



Cross Timbers Royalty Trust (CRT)

Updated May 22nd, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$14	5 Year CAGR Estimate:	2.9%	Market Cap:	\$84 M
Fair Value Price:	\$9.5	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	5/31/24
% Fair Value:	147%	5 Year Valuation Multiple Estimate:	-7.4%	Dividend Payment Date:	6/14/24
Dividend Yield:	7.6%	5 Year Price Target	\$10.5	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Sell

Overview & Current Events

Cross Timbers Royalty Trust (CRT) is an oil and gas trust, set up in 1991 by XTO Energy. It is a combination trust: unit holders have a 90% net profit interest in *producing properties* in Texas, Oklahoma, and New Mexico; and a 75% net profit interest in *working interest properties* in Texas and Oklahoma. A working interest property is one where the unit holder shares in production expense and development cost. This means that should development costs exceed profits no further profits will be paid from these properties until excess costs have been recovered. In 2023, oil comprised 56% of total revenues while gas comprised 44% of total revenues.

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. CRT had royalty income of \$12.5 million in 2022 and \$12.3 million in 2023.

In mid-May, CRT reported (5/14/24) results for the first quarter of fiscal 2024. Oil volumes dipped -1% over the prior year's quarter due to natural decay and gas volumes plunged -69% due to the absence of receipts from New Mexico net profit interests. In addition, the average realized prices of oil and gas declined -6% and -16%, respectively. As a result, distributable cash flow (DCF) per unit plunged -59%. The price of gas has slumped this year due to warm winter weather, which has resulted in high gas inventories, but the price of oil has remained high thanks to the war in Ukraine and deep production cuts of OPEC and Russia. Based on its distributions in the first five months of the year, CRT is offering an annualized yield of 7.6%.

Growth on a Per-Unit Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
DCFU	\$2.658	\$1.355	\$1.061	\$1.009	\$1.426	\$0.87	\$0.77	\$1.10	\$1.96	\$1.92	\$1.06	\$1.17
DPU	\$2.658	\$1.355	\$1.061	\$1.009	\$1.426	\$0.87	\$0.77	\$1.10	\$1.96	\$1.92	\$1.06	\$1.17
Units¹	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0

Essentially all the royalty income (cash) the trust receives is passed through to unit holders. The trust has generated an average distributable and distributed cash flow of \$1.41/unit annually for the past 10 years, though with a noticeable decrease in the past eight years, until 2022. The distribution trend essentially parallels the trend in oil and gas prices. Moreover, CRT estimates that the rate of natural production decline of its oil and gas properties is 6%-8% per year. This is a significant headwind for future returns. We also expect the price of oil to deflate in the upcoming years due to the record number of renewable energy projects that are under development right now, as most countries are doing their best to diversify away from fossil fuels. Nevertheless, as we expect gas prices to bounce from the depressed levels prevailing right now, we expect 2% average annual growth of distributable cash flow until 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/DCFU	8.8	11.2	14.6	16.2	9.0	12.3	9.0	10.0	9.2	10.8	13.2	9.0
Avg. Yld.	11.4%	8.9%	6.8%	6.2%	11.1%	8.1%	11.1%	10.0%	10.9%	9.3%	7.6%	11.1%

¹ Average Weighted Unit count is in millions.

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The trust's DCFU price multiple has averaged 11.1 over the past 10 years. CRT is now trading at a valuation multiple of 13.2 but we assume a fair valuation multiple of 9.0 for the trust due to its declining production volume. If CRT trades at our assumed fair valuation level in five years, it will incur a -7.4% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

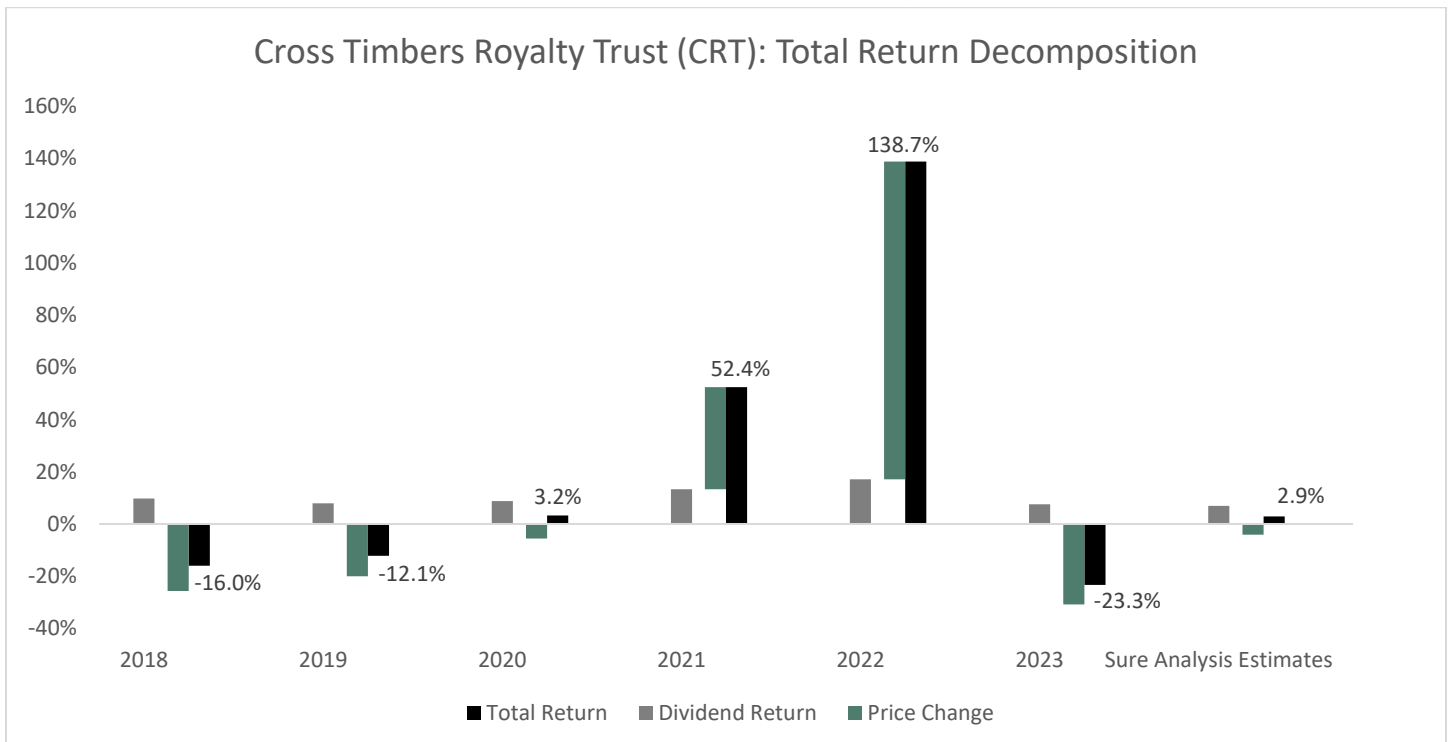
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

On the positive side, the trust has been in continuous existence for 33 years paying an average 9.4% yield in the last decade (albeit with some 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 oil prices remain around current levels and gas prices increase, the trust will continue offering a nice yield. In such a case, the trust should do well and will be able to extend its life – since the producer will have an incentive to apply ever-evolving technology to squeeze extra volume out of the fields. On the other hand, if oil and gas prices go through a major downturn, the trust is likely to exhibit poor performance.

Final Thoughts & Recommendation

CRT slumped -50% in early 2020 due to the coronavirus crisis and the resultant collapse of the oil price. However, the pandemic has subsided and the price of oil is above average thanks to the war in Ukraine and deep production cuts of OPEC and Russia. Nevertheless, we expect the oil price to deflate in the upcoming years and CRT to offer a 2.9% average annual return over the next five years, as its 7.6% starting distribution yield and 2% growth of distributable income may be offset by a -7.4% valuation headwind. The 7.6% distribution is enticing, but investors should be aware of the high cyclicality of oil and gas prices, the long-term decline of the production of CRT and its high operating costs. Despite its -37% decline in the last 12 months, CRT maintains its sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	16	9	8	7	9	6	5	7	12	12
SG&A Exp.	1	0	0	1	1	1	1	1	1	1
D&A Exp.	16	8	6	6	9	5	5	7	---	---
Operating Profit	96.9%	91.5%	84.1%	91.3%	93.5%	88.2%	88.0%	89.7%	12	11
Operating Margin	16	8	6	6	9	5	5	7	93.4%	93.4%
Net Profit	96.9%	91.5%	84.4%	91.4%	93.7%	88.6%	88.1%	89.7%	12	12
Net Margin	15	8	6	5	---	---	---	---	94.0%	93.9%
Distr. Cash Flow	16	9	8	7	9	---	---	---	---	---

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	12	12	11	11	10	10	9	5	5	5
Total Liabilities	1	1	2	1	2	2	1	2	2	2
Partner's Equity	11	11	10	9	9	8	8	3	3	3

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	127%	68.4%	55.4%	54.5%	81.9%	53.1%	50.4%	95.4%	236%	246%
Return on Equity	140%	75.5%	62.3%	63.0%	96.0%	63.0%	59.6%	124%	377%	410%
ROIC	140%	75.5%	62.3%	63.0%	96.0%	63.0%	59.6%	124%	377%	410%
Shares Out.	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Revenue/Share	2.74	1.48	1.26	1.10	1.52	0.99	0.88	1.24	2.08	2.05
DCF/Share	2.52	1.28	0.95	0.91	---	---	---	---	---	---

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

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