



Independent Stock Idea

Intraday June 21, 2016

San Juan Basin Royalty Trust (SJT) Record Administrative Costs

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 6/30/17 (US\$mm)</i>	24
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	97
<i>Price (US\$/unit)</i>	7.27	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	6/21/16	<i>Adjusted Reserves/Production NTM</i>	9.9
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	14.4
<i>Market Capitalization (US\$mm)</i>	340	<i>PV/Ebitda</i>	15.8
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	340	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	1.17
<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>	47
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	0.49
<i>McDep Ratio - EV/PV</i>	0.91	<i>Price/Earnings Next Twelve Months</i>	15
<i>Distribution Yield (%/year)</i>	6.7	<i>Distribution Next Twelve Months (US\$/sh)</i>	0.49
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

A new trust officer has incurred record administrative costs for **San Juan Basin Royalty Trust (SJT)** reducing current distribution to near zero at a time of low natural gas price. Despite that burden, we raise distribution yield to 6.7% for the next twelve months (NTM), up from 4.5% last quarter (see *Industry Idea*, March 22, 2016). Yield is calculated on the basis of estimated distribution of \$0.49 a unit, up from \$0.23 last quarter. The more than doubling of NTM distribution was driven almost entirely by a 27% increase in expected natural gas price. Meanwhile actual administrative cost for the past three quarters since a new trust officer was appointed reached \$3.2 million compared to \$1.8 under the previous trustee who resigned unexpectedly after more than thirty years of exemplary service. After no single quarter from 2001-2015 exceeded a million dollars of costs incurred by the trustee, the first quarter of 2016 was a record \$1.2 million followed by a new record of \$1.3 million in the quarter just ended with monthly disclosures made on June 20 (see table Operating and Financial Estimates on page 2). At the least, some explanation should be included in the monthly press releases as to the application of the rising shortfall in distribution compared to reported revenues and costs. The high fees could be justified if they lead to a favorable recovery of possible overcharges made by ConocoPhillips, the operator of the trust properties. Otherwise we are concerned about possible conflicts of interest. By acquisition, a large European bank, BBVA, has become the trustee institution for SJT. European banks apparently are under profit pressure from negative interest rates imposed by the European Central Bank. The bank or the law firm it may have engaged may have other business with ConocoPhillips that creates a conflict. Nonetheless, the chart looks good for SJT with the stock price rising after scoring the golden cross (see chart on page 3).

Kurt H. Wulff, CFA



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San Juan Basin Royalty Trust												
Next Twelve Months Operating and Financial Estimates												
	Q2	Q3	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/15	9/30/15	12/31/15	2015	3/31/16	6/30/16	9/30/16	12/31/16	2016E	3/31/17	6/30/17	6/30/17
Volume												
Natural gas (mmbtu)	8.0	8.2	7.9	32.0	7.8	7.7	7.8	7.7	31.0	7.7	7.7	30.9
Heat Content(btu/cf)	1,100	1,101	1,098	1,099	1,103	1,107	1,107	1,107	1,106	1,107	1,107	1,107
Natural gas (bcf)	7.2	7.5	7.2	29.1	7.1	6.9	7.0	7.0	28.0	7.0	6.9	27.9
Natural Gas (mmcf)	81.3	81.4	78.2	79.8	77.0	76.8	76.4	76.1	76.6	75.7	75.3	75.9
Days	89	92	92	365	92	90	92	92	366	92	92	368
Oil (mb)	0.02	0.02	0.01	0.0636	0.02	0.02	0.02	0.02	0.0649	0.02	0.02	0.06
Oil (mmbd)	0.19	0.24	0.14	0.17	0.18	0.18	0.18	0.17	0.18	0.17	0.17	0.17
Total gas & oil (bcf)	7.3	7.6	7.3	29.5	7.2	7.0	7.1	7.1	28.4	7.1	7.0	28.3
Price												
Natural gas (\$/mmbtu) (Henry Hub lagged two months)												
Henry Hub (\$/mmbtu)	2.79	2.71	2.69	2.98	2.22	1.93	2.19	2.70	2.26	3.09	3.14	2.78
Differential (%)	23	24	26	22	27	33	25	25	27	25	25	25
Net to SJT (\$/mmbtu)	2.16	2.05	2.00	2.32	1.63	1.29	1.65	2.02	1.65	2.32	2.35	2.08
Natural gas (\$/mcf)	2.38	2.26	2.20	2.54	1.80	1.43	1.82	2.24	1.82	2.57	2.60	2.31
Oil (\$/bbl) (WTI Cushing lagged two months)												
WTI Cushing	51.06	56.70	44.87	53.37	37.35	36.66	47.57	49.06	42.66	50.27	50.89	49.45
SJT	37.20	54.65	46.25	47.00	27.54	27.03	35.08	36.17	31.44	37.05	37.50	36.44
Total gas & oil (\$/mcf)	2.43	2.38	2.26	2.61	1.83	1.47	1.88	2.29	1.87	2.62	2.65	2.36
Revenue (\$mm)												
Natural Gas	17.2	16.9	15.8	74.1	12.7	9.9	12.8	15.7	51.1	17.9	18.0	64.4
Oil	0.6	1.2	0.6	3.0	0.5	0.4	0.6	0.6	2.0	0.6	0.6	2.3
Total	17.8	18.1	16.4	77.1	13.2	10.3	13.4	16.3	53.1	18.5	18.6	66.7
Cost (\$mm)												
Severance tax	1.9	1.9	1.8	8.1	1.6	1.2	1.6	1.9	6.4	2.2	2.2	8.0
Operating	7.9	7.4	7.1	30.1	7.0	6.4	6.4	6.4	26.3	6.4	6.4	25.8
Total	9.8	9.3	8.9	38.2	8.6	7.7	8.0	8.4	32.7	8.6	8.7	33.7
Cash flow (\$mm)												
Development	8.0	8.8	7.5	38.9	4.6	2.6	5.3	7.9	20.5	9.8	10.0	33.0
Development	5.0	1.6	1.5	12.8	0.6	0.3	0.3	0.3	1.4	0.3	0.3	1.1
Net proceeds (\$mm)	3.0	7.2	6.1	26.1	4.0	2.4	5.1	7.6	19.1	9.6	9.7	31.9
Royalty income (\$mm)												
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	0.8	0.4	0.7	2.6	1.2	1.3	0.3	0.3	3.2	0.3	0.3	1.2
Distributable income (\$mm)												
Distributable income (\$mm)	1.4	5.0	3.8	17.0	1.8	0.4	3.5	5.4	11.1	6.9	7.0	22.7
Units (millions)												
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Per unit	0.03	0.11	0.08	0.36	0.04	0.01	0.08	0.12	0.24	0.15	0.15	0.49



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