



# Sabine Royalty Trust (SBR)

Updated May 28<sup>th</sup>, 2025 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$66	<b>5 Year CAGR Estimate:</b>	-0.4%	<b>Market Cap:</b>	\$965 M
<b>Fair Value Price:</b>	\$51	<b>5 Year Growth Estimate:</b>	-4.0%	<b>Ex-Dividend Date:</b>	5/15/2025
<b>% Fair Value:</b>	128%	<b>5 Year Valuation Multiple Estimate:</b>	-4.9%	<b>Dividend Payment Date:</b>	5/29/2025
<b>Dividend Yield:</b>	7.8%	<b>5 Year Price Target</b>	\$42	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Sector:</b> Energy		<b>Rating:</b>	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 \$965 million.

In early May, SBR reported (5/9/25) financial results for the first quarter of fiscal 2025. Production of oil grew 22% but production of gas dipped -1% over the prior year's quarter. In addition, the average realized prices of oil and gas decreased -26% and -7%, respectively. As a result, distributable cash flow per unit declined -6%, from \$1.27 to \$1.19. The outlook for this year is negative, as OPEC has begun to unwind its production cuts and intends to boost its output by 2.0 million barrels per day until the end of 2026. Based on its distributions in the first five months of the year, SBR is offering an annualized distribution yield of 7.8% but there is material downside risk due to the production boost from OPEC.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>DCFU</b>	\$3.15	\$1.88	\$2.38	\$3.42	\$3.02	\$2.28	\$3.97	\$8.65	\$6.38	\$5.45	<b>\$5.14</b>	<b>\$4.19</b>
<b>DPU</b>	\$3.11	\$1.93	\$2.37	\$3.35	\$3.02	\$2.40	\$3.22	\$8.65	\$6.38	\$5.45	<b>\$5.14</b>	<b>\$4.19</b>
<b>Units<sup>1</sup></b>	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6	<b>14.6</b>	<b>14.6</b>

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 distribution expected this year, which has formed a 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 above average 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
<b>P/DCFU</b>	9.9	16.3	16.7	12.0	14.6	13.4	9.4	7.9	10.9	11.6	<b>12.8</b>	<b>10.0</b>
<b>Avg. Yld.</b>	10.0%	6.3%	5.9%	8.2%	6.8%	7.9%	8.6%	12.6%	9.1%	8.6%	<b>7.8%</b>	<b>10.0%</b>

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

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



# Sabine Royalty Trust (SBR)

Updated May 28<sup>th</sup>, 2025 by Aristofanis Papadatos

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 -4.9% annualized drag in its returns.

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

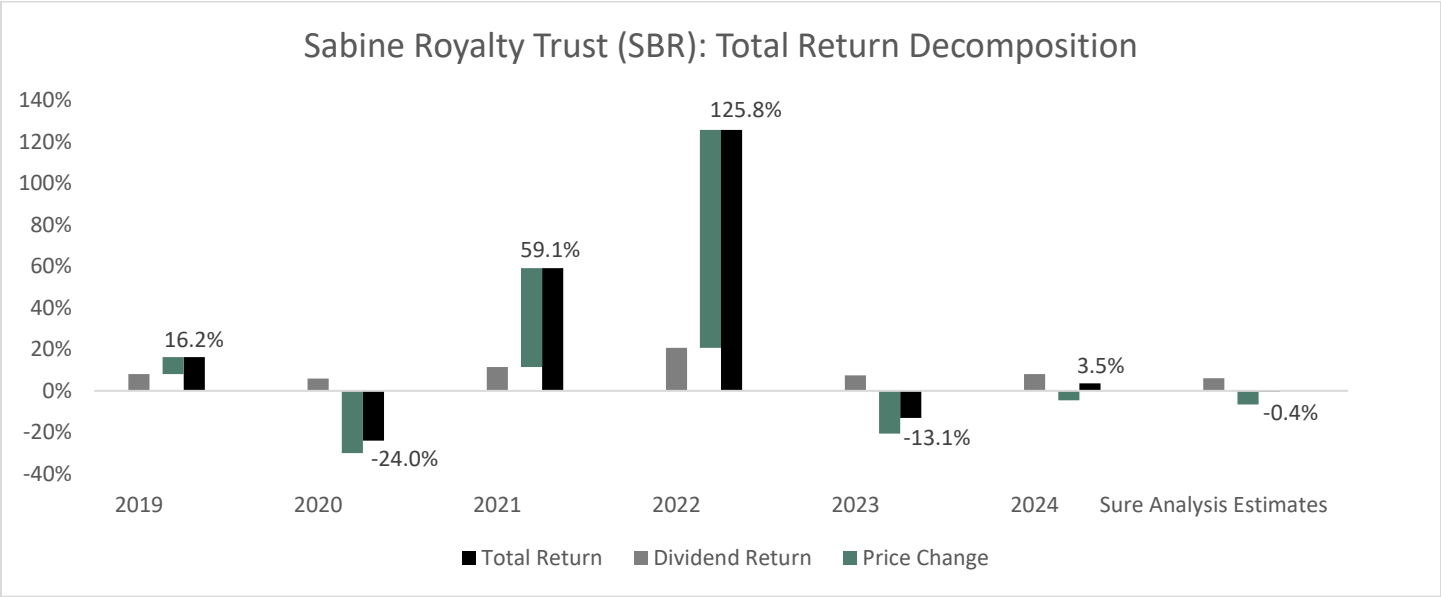
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	99%	103%	100%	98%	100%	105%	81%	100%	100%	100%	100%	100%

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 7.8% 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 has been thriving in the last three years, mostly thanks to the conflict between Russia and Ukraine and the restricted quotas of OPEC, which have resulted in above-average oil prices. However, OPEC has begun to restore its output and 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 -0.4% average annual return over the next five years, as its 7.8% initial distribution yield may be offset by a -4.0% decline of distributable income and a -4.9% valuation headwind. The stock maintains its sell rating.

## 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.



# Sabine Royalty Trust (SBR)

Updated May 28<sup>th</sup>, 2025 by Aristofanis Papadatos

## 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.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.