



# Independent Stock Idea

Intraday August 17, 2016

## San Juan Basin Royalty Trust (SJT) Preliminary Filing to Replace Trustee

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 6/30/17 (US\$mm)</i>	23
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	97
<i>Price (US\$/unit)</i>	6.23	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/17/16	<i>Adjusted Reserves/Production NTM</i>	9.9
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	12.5
<i>Market Capitalization (US\$mm)</i>	290	<i>PV/Ebitda</i>	16.1
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	290	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	1.15
<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>	0.48
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	13
<i>Distribution Yield (%/year)</i>	7.7	<i>Distribution Next Twelve Months (US\$/sh)</i>	0.48
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 <a href="http://www.mcdep.com/4sjt.htm">www.mcdep.com/4sjt.htm</a>			

### Summary and Recommendation

On August 16, Southwest Bank mounted a regulatory challenge to replace the trustee of **San Juan Basin Royalty Trust (SJT)**. The independent bank filed a preliminary statement with the Securities and Exchange Commission to solicit proxies from unitholders for the purpose of calling a meeting as the first step in replacing BBVA Compass Bank as trustee (see [https://www.sec.gov/Archives/edgar/data/319655/000157104916017539/t1600527\\_prec14a.htm](https://www.sec.gov/Archives/edgar/data/319655/000157104916017539/t1600527_prec14a.htm)). Successful transfer of the trusteeship would reinstate Lee Ann Anderson as trust officer of SJT. Ms. Anderson gave exemplary service to SJT for some thirty years until her recent resignation from BBVA Compass and joining the royalty trust team at Southwest Bank. Ms. Anderson's successor at BBVA, who has no previous royalty trust experience to our knowledge, reports record charges in the administrative category in the first half of 2016 (see table Operating and Financial Estimates on page 2). We are concerned about possible conflicts of interest for a large European bank BBVA as the trustee institution for SJT. Southwest Bank and its management have a long, positive history as trustees of SJT and other trusts we have covered since inception, including current buy recommendation **Sabine Royalty Trust (SBR)** as well as **Cross Timbers Royalty Trust (CRT)** and **Permian Basin Royalty Trust (PBT)**. We believe a change of trustee would be beneficial to SJT unitholders. We like the stock as a core holding in long-life natural gas production from a thick reservoir susceptible to further development with new technology.

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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
<b>Volume</b>												
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 (mmb)	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
<b>Price</b>												
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
<b>Revenue (\$mm)</b>												
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
<b>Cost (\$mm)</b>												
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
<b>Cash flow (\$mm)</b>												
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
<b>Royalty income (\$mm)</b>												
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
<b>Distributable income (\$mm)</b>												
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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