



# Cross Timbers Royalty Trust (CRT)

Updated March 31<sup>st</sup>, 2025 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$12	<b>5 Year CAGR Estimate:</b>	1.7%	<b>Market Cap:</b>	\$74 M
<b>Fair Value Price:</b>	\$10	<b>5 Year Growth Estimate:</b>	-5.0%	<b>Ex-Dividend Date:</b>	3/31/25
<b>% Fair Value:</b>	115%	<b>5 Year Valuation Multiple Estimate:</b>	-2.7%	<b>Dividend Payment Date:</b>	4/14/25
<b>Dividend Yield:</b>	9.7%	<b>5 Year Price Target</b>	\$8	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Sector:</b>	Energy	<b>Rating:</b>	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 2024, oil comprised 72% of total revenues while gas comprised 28% of total revenues. Cross Timbers Royalty Trust has a market capitalization of \$74 million.

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 \$12.3 million in 2023 and \$6.6 million in 2024.

In late March, CRT reported (3/27/25) results for the full fiscal 2024. Oil and gas volumes decreased -15% and -32%, respectively, over the prior year. In addition, the average realized price of gas declined -34%. As a result, distributable cash flow (DCF) per unit decreased -51%. The price of oil has fallen below key technical support of \$70 lately, as OPEC is about to begin unwinding its production cuts, but the price of gas has rallied lately due to cold weather. Based on its distributions in the first three months of the year, CRT is offering an annualized yield of 9.7%.

## Growth on a Per-Unit Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>DCFU</b>	\$1.355	\$1.061	\$1.009	\$1.426	\$0.87	\$0.77	\$1.10	\$1.96	\$1.92	\$0.95	<b>\$1.16</b>	<b>\$0.90</b>
<b>DPU</b>	\$1.355	\$1.061	\$1.009	\$1.426	\$0.87	\$0.77	\$1.10	\$1.96	\$1.92	\$0.95	<b>\$1.16</b>	<b>\$0.90</b>
<b>Units<sup>1</sup></b>	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	<b>6.0</b>	<b>6.0</b>

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 \$1.24/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 prices of oil and gas 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. As a result, we expect a -5% average annual decrease of distributable cash flow over the next five years.

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
<b>P/DCFU</b>	11.2	14.6	16.2	9.0	12.3	9.0	10.0	9.2	10.8	11.8	<b>10.3</b>	<b>9.0</b>
<b>Avg. Yld.</b>	8.9%	6.8%	6.2%	11.1%	8.1%	11.1%	10.0%	10.9%	9.3%	8.5%	<b>9.7%</b>	<b>11.1%</b>

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

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The trust's DCFU price multiple has averaged 11.4 over the past 10 years. CRT is now trading at a valuation multiple of 10.3 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 -2.7% annualized drag in its returns.

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

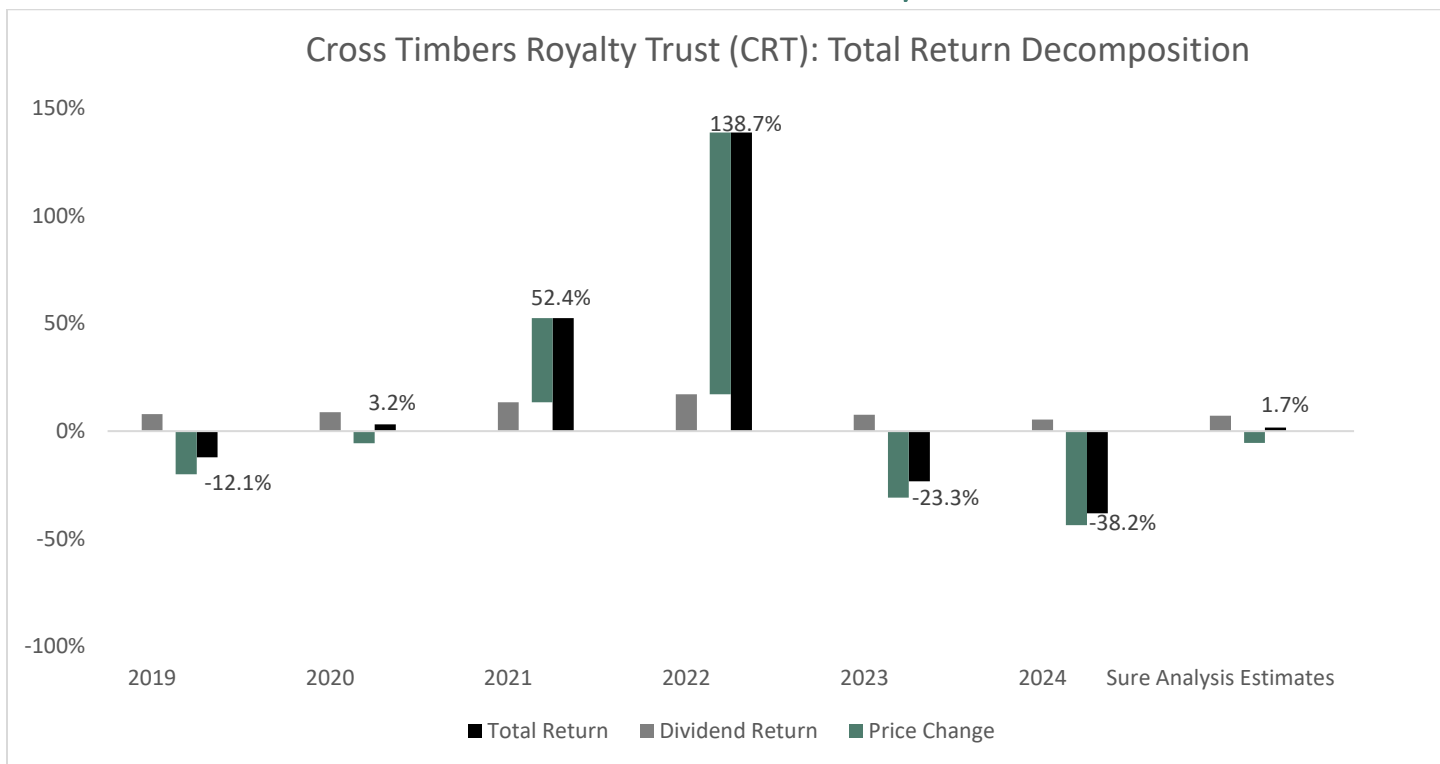
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

On the positive side, the trust has been in continuous existence for 34 years paying an average 9.1% 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 and gas prices remain around current levels, 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 has rallied 25% this year thanks to a rally of the price of natural gas amid colder-than-normal weather. However, we believe that the stock has become unattractive from a long-term point of view, particularly given that OPEC is about to begin restoring its production to normal levels. CRT could offer just a 1.7% average annual return over the next five years, as a 9.7% starting distribution yield may be partly offset by a -5% decrease of distributable income and a -2.7% valuation headwind. The stock receives a sell rating. We also reiterate that the 9.7% distribution may appear tempting, but investors should be aware of the high cyclical nature of oil and gas prices, the long-term decline of the production of CRT and its high operating costs.

## 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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