San Juan Basin Royalty Trust (SJT)

Updated August 29th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$3.40	**5 Year CAGR Estimate:**	2.3%	**Market Cap:**	$160 M
Fair Value Price:	$0.90	**5 Year Growth Estimate:**	25.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	386%	**5 Year Valuation Multiple Estimate:**	-23.7%	**Div. Payment Date:**	N/A
Dividend Yield[1]:	3.2%	**5 Year Price Target**	$2.70	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**Rating:**	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 $160 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-August, SJT reported (8/14/2024) results for Q2-2024. Production of gas fell -3% and the price of gas plunged -48% over last year's quarter due to an abnormally warm winter. As a result, distributable income per unit slumped -88%. Even worse, SJT has suspended its distributions since May due to excess operating costs and depressed gas prices. It will resume distributions when costs moderate and gas prices recover. Based on the distributions in the first eight months of this year, SJT is offering an annualized yield of 3.2% but it is unclear when the trust will resume its distributions.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
DCFU	$1.285	$0.365	$0.299	$0.840	$0.386	$0.174	$0.159	$0.77	$1.66	$1.11	***$0.11***	***$0.34***
DPU	$1.285	$0.365	$0.299	$0.840	$0.386	$0.174	$0.159	$0.77	$1.66	$1.11	***$0.11***	***$0.34***
Units[2]	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 $0.70 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 this year due to high inventories after an abnormally warm winter. Despite the natural decline of production of SJT in the long run, we expect distributable income per unit to grow 25% per year on average over the next five years due to a depressed comparison base this year, a 10-year low level. 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
P/DCFU	12.1	25.2	18.0	8.9	16.9	21.2	16.6	6.5	6.1	7.4	***30.9***	***8.0***
Avg. Yld.	8.3%	4.0%	5.6%	11.3%	5.9%	4.7%	6.0%	15.4%	16.3%	13.6%	***3.2%***	***12.5%***

[1] Distributions have been suspended.

[2] 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 10-year high price-to-DCFU ratio of 30.9 due to depressed DCFU this year. 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 -23.7% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

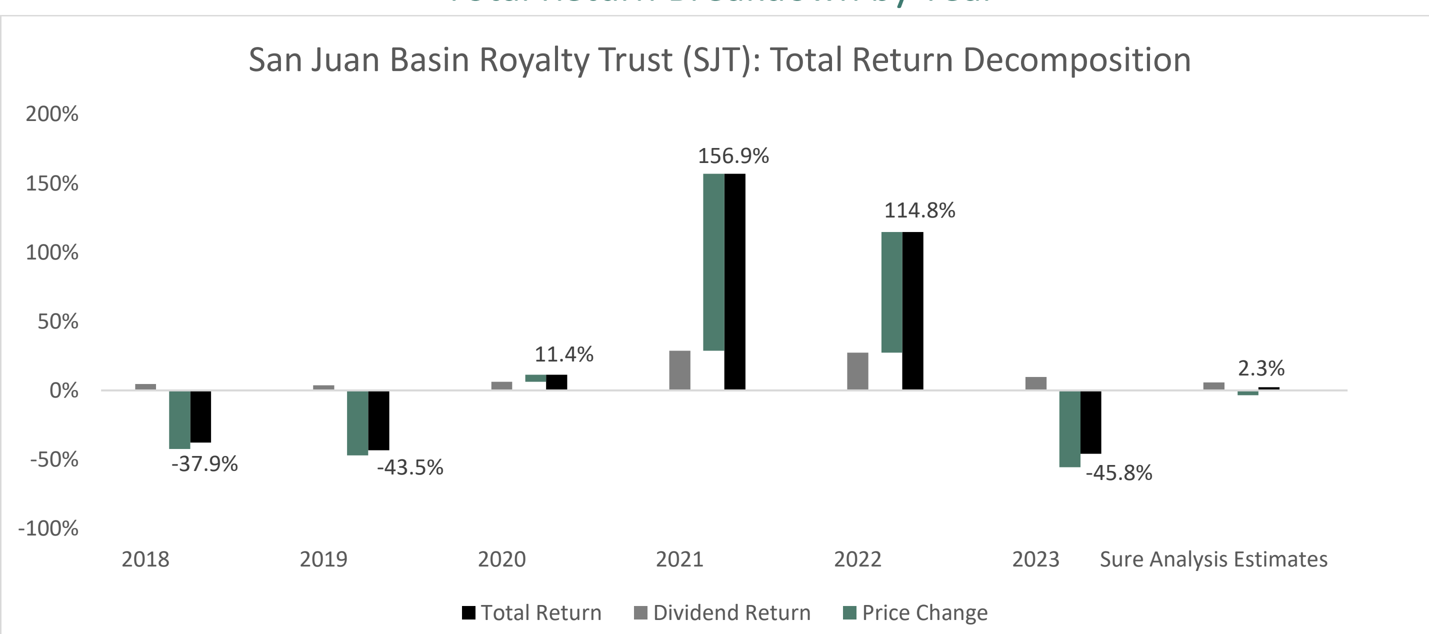
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	***100%***	***100%***

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 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. It has suspended its distribution this year as well due to high operating costs and low 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, which has caused high inventories. 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 has plunged -52% in 12 months but it remains unattractive. It could offer a 2.3% average annual total return over the next five years, as its 3.2% potential distribution yield and 25% growth of distributable income may be offset by a -23.7% valuation headwind. As a result, SJT maintains its 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



Disclosure: This analyst has no position in the security discussed in this research report and does not intend to obtain one.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	62	20	18	41	19	10	9	38	79	53
SG&A Exp.	---	---	---	---	1	2	1	2	1	2
Operating Profit	62	20	18	41	18	8	7	36	78	51
Net Profit	60	17	14	39	18	8	7	36	78	52
Net Margin	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
Total Assets	13	11	12	11	8	7	6	10	8	4
Total Liabilities	4	2	4	4	2	1	1	6	5	2
Long-Term Debt	---	---	---	---	---	---	---	---	---	---
Partner's Equity	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
Return on Assets	413%	142%	125%	345%	190%	112%	115%	440%	844%	808%
Return on Equity	589%	188%	169%	545%	289%	143%	140%	816%	2330%	1805%
ROIC	589%	188%	169%	545%	289%	143%	140%	816%	2330%	1805%
Shares Out.	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Revenue/Share	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.