



Sabine Royalty Trust (SBR)

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Key Metrics

Current Price:	\$67	5 Year CAGR Estimate:	-2.2%	Market Cap:	\$975 M
Fair Value Price:	\$48	5 Year Growth Estimate:	-4.0%	Ex-Dividend Date:	3/17/2025
% Fair Value:	141%	5 Year Valuation Multiple Estimate:	-6.6%	Dividend Payment Date:	3/31/2025
Dividend Yield:	7.1%	5 Year Price Target	\$39	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Sector:	Energy	Rating:	Sell

Overview & Current Events

Sabine Royalty Trust (SBR) is an oil and gas trust set up in 1983 by Sabine Corporation. At initiation, the trust initially had an expected reserve life of 9 to 10 years but it has surpassed expectations by an impressive margin. The trust consists of royalty and mineral interests in producing properties and proved oil and gas properties in Florida, Louisiana, Mississippi, New Mexico, Oklahoma, and Texas. It is roughly 2/3 oil and 1/3 gas in terms of 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 royalties. SBR had royalty income of \$82.6 million in 2024 and has a current market cap of \$975 million.

In late February, SBR reported (2/27/25) financial results for the full fiscal 2024. Production of oil and gas grew 4% and 38%, respectively, over the prior year, primarily thanks to timing of cash receipts. However, the average realized price of oil edged down -3% and the average realized price of gas plunged -47% due to abnormally warm winter weather and strong U.S. production. As a result, distributable cash flow per unit declined -15%, from \$6.38 to \$5.45. The outlook for this year is negative, as OPEC will begin to unwind its production cuts on April 1st, 2025. Based on its distributions in the first three months of the year, SBR is offering an annualized distribution yield of 7.1% but there is significant downside risk due to the expected production boost from OPEC.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
DCFU	\$3.15	\$1.88	\$2.38	\$3.42	\$3.02	\$2.28	\$3.97	\$8.65	\$6.38	\$5.45	\$4.76	\$3.88
DPU	\$3.11	\$1.93	\$2.37	\$3.35	\$3.02	\$2.40	\$3.22	\$8.65	\$6.38	\$5.45	\$4.76	\$3.88
Units¹	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6

The trust does not have earnings per se, but rather is a pass-through vehicle for royalty payments – essentially all the royalty income (cash) it receives is passed through to unit holders. About 5%-8% of royalty income is consumed in administrative expenses. The trust has generated an average annual distributable cash flow of \$4.06 per unit over the last decade. However, the cash flows of SBR are extremely sensitive to the gyrations of the prices of oil and gas and hence they have resulted in a markedly volatile performance record. Given the above average price of oil, which has formed an exceptionally high comparison base, we expect a -4.0% average annual decline in distributable cash flow per unit over the next five years. Notably, it is the first time that oil producers are somewhat reluctant to invest in new growth projects due to the secular shift from fossil fuels to clean energy sources. As a result, some investors think that oil prices may remain excessive for years. However, we believe that the well-known cyclicity of oil prices will remain the norm and thus we expect oil prices to deflate in the upcoming years.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
P/DCFU	9.9	16.3	16.7	12.0	14.6	13.4	9.4	7.9	10.9	11.6	14.1	10.0
Avg. Yld.	10.0%	6.3%	5.9%	8.2%	6.8%	7.9%	8.6%	12.6%	9.1%	8.6%	7.1%	10.0%

¹ Average Weighted Unit count is in millions.

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SBR has traded at an average price-to-distributable cash flow ratio of 12.3 over the last decade. However, this average multiple seems quite high given the risk of a royalty trust. It is critical to note that the trust has a limited lifetime and hence its returns will be greatly affected by the commodity prices that will prevail throughout this period. When the music begins to slow down on one of these 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 often plummets. As a result, investors should pay extra attention to the valuation of SBR before investing in it. We assume a fair DCFU multiple of 10.0 for SBR. If the stock trades at our fair value estimate in five years, it will incur a -6.6% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

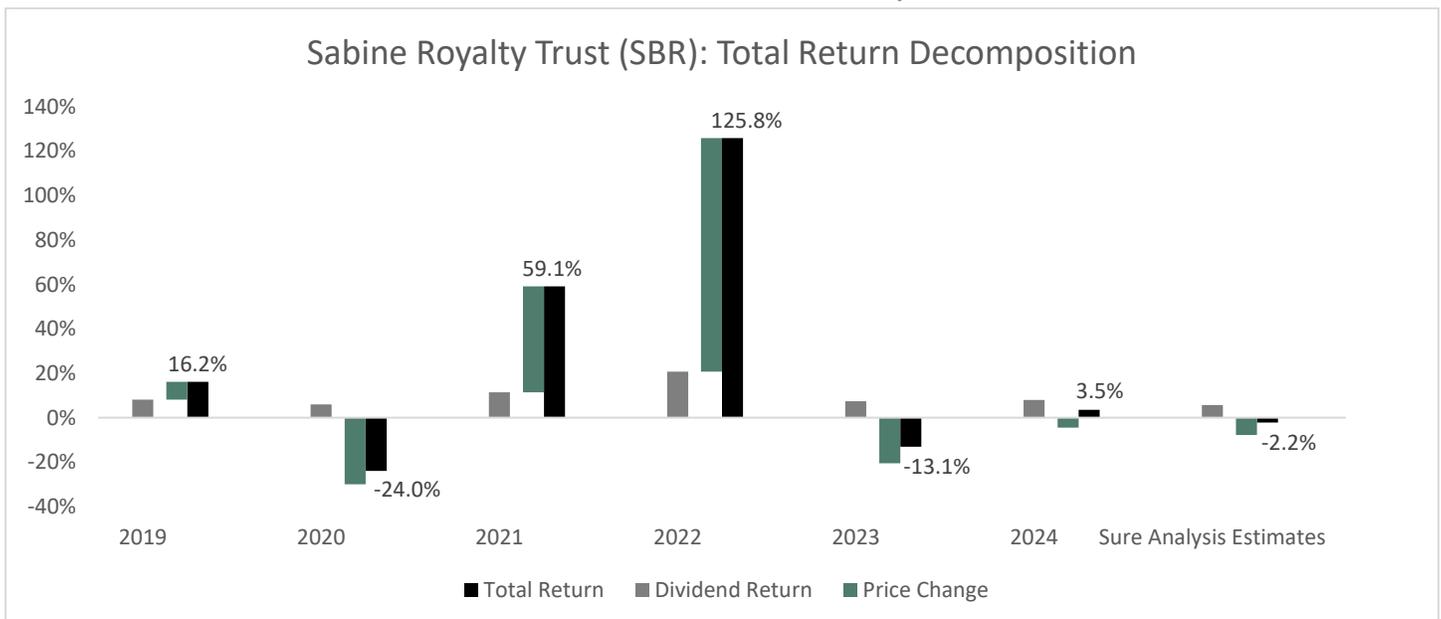
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	99%	103%	100%	98%	100%	105%	81%	100%	100%	100%	100%	100%

On the positive side, the trust has been in continuous existence for 42 years paying a 10-year average yield of 8.4%, albeit with considerable volatility in the distributions. Considering that the initial expected life was just 10 years, this longevity is certainly impressive. We also note that the proved developed reserves of SBR have grown 48% since the end of 2021. For some investors, there may be tax advantages resulting from passed-through depletion allowances. However, it is critical to note the pronounced vulnerability of SBR to a downturn in the energy sector, partly due to its limited time horizon. If the energy market incurs a prolonged downturn, it will greatly hurt the returns of SBR. Overall, while the 7.1% distribution yield may entice some income-oriented investors, we believe that the trust is not suitable for most of them due to its huge downside risk in the event of a downturn.

Final Thoughts & Recommendation

SBR is thriving right now, mostly thanks to the conflict between Russia and Ukraine and the production cuts of OPEC, which have resulted in above-average oil prices. However, SBR is highly cyclical and hence it will have significant downside risk whenever the next downcycle of the energy market shows up. The stock has shed -25% off its peak in early 2023 but it remains unattractive from a long-term perspective. We expect SBR to offer a -2.2% average annual return over the next five years, as its 7.1% initial distribution yield may be offset by a -4.0% decline of distributable income and a -6.6% valuation headwind. The stock receives a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	48	30	37	52	47	36	61	126	93	83
Gross Profit	2	3	2	3	3	3	3	3	4	4
Gross Margin	(0)	(0)	(0)							
SG&A Exp.	46	27	35	50	44	33	58	122	89	79
Operating Profit	95.0%	91.5%	93.3%	95.0%	93.9%	91.6%	95.0%	97.4%	96.2%	95.7%
Operating Margin	46	27	35	50	44	33	58	123	90	80
Net Profit	95.0%	91.5%	93.5%	95.3%	94.2%	91.7%	95.0%	97.6%	97.0%	96.5%
Net Margin	46	27	35							
Distr. Cash Flow	48	30	37	52	47	36	61	126	93	83

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	6	5	5	9	7	5	16	16	9	9
Total Liabilities	1	1	1	4	1	1	1	5	1	1
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Partner's Equity	5	4	5	6	6	4	15	11	9	9
LTD/E Ratio	-	-	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	709.4%	484.2%	657.5%	675.0%	537.8%	561.4%	543.9%	752.7%	701.8%	852.3%
Return on Equity	946.2%	572.2%	770.2%	973.2%	778.4%	691.3%	612.5%	932.5%	903.9%	922.5%
ROIC	946.2%	572.2%	770.2%	973.2%	778.4%	691.3%	612.5%	932.5%	903.9%	922.5%
Shares Out.	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6
Revenue/Share	3.32	2.06	2.55	3.59	3.21	2.49	4.18	8.63	6.38	5.66
DCF/Share	3.15	1.88	2.38							

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

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