



# San Juan Basin Royalty Trust (SJT)

Updated April 2<sup>nd</sup>, 2024 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$5.50	<b>5 Year CAGR Estimate:</b>	0.9%	<b>Market Cap:</b>	\$256 M
<b>Fair Value Price:</b>	\$2.90	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	3/27/24
<b>% Fair Value:</b>	191%	<b>5 Year Valuation Multiple Estimate:</b>	-12.1%	<b>Div. Payment Date:</b>	4/12/24
<b>Dividend Yield:</b>	6.5%	<b>5 Year Price Target</b>	\$3.70	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Sell

## 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 \$53.2 million in 2023, and has a current market capitalization of \$256 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 early April, SJT reported (4/1/2024) financial results for the fourth quarter of fiscal 2023. Production of gas dipped -3% and the price of gas plunged -61% vs. blowout levels in the prior year's quarter. As a result, distributable income per unit slumped -88%. Gas prices have plunged in recent months due to an abnormally warm winter and thus SJT has dramatically reduced its distributions since April-2023. Based on the distributions so far this year, SJT is offering an annualized yield of 6.5%.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>DCFU</b>	\$1.285	\$0.365	\$0.299	\$0.840	\$0.386	\$0.174	\$0.159	\$0.77	\$1.66	\$1.11	<b>\$0.36</b>	<b>\$0.46</b>
<b>DPU</b>	\$1.285	\$0.365	\$0.299	\$0.840	\$0.386	\$0.174	\$0.159	\$0.77	\$1.66	\$1.11	<b>\$0.36</b>	<b>\$0.46</b>
<b>Units<sup>1</sup></b>	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	<b>46.6</b>	<b>46.6</b>

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 \$0.70 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. The price of natural gas has plunged in recent months due to high inventories amid an abnormally warm winter. Despite the natural decline of production of SJT in the long run, we expect distributable income per unit to grow 5% per year on average over the next five years due to a low comparison base this year. Gas prices are likely to recover from depressed levels at some point in 2024 or 2025, but we do not expect a sustainable rebound due to a record number of renewable energy projects underway.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
<b>P/DCFU</b>	12.1	25.2	18.0	8.9	16.9	21.2	16.6	6.5	6.1	7.4	<b>15.3</b>	<b>8.0</b>
<b>Avg. Yld.</b>	8.3%	4.0%	5.6%	11.3%	5.9%	4.7%	6.0%	15.4%	16.3%	13.6%	<b>6.5%</b>	<b>12.5%</b>

<sup>1</sup> Average Weighted Unit count is in millions.

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SJT has traded at an average price-to-DCFU of 13.9 over the last decade. The trust is currently trading at a price-to-DCFU ratio of 15.3. 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 incur a -12.1% annualized drag in its returns.

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

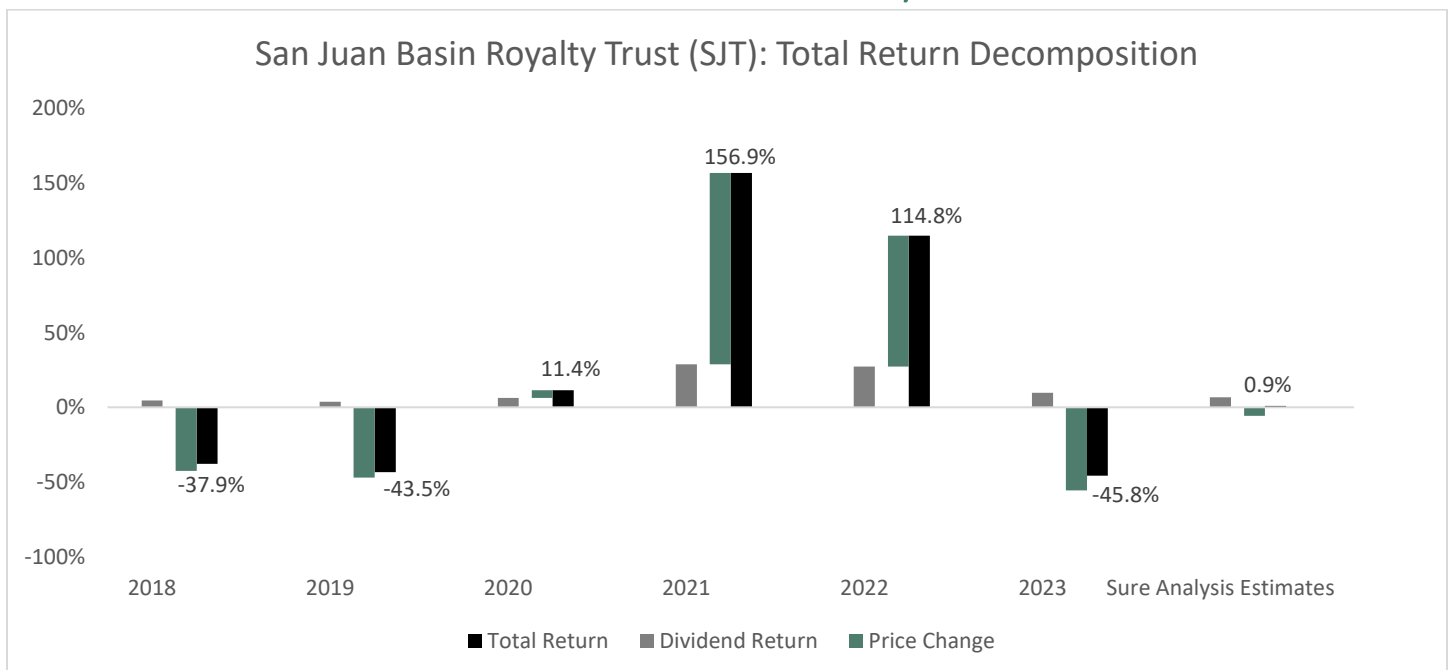
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

SJT has been in continuous existence for 44 years and has offered an average 9.1% 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 blowout distributions in 2022-2023 due to the Ukrainian crisis but gas prices have plunged this year due to abnormally warm winter weather. We expect gas prices to recover in the upcoming years but modestly due to the execution of numerous renewable energy projects around the globe. SJT could offer a 0.9% average annual total return over the next five years, as its 6.5% initial distribution and 5% growth of distributable income may be partly offset by a -12.1% valuation headwind. As a result, SJT receives a sell rating. Even at more opportune stock prices, SJT is suitable only for the investors who can stomach the extreme volatility of gas prices and the resultant volatility of the stock price.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	62	20	18	41	19	10	9	38	79	53
<b>SG&amp;A Exp.</b>	---	---	---	---	1	2	1	2	1	2
<b>Operating Profit</b>	62	20	18	41	18	8	7	36	78	51
<b>Net Profit</b>	60	17	14	39	18	8	7	36	78	52
<b>Net Margin</b>	97.2%	87.1%	79.5%	96.1%	92.5%	81.7%	83.9%	95.6%	98.2%	97.0%

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	13	11	12	11	8	7	6	10	8	4
<b>Total Liabilities</b>	4	2	4	4	2	1	1	6	5	2
<b>Long-Term Debt</b>	---	---	---	---	---	---	---	---	---	---
<b>Partner's Equity</b>	9	9	8	7	6	5	5	4	3	3

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	413%	142%	125%	345%	190%	112%	115%	440%	844%	808%
<b>Return on Equity</b>	589%	188%	169%	545%	289%	143%	140%	816%	2330%	1805%
<b>ROIC</b>	589%	188%	169%	545%	289%	143%	140%	816%	2330%	1805%
<b>Shares Out.</b>	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
<b>Revenue/Share</b>	1.32	0.42	0.38	0.87	0.42	0.21	0.19	0.81	1.70	1.14

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

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