



Independent Stock Idea

June 21, 2016

Permian Basin Royalty Trust (PBT) Raise Distribution Yield to 9%

<i>Symbol</i>	PBT	<i>Ebitda Next Twelve Months ending 6/30/17 (US\$m)</i>	31
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	22
<i>Price (US\$/sh)</i>	7.32	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	6/20/16	<i>Adjusted Reserves/Production NTM</i>	8.6
<i>Shares (mm)</i>	46.6	<i>EV/Ebitda</i>	11.1
<i>Market Capitalization (US\$m)</i>	341	<i>PV/Ebitda</i>	16.6
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$m)</i>	341	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	3.14
<i>Present Value (PV) (US\$m)</i>	513	<i>Present Value Proven Reserves(US\$/boe)</i>	36.40
<i>Net Present Value (US\$/unit)</i>	11.00	<i>Oil and Gas Ebitda Margin (%)</i>	59
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	0.66
<i>McDep Ratio - EV/PV</i>	0.67	<i>Price/Earnings Next Twelve Months</i>	11
<i>Distribution Yield (%/year)</i>	9.0	<i>Distribution Next Twelve Months (US\$/sh)</i>	0.66
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million bt			
For historical analysis of PBT since 2006 see www.mcdep.com/5pbt.htm			

Summary and Recommendation

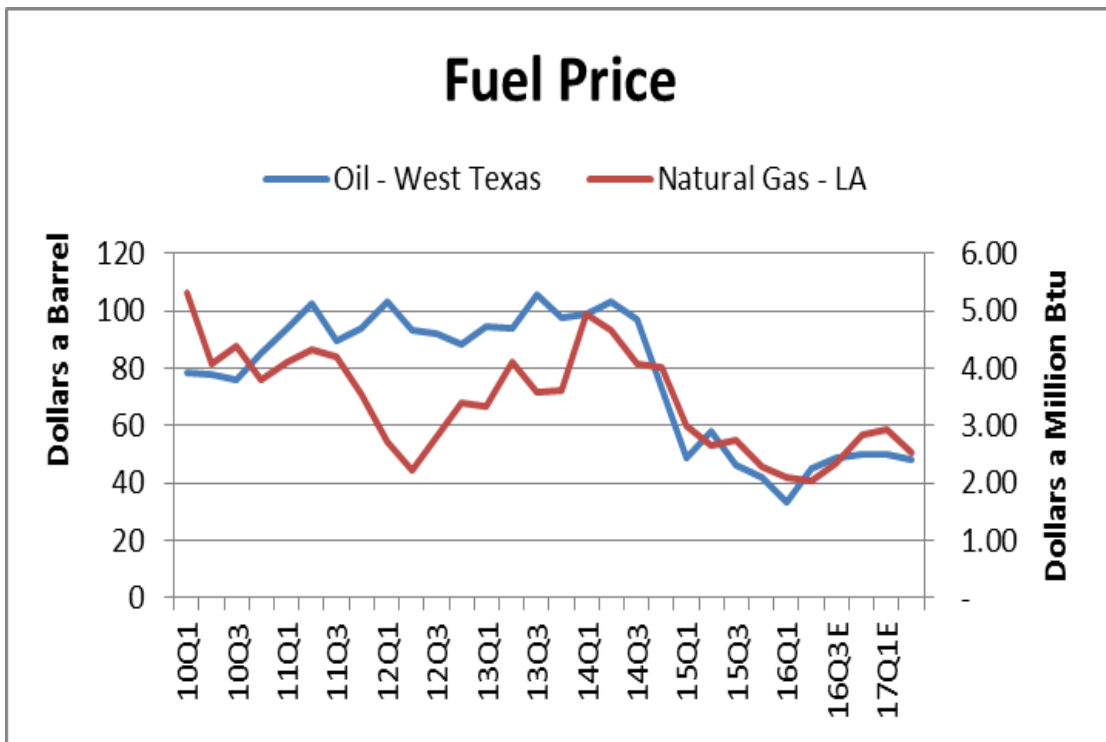
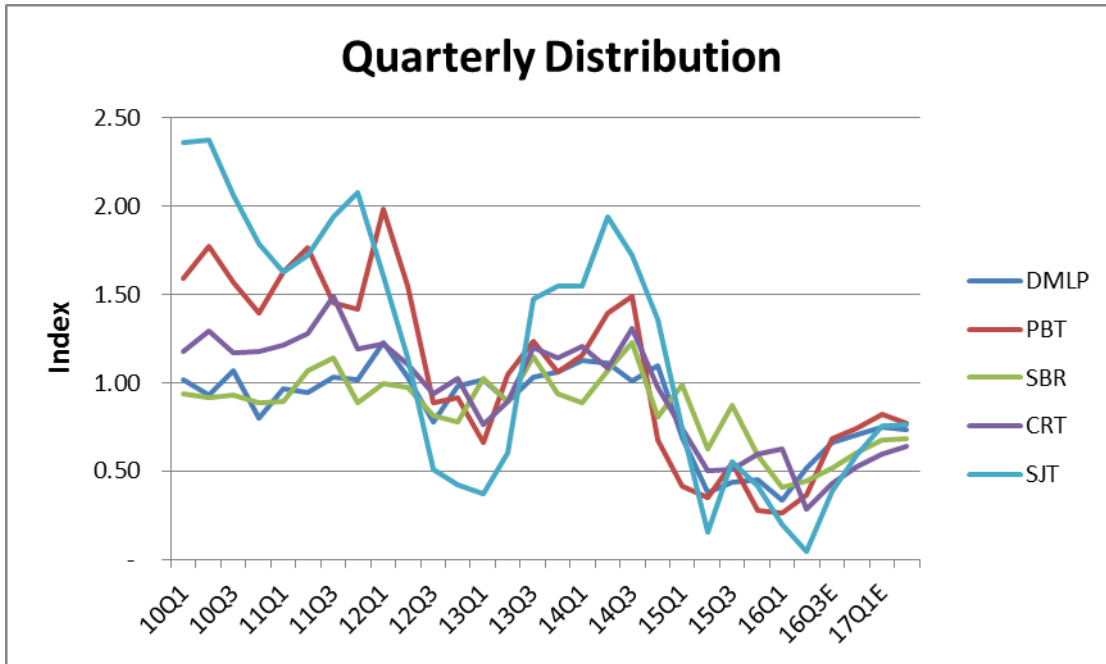
We raise distribution yield for units of **Permian Basin Royalty Trust (PBT)** to 9% for the next twelve months (NTM), up from 8% last week and 6% last quarter (see *Meter Reader* June 14, 2016 and *Industry Idea*, March 22, 2016). Yield is calculated on the basis of estimated distribution of \$0.66 a unit, up from 0.59 last week and 0.36 last quarter. Expected distribution attributed to Bottom Line (BL) properties at \$0.42 a unit is triple the estimate of last quarter illustrated the high operating leverage as oil price moves up from an artificially low level. New estimates take account of monthly disclosures made on June 20, which define results for the second quarter when combined with monthly disclosures for May and April. Broadly for our Income group, distributions follow fuel price with a 2-3 months lag (see charts [Quarterly Distribution](#) and [Fuel Price](#) on page 2). Subject to more pronounced fluctuation, monthly volume may be leveling after rising for the past few years (see charts [Monthly Oil](#) and [Monthly Natural Gas](#) on page 3). Looking ahead, NTM BL revenue is up \$7 million from our estimate last quarter, BL expense is down \$6 million and development outlays are down \$5 million. ConocoPhillips, operator of the BL properties has no plans for further development. Money that would have been spent is added to the distribution at the same time volume will likely decline until spending resumes. Resurging BL distributions would validate a 53% contribution to Net Present Value (NPV) of \$11 a unit (see table [Present Value](#) on page 4). Improved disclosures for more than the past year allow more understandable estimates that treat BL and Top Line in separate detail (see table [Operating and Financial Estimates](#) on page 5). Finally, the chart looks good with PBT stock price in a confirmed uptrend after tracing the golden cross where the 50-day average moved above the 200-day average (see chart on page 6).

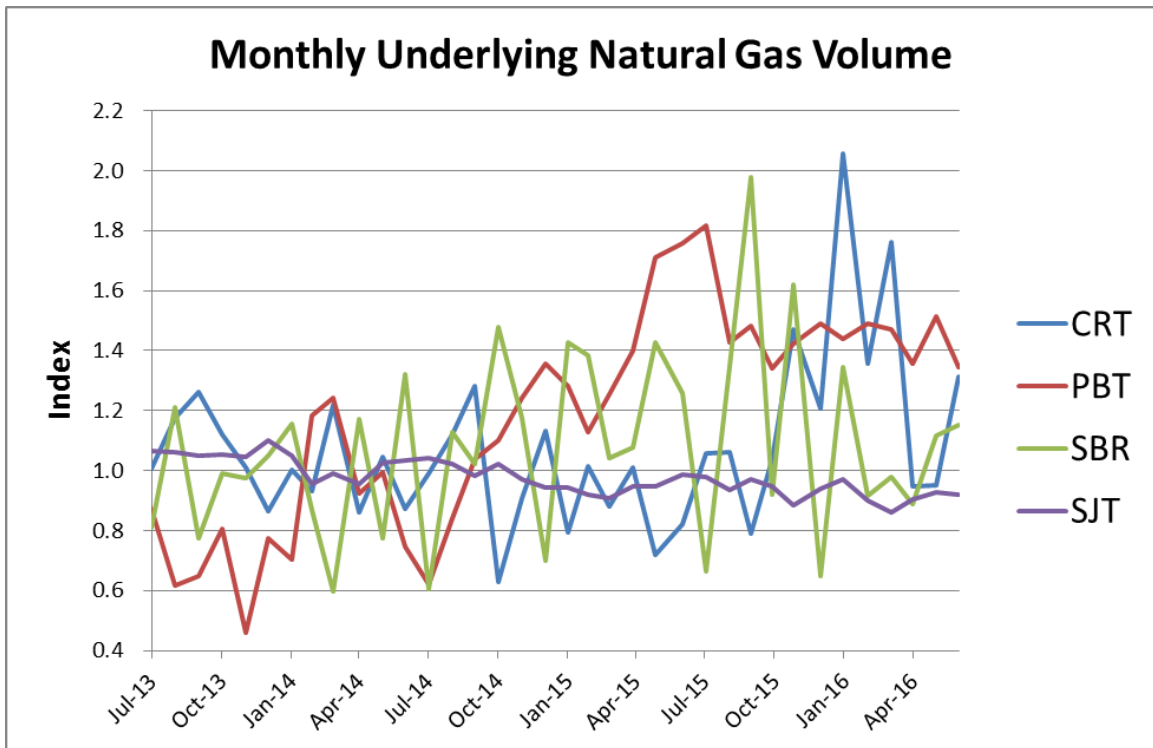
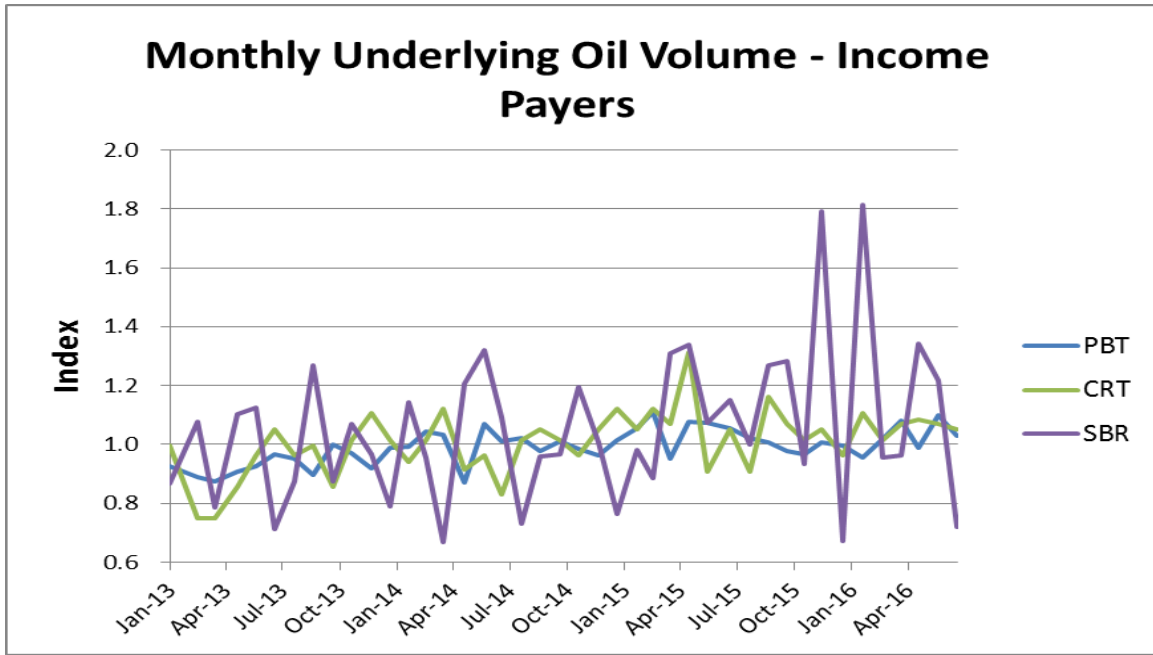
Kurt H. Wulff, CFA



Independent Stock Idea

June 21, 2016







Independent Stock Idea

June 21, 2016

Permian Basin Royalty Trust					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
<u>Top Line - Royalty Interests (95% Underlying)</u>					
North American Natural Gas	1	6.3	25.3	30	6%
Oil	10	10.3	21.4	210	41%
	11	9.6	21.9	240	47%
<u>Bottom Line - Working Interests (75% Underlying)</u>					
North American Natural Gas	5	6.3	17.1	80	16%
Oil	15	10.3	12.8	190	37%
	20	8.3	13.8	270	53%
<u>Total Top and Bottom</u>					
North American Natural Gas	6	6.3	18.8	110	22%
Oil	25	10.3	16.2	400	78%
	31	8.6	16.7	510	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					510
Shares (mm)					46.6
Net Present Value (US\$/sh)					11
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					11
Top Line Approximation at 1.5 times Cash Flow Multiple Depending on Reserve Life					



Independent Stock Idea

June 21, 2016

Permian Basin Royalty Trust										
Next Twelve Months Operating and Financial Estimates										
	Q2	Year	Q1	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Next
	6/30/15	2015	3/31/16	6/30/16	9/30/16	12/31/16	2016	3/31/17	6/30/17	Twelve
										Months
										6/30/17
TOP LINE										
Volume										
Natural Gas (mmcf)	1.2	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Oil (mbd)	0.96	0.90	0.82	0.86	0.84	0.83	0.84	0.83	0.81	0.83
Price (cash lagged two months)										
Natural Gas (\$/mcf)	5.17	5.07	3.56	2.99	3.40	4.18	3.53	4.79	4.85	4.29
Oil (\$/bbl)	46.96	51.34	36.39	31.94	41.44	42.74	38.14	43.80	44.34	43.06
Revenue (\$mm)										
Natural Gas	0.5	2.1	0.4	0.3	0.3	0.4	1.3	0.4	0.4	1.6
Oil	4.0	16.9	2.7	2.4	3.2	3.3	11.7	3.3	3.2	13.0
Total Revenue	4.5	19.0	3.1	2.7	3.5	3.6	13.0	3.8	3.6	14.6
Expense										
Operating	0.5	1.0					-			
Production & Property taxes	0.2	1.6	0.2	0.6	0.4	0.4	1.5	0.4	0.4	1.6
Total Expense	0.6	2.6	0.2	0.6	0.4	0.4	1.5	0.4	0.4	1.6
Ebitda	3.9	16.4	2.9	2.2	3.1	3.2	11.5	3.4	3.2	13.0
Ebitda times 95%	3.7	15.6	2.8	2.1	3.0	3.1	10.9	3.2	3.1	12.3
BOTTOM LINE										
Volume										
Natural Gas (mmcf)	15.9	14.2	14.3	13.7	14.0	13.7	13.9	13.7	13.4	13.7
Oil (mbd)	2.52	2.43	2.50	2.53	2.50	2.45	2.49	2.40	2.35	2.43
Price (cash lagged two months)										
Natural Gas (\$/mcf)	2.61	2.85	1.97	1.71	1.95	2.40	2.01	2.75	2.79	2.46
Oil (\$/bbl)	46.31	50.46	33.89	32.97	42.79	44.13	38.45	45.22	45.78	44.45
Revenue (\$mm)										
Natural Gas	3.7	14.7	2.6	2.1	2.5	3.0	10.2	3.5	3.3	12.3
Oil	10.4	44.7	7.8	7.4	9.8	9.9	35.0	10.0	9.6	39.4
Total Revenue	14.0	59.5	10.4	9.5	12.4	13.0	45.2	13.5	12.9	51.7
Expense										
Operating	6.9	25.2	6.4	4.9	5.0	5.0	21.3	5.0	5.0	20.0
Production taxes	0.6	3.7	1.0	1.0	1.0	1.0	4.0	1.0	1.0	4.0
Total Expense	7.5	28.9	7.4	5.9	6.0	6.0	25.3	6.0	6.0	24.0
Ebitda	6.5	30.6	3.0	3.6	6.3	7.0	19.9	7.4	6.9	27.7
Development	2.7	23.7	2.6	(0.1)		-	2.4	-	-	-
(Ebitda-Dvlpmnt) times 75%	2.9	3.6	0.3	2.8	4.8	5.2	13.1	5.6	5.2	20.7
Excess Costs	2.5	1.6	0.3	0.5			0.8			-
CASH DISTRIBUTION										
Royalty Income (\$mm)										
Top Line	3.7	15.6	2.8	2.1	3.0	3.1	10.9	3.2	3.1	12.3
Bottom Line	0.4	2.2		2.3	4.8	5.2	12.3	5.6	5.2	20.7
Administration	0.6	1.8	0.5	0.7	0.7	0.7	2.6	0.4	0.4	2.2
Distributable Income (\$mm)	3.5	16.1	2.3	3.7	7.0	7.6	20.6	8.4	7.8	30.8
Units (millions)	47	47	47	47	47	47	47	47	47	47
Distribution (\$/unit)	0.08	0.34	0.06	0.08	0.15	0.16	0.45	0.18	0.17	0.66
Trailing Twelve Months	0.64		0.31	0.60	0.35	0.45		0.57	0.66	
Ebitda Margin - Top	82%	83%	89%	71%	82%	83%	81%	86%	85%	84%
Ebitda Margin - Bottom	44%	49%	26%	33%	47%	50%	40%	53%	51%	51%
Days in Quarter	89	365	92	89	92	92	365	92	89	365
Henry Hub (\$/mmbtu)	2.79	2.98	2.22	1.93	2.19	2.70	2.26	3.09	3.14	2.78
WTI Cushing (\$/bbl)	51.06	53.37	37.35	36.66	47.57	49.06	42.66	50.27	50.89	49.45



Independent Stock Idea

June 21, 2016



Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.