



Permianville Royalty Trust (PVL)

Updated November 20th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$1.50	5 Year CAGR Estimate:	11.3%	Market Cap:	\$50 M
Fair Value Price:	\$0.95	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	11/29/24
% Fair Value:	167%	5 Year Valuation Multiple Estimate:	-9.7%	Dividend Payment Date:	12/13/24
Dividend Yield:	6.5%	5 Year Price Target	\$1.85	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Permianville Royalty Trust (PVL) was incorporated in 2011 and is based in Houston, Texas. It operates as a statutory trust and owns a net profits interest representing the right to receive 80% of the net profits from the sale of oil and natural gas production from properties located in the states of Texas, Louisiana and New Mexico. The company was formerly known as Enduro Royalty Trust and changed its name to Permianville Royalty Trust in September 2018. It has a market capitalization of \$50 million. The trust's assets are static in that no further properties can be added. In addition, the trust is passive, as it has no control over operating costs and the rate of production.

Due to its pure upstream nature, PVL is highly sensitive to the cycles of oil and gas prices. Due to the collapse in these prices caused by the pandemic, PVL suspended its distribution for 13 consecutive months, from mid-2020 to mid-2021. In mid-November, PVL reported (11/14/24) financial results for the third quarter of fiscal 2024. Oil and gas volumes grew 27% and 19%, respectively, thanks to new Permian wells but the trust was hurt by excessive costs in previous quarters, which were carried forward to the third quarter. As a result, distributable income decreased -39% over the prior year's quarter. PVL suspended its distributions in the first half of this year, as its operating expenses exceeded its operating income, primarily due to depressed gas prices. However, as we expected, the trust has resumed distributions since July. When PVL announced the reinstatement of distributions in July, the stock jumped 43% in just two sessions. This is a testament to the high risk and volatility of PVL. Based on the absence of distributions in the first half of 2024 and the distributions in the last five months, PVL is offering a total annualized yield of 6.5%.

Growth on a Per-Unit Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
DCFU	\$0.80	\$0.38	\$0.24	\$0.21	\$0.42	\$0.31	\$0.13	\$0.12	\$0.44	\$0.37	\$0.10	\$0.20
DPU	\$0.80	\$0.38	\$0.24	\$0.21	\$0.42	\$0.31	\$0.13	\$0.12	\$0.44	\$0.37	\$0.10	\$0.20
Units¹	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0

PVL has generated an average distributable and distributed cash flow of \$0.34/unit per year for the past decade, though with a noticeable decrease in the last nine years. Given the natural decline of the production of oil wells and gas wells, the long-term downtrend in cash flows should be expected. Over the last decade, the total output of PVL has declined at an average annual rate of -2%. Moreover, the proved reserves of PVL have declined -37% in total in the last two years. The trust posted high distributable cash flow per unit in 2022-2023 thanks to multi-year high oil and gas prices, which resulted from the sanctions of western countries on Russia but it is now suffering from depressed gas prices. Given the very low comparison base formed this year, we expect 15% growth of distributable cash flow per unit until 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/DCFU	10.4	7.2	9.9	12.5	7.8	8.3	8.9	14.6	7.4	6.4	15.5	9.3
Avg. Yld.	9.6%	13.8%	10.1%	8.0%	12.8%	12.1%	11.2%	6.9%	13.5%	15.7%	6.5%	10.8%

¹ Average Weighted Unit count is in millions.

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The trust's DCFU price multiple has averaged 9.3 over the past 10 years. We consider this a fair valuation multiple due to our natural expectations for declining production volumes in the long run. PVL is currently trading at a valuation multiple of 15.5. If it trades at our assumed fair valuation level in five years, it will incur a -9.7% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

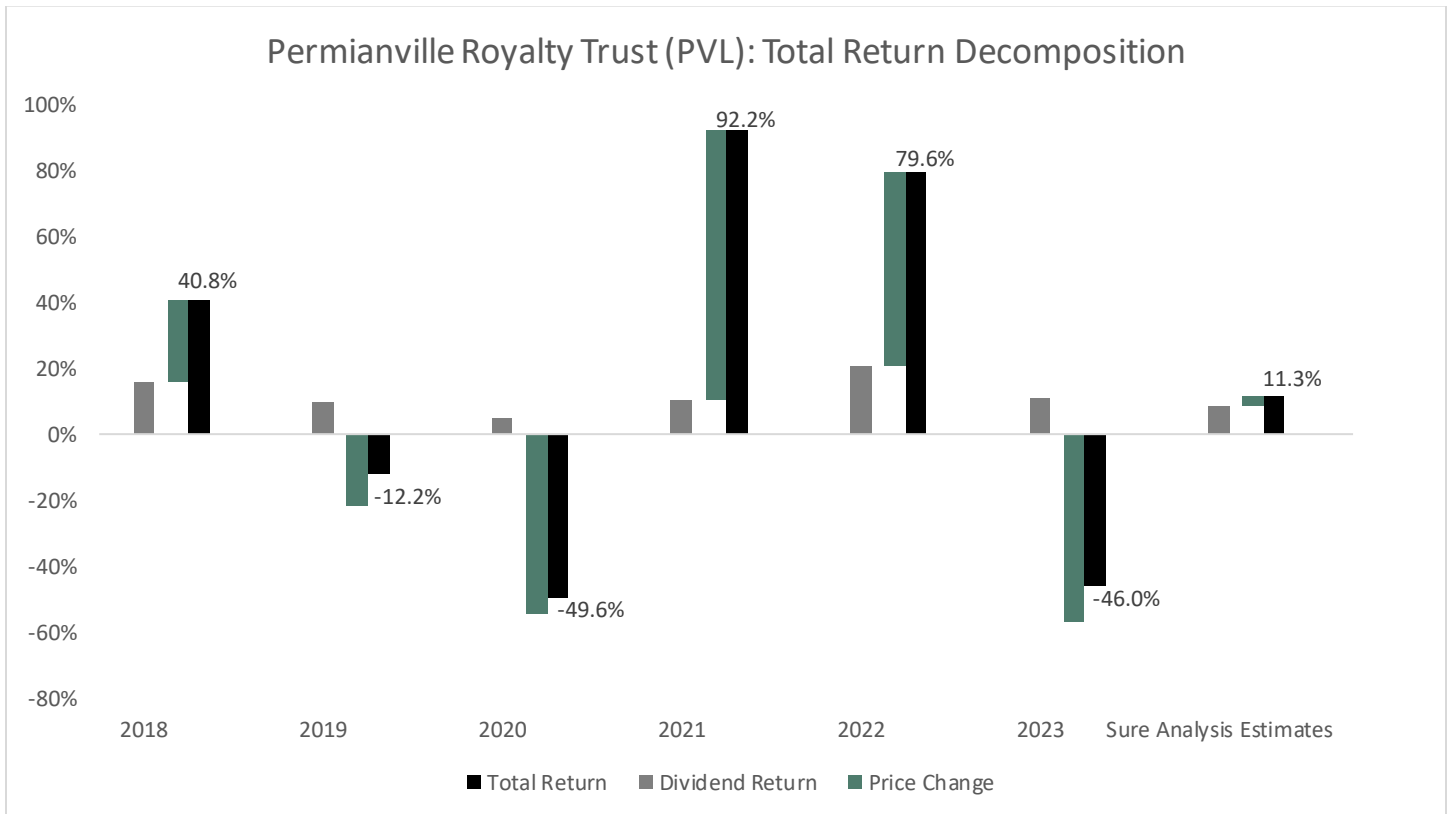
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

As PVL was formed only in 2011, it has a short history but it has offered an average 11.4% distribution yield over the last decade (albeit with high 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. The trust suspended its distributions in the first half of this year, primarily due to depressed gas prices. In addition, whenever the energy market enters another downcycle, the trust is likely to exhibit poor performance. The suspension of the distribution for 13 months in 2020-2021 and this year and the 67% plunge of the stock in the first month of the pandemic are stern reminders of the risk and high sensitivity of PVL to recessions and downturns of the energy market.

Final Thoughts & Recommendation

PVL suspended its distributions early this year due to depressed gas prices and high operating costs but it recently resumed its distributions. Nevertheless, we expect oil prices to deflate in the upcoming years due to the record number of renewable energy projects that are in their development phase. PVL could offer an 11.3% average annual return over the next five years thanks to 15% growth of distributions per unit and a 6.5% distribution yield, partly offset by a -9.7% valuation headwind. Despite its potential for high returns, the stock maintains its hold rating due to its high risk. PVL is not a buy-and-hold-forever stock due to the natural decline of its production in the long run and its high risk.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	29	14	9	8	15	9	6	4	15	10
SG&A Exp.	1	1	1	1	1	1	1	1	1	1
Operating Profit	28	14	8	7	14	9	5	3	13	9
Operating Margin	97.2%	95.1%	92.1%	88.7%	89.5%	98.3%	90.3%	70.5%	88.8%	86.6%
Net Profit	28	14	8	45	14	10	5	3	13	14
Net Margin	97.2%	95.1%	92.1%	585%	94.5%	100%	90.3%	74.3%	89.7%	136%

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	528	121	107	94	84	77	71	65	61	52
Total Liabilities	---	---	---	---	---	---	---	---	---	---
Long-Term Debt	---	---	---	---	---	---	---	---	---	---
Book Value	528	121	107	94	84	77	71	65	61	52
LTD/E Ratio	---	---	---	---	---	---	---	---	---	---

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Shares Out.	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0
Revenue/Share	0.89	0.44	0.28	0.23	0.46	0.29	0.17	0.13	0.46	0.31

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

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