 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 last two months of 2023 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 slumped -33% since our last research report, in November, and -51% in the last 12 months, but it remains unattractive. We expect PBT to offer a -6.3% average annual return over the next five years, as its 3.8% initial distribution and 1.0% growth of distributable income per unit may be offset by a -13.0% 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 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | 49.01 | 17.80 | 21.09 | 30.57 | 32.11 | 20.51 | 12.05 | 11.81 | 54.47 | 29.10 |
| **SG&A Exp.** | 1.29 | 1.25 | 1.19 | 1.25 | 1.32 | 1.09 | 1.04 | 1.09 | 0.92 | 1.12 |
| **Operating Profit** | 47.72 | 16.05 | 19.35 | 29.33 | 30.79 | 19.42 | 10.96 | 10.72 | 53.54 | 27.98 |
| **Operating Margin** | 97% | 90% | 92% | 96% | 96% | 95% | 91% | 91% | 98% | 96% |
| **Net Profit** | 47.72 | 16.05 | 19.35 | 29.33 | 30.79 | 19.42 | 10.96 | 10.72 | 53.54 | 27.98 |
| **Net Margin** | 97% | 90% | 92% | 96% | 96% | 95% | 91% | 91% | 98% | 96% |

## Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Assets** | 2.83 | 2.15 | 4.40 | 3.95 | 3.99 | 3.29 | 2.11 | 2.60 | 3.13 | 6.27 |
| **Total Liabilities** | 2.11 | 1.46 | 3.80 | 3.42 | 3.53 | 2.86 | 1.73 | 2.25 | 2.86 | 6.05 |
| **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** | 0.72 | 0.68 | 0.60 | 0.53 | 0.47 | 0.42 | 0.38 | 0.35 | 0.28 | 0.22 |
| **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 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Shares Out.** | 46.61 | 46.61 | 46.61 | 46.61 | 46.61 | 46.61 | 46.61 | 46.61 | 46.61 | 46.61 |
| **Revenue/Share** | 1.05 | 0.38 | 0.45 | 0.66 | 0.69 | 0.44 | 0.26 | 0.25 | 1.17 | 0.62 |

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