



Independent Stock Idea

October 20, 2016

San Juan Basin Royalty Trust (SJT) Vote White Proxy for Less Conflict, More Competence

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 9/30/17 (US\$mm)</i>	31
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	97
<i>Price (US\$/unit)</i>	6.91	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/19/16	<i>Adjusted Reserves/Production NTM</i>	10.4
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	10.3
<i>Market Capitalization (US\$mm)</i>	320	<i>PV/Ebitda</i>	12.0
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	320	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	1.60
<i>Present Value (PV) (US\$mm)</i>	370	<i>Present Value Proven Reserves(US\$/boe)</i>	10.57
<i>Net Present Value (US\$/unit)</i>	8	<i>Oil and Gas Ebitda Margin (%)</i>	56
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	0.64
<i>McDep Ratio - EV/PV</i>	0.86	<i>Price/Earnings Next Twelve Months</i>	11
<i>Distribution Yield (%/year)</i>	9.3	<i>Distribution Next Twelve Months (US\$/sh)</i>	0.64
Note: Estimated cash flow and earnings tied to one-year futures prices for 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 btu			
For historical analysis of SJT since 2000 see www.mcdep.com/4sjt.htm			

Summary and Recommendation

Vote the white proxy card to remove Compass Bank (BBVA Compass or BBVA) as trustee of **San Juan Basin Royalty Trust (SJT)** and to install Southwest Bank as successor trustee. We believe BBVA should be removed for reason of conflict of interest among other issues and Southwest should be the successor because it would reinstate Ms. Lee Ann Anderson as trust officer among other improvements. A serious conflict has arisen as a result of the interlocking directorate involving BBVA the European bank trustee of SJT and Enterprise Products (EPD) the gatherer and processor of much of SJT's production. Mr. Charles McMahan is a director of both BBVA Compass and EPD. As Chairman of the Audit and Conflicts committee at EPD, according to the company website, Mr. McMahan ought to recognize the untenable position in which EPD and BBVA place the unitholders of SJT. There is probably no greater conflict a royalty owner faces than with the producer, gatherer or processor of the oil and gas from the underlying properties covered by the royalty. Disputes are commonplace and have arisen in the past for SJT and other royalty trusts. As we recall, about 25 years ago the operator of the SJT properties was compelled to compensate the trust in multimillion dollars for underpayment for natural gas liquids extracted from SJT's production and discrimination against the trust in choosing drilling locations.

Ms. Anderson has proven her value to SJT with her vigorous opposition when the operator of the trust properties discriminated against the unitholders, as in the example above from about 25 years ago. She was the SJT trust officer for some three decades up



Independent Stock Idea

October 20, 2016

to her joining Southwest Bank in 2015. As a research originator, we have communicated and visited with her throughout that period. We also rely on the team at Southwest Bank for research input on other royalty trusts in our coverage. We believe the unitholders of SJT will be better served by a competent, experienced trust officer working in an environment with other competent, experienced royalty trust officers at a strong, independent bank.

Proxy materials have been mailed and should be in the hands of every unitholder within the next few days, if not already. The record date for owning units eligible to vote is October 24. Votes must be recorded on or before the meeting date to be set for about November 14, or later.

Kurt H. Wulff, CFA

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.