

Texas Pacific Land Trust is a gradual self-liquidating real estate trust, which generates cash flow via periodic land sales and oil royalties from owned land in Texas. The discount rate applied to the land value is usually very high, likely due to the lack of an immediate realization of value, which ultimately creates more shareholder value than would an accelerated liquidation of the Trust's assets at current prices.

*From CSInvesting: Note that this is an oddball investment. One can't really know with precision what the future value will be though one can make a rough estimation. This is not an endorsement. The purpose of this post is to teach search strategies. I view this investment (right now) as limited downside—say \$100—with greater upside. I weight accordingly. The area that I am working on, but few have mentioned is the value of water rights on TPL's land.*

From Horizon Kinetics:

Texas Pacific Land Trust **(the “Trust”) will be the last example of** a company that despite being much higher in price than it was a year ago, is actually cheaper. The Trust was actually Horizon **Kinetics' first research report. At that time, in early 1995, it traded at \$4.00 per share. At yearend 2013, the shares closed at \$99.99, which works out to about a 19% annualized return.**

**The original valuation model was based upon the Trust's mandate to repurchase shares with** available cash flow, which it has been doing since, believe it or not, 1888. In 1995, the Trust owned 1 million acres of land in west Texas and used the proceeds from periodic land sales, along with modest revenues from grazing fees and oil royalties, to repurchase shares. Because the shares were too cheap, this being perhaps the longest-time-horizon security one can identify, more and more acres would come to be embodied in each share as they were repurchased, for a very low-risk form of internal compounding. The report's original estimation, almost 19 years ago when there were 15.4 million shares outstanding, was that by 2010, which was as far as the projection went, the share count would have shrunk to only 8.3 million. As of last September there were 8.6 million, so **the model wasn't all that far off.**

Although the Research Select strategy has held Trust shares since 2007, and even though the shares just about doubled during 2013, the position was added to late last year. The reason was an announcement, this past June, that Chevron and Cimarex, which both own land in Culberson County, Texas that was problematic to drill separately, combined their acreage in a joint venture so as to establish a major drilling program. This is located in what is known as the Delaware Basin,

where, because of horizontal drilling technology, there now appear to be vast reserves of economically extractable oil and gas. Much of this is on former Trust acreage in which it retains a royalty interest in any production. The size of this program suggests that it has the potential to **markedly increase the Trust's revenues. Moreover, with this** revenue increase, not only will the Trust be able to accelerate its share repurchases, it might also curtail land sales, such that the growth rate of acreage per share can accelerate yet further.

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CSInvesting: The following discussion among investors is provided to stimulate your thinking NOT make an estimate on valuation. One guarantee: do NOT value this based on a P/E but on the ultimate liquidation value of the assets.

One Investor:

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You can find the articles on the Horizon Kinetics fund website. Stahl seems to think that since the company was formed as a trust to liquidate and/or manage the former rail lands, that the holder of the last share will have quite a fortune on their hands.

It's been a magnificent stock. If the land goes up in value, or the revenues grow, it makes extra money at almost no cost. No matter what happens, they buy back shares. It's 900,000 acres of Texas land with nearly zero overhead.

Given that they seem to use most of their money to buy back stock, it appears that investing in it has little downside. The downside would be that the oil boom in Texas goes bust, and there's lots of evidence against that right now.

I bought at 180 and sold 100 higher. I may get back in. Stahl has had it forever and keeps buying more. He got in decades ago.

It's a true oddball stock. I often wonder what exactly the last holder of a share will have. It's not an easy stock to figure out and the oil portion of the value certainly isn't the only angle when you own nearly a million acres.

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Another:

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Another:

[Admiral Relative Value](#)

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Well researched article Eric,

To your final point on difficulty of valuation, I posit two broad frameworks; each with admitted shortcomings.

**Approach A:** Compare acreage transactions in the Delaware Basin post Alpine High discovery and make assumptions regarding acres per well and well EURs. Back into a 15% IRR required for the operator to warrant the acquisition, then apply similar IRR assumptions for a royalty interest with zero working capital requirements. This will result in nearly identical figures to the implied value of Viper Energy acreage in the Midland Basin (EV/NET acres). Make assumptions about proportion of TPL acreage worth "core" prices. This will give you a royalty valuation framework (easily justifying \$300/share by my math), but leaves surface/easement/sundry as a wild card. Perhaps assume a short-term, high growth scenario for these revenues, which level off into slow growth over the next 10 years. Choose your discount rate for the DCF (TPL cost of capital calculations are a fool's errand). Finally, take a 10-20 "salvage value" for the surface acreage after stabilizing easements, etc. and discount this back to PV. Sum the parts and tweak tax rates if you wish to be pedantic.

**Approach B:** TPL owns approximately 1.85% of surface acreage and approximately 0.80% of (gross) royalty acres in the Permian Basin. Further, using average oil and gas prices for the third quarter to impute production, TPL oil and gas production equaled approximately 1.2% and 2.3% of all Permian production during the quarter. The current market capitalization of TPL is \$2.3 billion - an optically low valuation for an interest of this size, in the largest and highest producing oil and gas formation in the United States (with virtually zero operating costs).

Thus, a granular valuation using Approach A, and a broad valuation using Approach B both provide context as to the investment potential for the company at the current share price. Upside from \$50/\$3.50 spot pricing is also a consideration, while downside is mitigated by balance sheet strength and lack of fixed costs. Krypto appears to be looking at it in much the same way.

Admiral

MJ-07

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**Admiral**, Do you have a 3-5 year target price estimate ? If so, could you share it with us? My own view is TPL may trade at a PE of 40-80 over the next few years, in part due to all of the publicity TPL is receiving and will be receiving in the future as the Permian expands production. My only fear is worldwide overproduction of oil and gas, in part due to technological advances in fracking which will continue to reduce breakeven costs even further over the next 3-5 years. If TPL earns \$10.00 a share (or a better way to say this is when it will earn that amount) the stock should trade at a \$400-\$800 level. Also, can you take a guess at how much of Alpine High that TPL has in both surface and 1/16 royalty sub-surface acreage as a percentage of total Alpine High acreage? Thanks in advance. Again, an excellent detailed article here. "kudos" to the author and all TPL shareholders.



Admiral Relative Value

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MJ, I don't have a hard target, but look at what "could be."

Here's my base case "floor;"

VNOM Enterprise Value ~1.432b / 5,514 net acres = ~\$260k/acre

This is mostly core Midland acreage, so lets only include TPL acreage in Reeves, Loving and Midland Counties, then net out the 1/16th interest. Using VNOM math were get to \$3.0 billion of value (\$380/share).

You can argue that Midland is superior to Delaware, but recent well results out of Reeves County and even into New Mexico (Lea and Eddy) are bettering Midland wells. Another point is that most of VNOM acreage is producing, or going to be shortly.

(NB - VNOM paid \$221k/net royalty acre in August for Delaware acreage - this was BEFORE Alpine High announcement. Acreage was only producing 200BOE/d at purchase time)

However, the TPL math excludes 40% of royalty acreage and 100% of surface acreage with associated easement and sundry revenue. In other words, this is a long winded justification of agreeing with your \$400-\$800 level.

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Thank you for replying. What scares me is the historically high PE ratio the stock has been trading at recently. My price estimate of \$400.00 assumes earnings of \$10.00 and a PE of 40 (High but realistic.) One last time I will ask you (or anyone else who cares to reply) any estimate of how many 1/16 royalty acres TPL has which is inside of APA's Alpine High?

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**1. The P/E is completely and utterly meaningless. Would you sell an apartment building with 1% of the units occupied, at drastically below market rents based on current net operating income?**

2. Alpine High overlap is simply not that important. There is adjacent acreage and overlapping acreage; some surface, some royalty. If you want to go nuts, here's how to do it:

Go to the Texas GLO, GIS map page. Do either a spatial or text search for Reeves County. Here is a Chesapeake lease in Alpine High:

<http://bit.ly/2gVycK1>

Scroll down to "included tracts." Does "T.&P.R.R.CO." sound familiar? Now click on one of the hyperlinks and follow the lease data to ultimately arrive at a scanned lease;

<http://bit.ly/2gvqHMM>

On the first page you see a lease royalty rate of 0.0625. Or 1/16.

However, even this is not conclusive because the data doesn't appear to show new Apache acquisitions.

02 Dec 2016, 12:52 PM [Report Abuse](#) [Reply](#) 0

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[Krypto](#)

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In studying the map, I think we have a significant percentage of the Alpine High owned by Apache, and if not, then we can apply the Apache standards roughly to our acreage in the area, since it presumably has similar characteristics.

Apache feels like they can drill 2000-3000 wells in the area of the next 20? years, and they appear to base that upon 100 acre spacing, which I take to mean the "oilshed" collection zone, insofar as they must be sending out the lateral frack lines underneath the whole hundred acres. How much oil can you get out of 100 acres in a mile deep formation? They feel like just the top 40% of the should yield them 3 billion barrels, plus significant natural gas of 75 trillion cubic feet of natural gas.

3 billion barrels would sell for 150 billion dollars.(more or less)

75 trillion feet of natural gas = 75 billion x 1000 cubic feet, worth about 3.25 per thousand cubic feet = 266 billion dollars (more or less)

To check, 6,000 cubic feet of natural gas equals one barrel of oil, so 75 trillion divided by 6000 = BOE (barrel of oil equivalent) = 12.5 billion barrels of oil!!! = 600 billion in oil!!! (Let's go with the lower figure..)

Their resource is worth potentially 400 billion USD over 325000 acres, or the incredible revenue amount of 1230769 USD per acre.

We have over 100,000 acres in Culberson County alone, so over many years, each acre could be worth  $1230769/16=76923$  royalty per acre to our beloved TPL!!

Multiply  $76923 \times 100,000$  and you get about 7.7 billion in that area alone, on the top 40% of the formation.

Continuing this fantastic math, multiply by 2.5 for the bottom 60%..17 billion, about 8 times today's market value of the stock, so once again I suggest you sell at \$3000 per share..LOL

17 billion barrels of oil would last the world 170 days...

the world uses 5 billion USD of oil per day at the approximate burn rate of 100 million barrels per day...

Hang on and get rich boys, assuming I'm not bad at math, and Apache can really extract that much oil from that acreage, and others can do the same.

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More fantasy math for those interested.

Many Delaware basin operators are reporting and delivering initial three and six month rates that imply an easy 1,000,000 BOE (barrels of oil equivalent) recovery from their wells. Companies are hitting this all over the basin, and for the purposes of showing the upside potential, I will use that and Alpine High as a proxy for our land holdings of approximately 360,000 royalty acres.

Apache intends to drill about 3000 wells in their 325,000 acre play in the Alpine High. At 1,000,000 BOE per well, that roughly translates to their estimate of 3 billion barrels of oil in the play. They are spacing that at about 100 acres per well, though with stacked plays and what not, it is merely a proxy measurement.

In any case, it equates to 9230 barrels of oil per acre. Divide that by 16, and you get a resource potential of 576 barrels of royalty oil per acre.

$360,000 \times 576 \times 50$  = slightly over \$10 billion USD in royalties eventually!!! Also, all those sundry "damages" to the land, plus the stock buyback and land sales are just gravy.

I would have to rate that a strong buy.

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Krypto

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Some operators are proposing as many as 40 wells per section now that it is becoming apparent that the Delaware has up to 10 economically viable layers of oil bearing shale.

<http://bit.ly/2iYz8Th>

If the average well throws off 500,000 barrels of oil including BOE equivalent in gas, multiply that times 40 and you = 20 million barrels of oil recoverable per section.

$20,000,000/640=31250$  barrels of oil per acre (640 acres per section)

$31250/16*50=97656$  royalty revenue per acre.

200,000+ acres in Culberson County and Reeves alone!!! That's almost 20 billion in revenue!!!

I'd call that a possible 10 bagger from current prices!!

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MJ-07

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TPL is unique. With all of the spending in the Permian Basin for future production, some companies project that within 10 years time oil production will hit 9-10 million boe from 2.4 m today. TPL will benefit from much of the infrastructure spending that must take place. I figure earnings over the next 10 years for TPL could hit about 4 times recent earnings. Estimate at some point \$20 is likely. Give it a 40 pe and you get a \$800.00 stock. Of course earnings will be lumpy and could range from \$5.00 to \$25.00 over the next 10 years. Much will depend on where the price of oil goes over the next 10 years, something noone can know for certain. What intrigues me is what if some billionaire decided to try to buy up as many shares as possible to drive and keep the price bid up to, say \$1000.00 a share and manipulate the price from that base. Someday, someone may try. For some billionaire this would be a fun stock to play with. My advice for the rest of us is this: Buy on the sharp selloffs and sell on the sharp spikes up. Keep some powder dry for any unexpected sharp drops and hold some for your heirs, with instructions to hold some for their heirs.

26 Mar 2017, 10:49 AM [Report Abuse](#)

Krypto

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I agree with you on the rapidly rising O & G royalty barrels. It makes it very difficult to confidently apply normal metrics to this company.

For those that do like math, the royalty production has increased over 50% per year for the last three years. If that were to increase like that another 5 years....

The formula for annual compound interest, including principal sum, is:

$$A = P (1 + r/n) (nt)$$

Where:

A = the future value of the investment/loan, including interest

P = the principal investment amount (the initial deposit or loan amount) \$100,000

r = the annual interest rate (decimal) 0.5

n = the number of times that interest is compounded per year 1.0

t = the number of years the money is invested or borrowed for 5.0

answer A = 759375.000

So you would multiply your money by 7.5 times in just 5 years with 50% compound growth, something the company has been doing with royalty production.

To check, that would mean about 3.5 million royalty barrels per year.

Multiply that by 16, and companies on the TPL royalty acres would have to produce 50,000,000 barrels of oil yearly. That is about 6% of all Permian production, so at this point, it seems a little high, but who knows?

# In Search Of A Price Target For Texas Pacific Land Trust

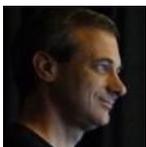
Mar. 22, 2017 12:11 PM ET

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| About: [Texas Pacific Land Trust \(TPL\)](#)



**Steven Miller**

Value, growth, dividend investing, long-term horizon

Steve Miller Ink

(51 followers)

## Summary

Finding intrinsic value for the Trust is “tricky” at best.

Nevertheless, charts show investors have established a range of prices they are willing to buy at over the past decade.

The price target for the Trust is \$200-250.

The Texas Pacific Land Trust (NYSE:[TPL](#)) is not your typical company. It produces no products. It provides no services. Its only real asset is land, much of it dry, arid, and not very habitable. The Trust has been selling off that land since 1888, yet it remains one of the largest land owners in Texas. It spends its cash primarily on buying and retiring shares-called "sub-shares"-in addition to paying a very small dividend. It is too small for most portfolio managers, but it has been one of the hottest stocks on the market. It could be had for \$30 as recently as 2010, and it hit \$300 in 2016.

### **What's it Really Worth?**

Ask an investor what the stock is really worth, and you will get a shrug. Donald Hodges of Hodge Financial [told](#) Business Insider in August of 2014, "Mathematically, to me it's just one of those stocks where you can't really say what it's worth, but you know it's worth a lot, and you just better hang on for the ride." In a recent Seeking Alpha article, [Eric Sprague wrote](#) in an understatement, "The TPL valuation is tricky." In an even more recent article, contributor [Antao](#) echoed that. He [wrote](#), "TPL is a hard company to value." He continued, "putting any meaningful price tag on the land is impossible."

Part of the problem assessing the Trust's value is that it is a passive seller of land. Sales of land totaled \$22,616,635 in 2015, the highest in the Trust's history, but were \$3,698,312 the year before. The income from land sales simply cannot be predicted year to year. The largest source of income in recent years have been from pipeline easements. Sprague showed that these have risen from \$1,565,581 in 2007 to \$31,413,158 in 2015.

Then there was the [announcement](#) just last September from Apache Corporation (NYSE:[APA](#)) of a significant new discovery they call "Alpine

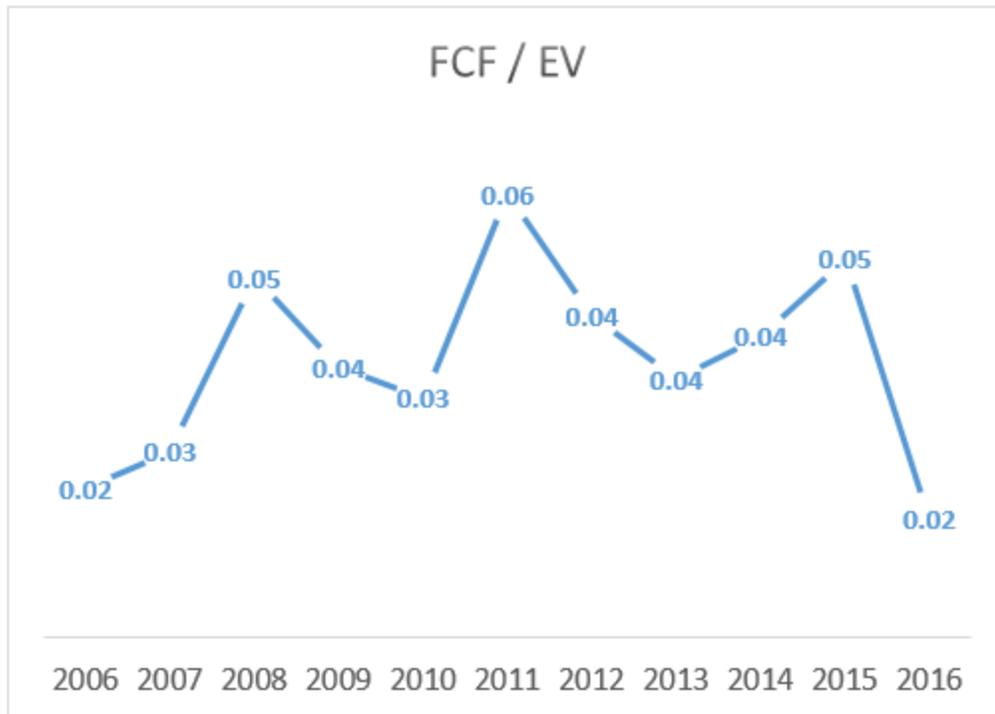
High." The Trust's stock price, which had just doubled, went from under \$200 to more than \$300 in less than two months. Clearly the Alpine High discovery is a game changer, but no one knows what the game will look like once it has changed.

In his article, Antao showed a correlation between stock price and book value, but some commenters argued that book value is the wrong metric. The Trust holds land that is given zero value, but some of it is worth a good deal more than that. The point is a fair one, and yet the correlation in Antao's charts remain. I believe metrics such as book value over price, and considerations of future value, both have gravitational pulls on the stock price, but in opposite directions.

What's an investor to do? Nearly everyone agrees the stock is intrinsically worth more than it is today, but does that mean investors should buy in at any price today? As of this writing, the stock price has come down nearly 20% from its high of \$336.83. I do not know of any investors who enjoy paying 20% extra for their shares, and believe in waiting for a better price when it can be had.

### **What is a Good Price?**

While Antao was writing his article, I was puzzling about alternate valuations of the stock, in an effort to find a good price to buy in. I started with evaluating free cash flow against enterprise value-FCF/EV-over the period of a decade. The results were similar to Antao's comparison of book value at against market price. The graph I created from the figures confirmed my suspicion that the stock was overvalued at the end of 2016, when the price closed at \$336.83:

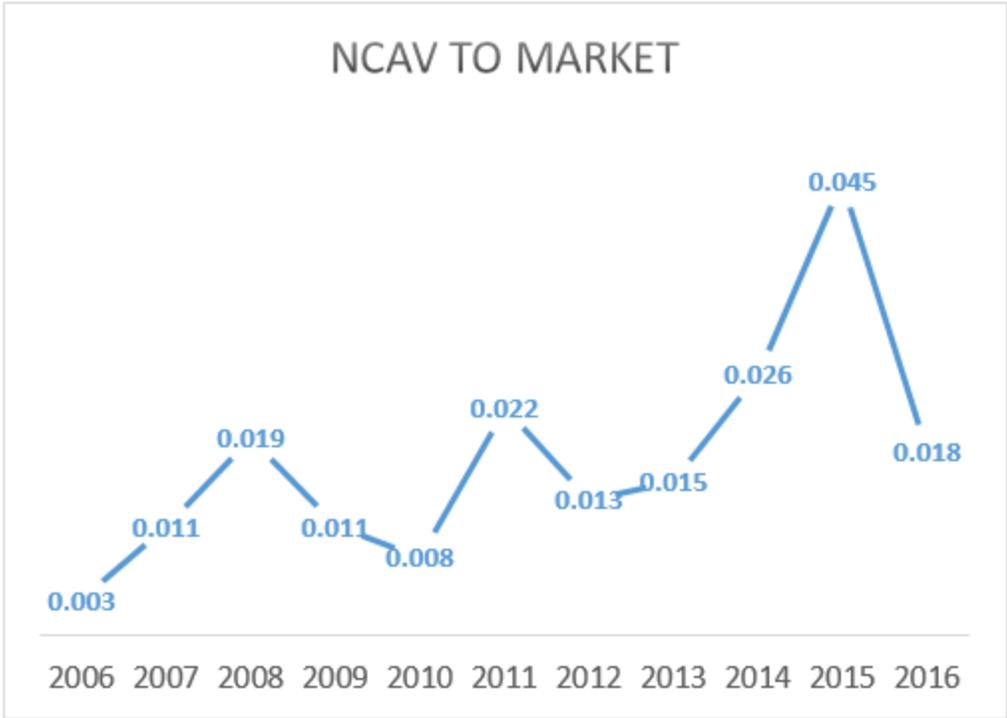


I tried projecting a ratio for 2017 based on FCF/EV, but cash flows being what they are for the company, I had no confidence of projecting them.

I then used a tool from the value investor's toolbox-NCAV to Market. This might seem to be a rather unusual metric to use, but consider that the calculation uses current assets, which are known for the Trust, instead of total assets, which is unknown. In addition, the Trust has been aggressively retiring its shares, and the stock price has rocketed over the past year. The NCAV to Market takes both share count and stock price into account. The calculation typically includes debt and preferred shares, but since the Trust has neither, they can be disregarded. The calculation becomes elegantly simple, and similar to the calculation for price/book value:

- $\text{Current Assets} - \text{Total Liabilities} / \text{Shares} * \text{Share Price}$

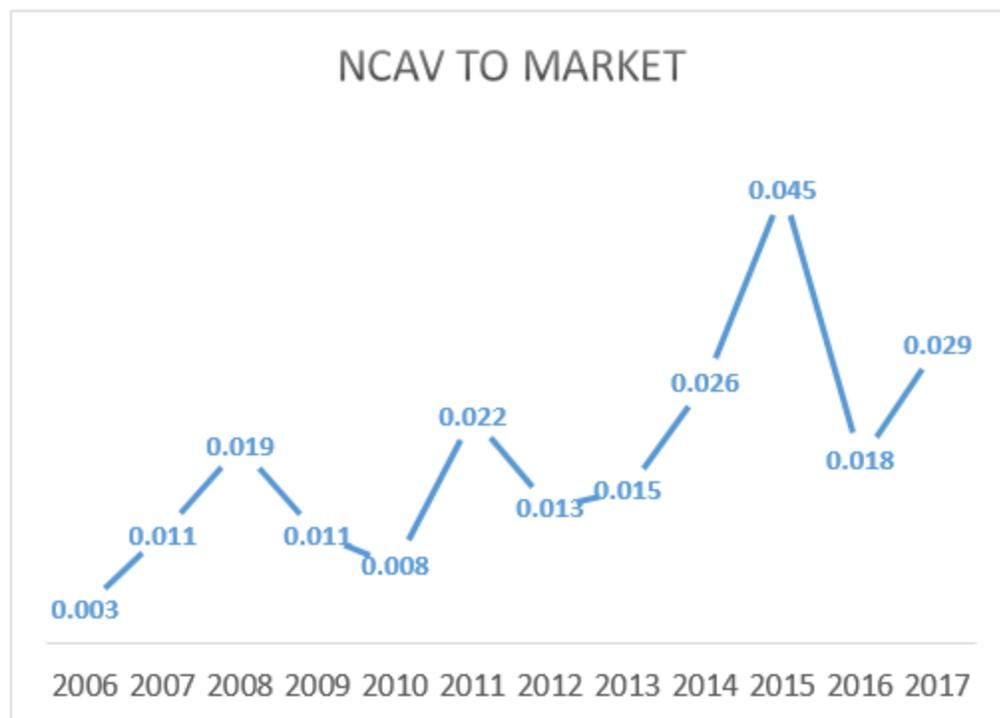
While the ratio spiked high in 2015, it remained within trends in 2016, even given the high market price:



To project the NCAV for 2017, I made the following assumptions: I expect that the Trust will continue to buy back its sub-shares. It bought back 2% of its sub-shares in 2016 and in 2014, and so I projected 2% will be bought back in 2017. Current Assets have been climbing since 2012, and an incremental increase for 2017 seemed appropriate there. I further assumed Total Liabilities will remain flat compared to the prior year, in keeping with trends in prior years:

Year	NCAV to Mkt	Price	Cash	Receivables	Other	Current Assets	Total Liabilities	Sub-shares
2006	0.003	48.20	8,524	1,155	92	9,771	8,028	10,613
2007	0.011	36.40	10,153	1,540	145	11,839	7,767	10,488
2008	0.019	23.50	9,654	1,172	1,062	11,889	7,260	10,206
2009	0.011	26.23	8,151	1,630	73	9,855	7,084	9,895
2010	0.008	37.75	7,150	2,165	130	9,445	6,687	9,548
2011	0.022	44.00	13,030	2,793	82	15,905	6,885	9,175
2012	0.013	51.85	8,425	2,701	499	11,625	5,591	8,795
2013	0.015	101.07	13,239	3,726	298	17,263	4,427	8,473
2014	0.026	115.55	26,815	3,220	930	30,965	6,383	8,322
2015	0.045	121.91	45,012	3,788	121	48,921	4,747	8,118
2016	0.018	317.52	49,418	6,550	4,108	60,076	14,829	7,927
2017	0.029	250.00				72,000	15,000	7,785

Finally, if I project a price of \$250, the NCAV ratio continues to follow its pattern:



\$250 has a little bit of technical support as well. The stock price dropped to \$250 last November, after running up past \$300 for the first time the month prior:



TPL data by YCharts

Based on historic P/Es and an adjusted FY2016 EPS of \$5, Antao wrote, "TPL is worth between \$100 and \$200 per share certificate." Finding support for \$100 is difficult based on NCAV, but if I adjust my assumptions lower, I can find support for \$200.

### Conclusion

While using NCAV to Market to project a stock price is somewhat unorthodox, it is also true that the Trust is not exactly an orthodox company. The stock probably has an intrinsic value of more than \$250/share, but \$200-250 is in line within range of investors have paid for the company over the past decade, based on the NCAV to Market metric.

**Disclosure:** I/we have no positions in any stocks mentioned, but may initiate a long position in TPL over the next 72 hours.

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# Texas Pacific Land - Lumpy Growth

Nov. 30, 2016 7:58 PM ET

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[31 comments](#)

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| About: [Texas Pacific Land Trust \(TPL\)](#), Includes: [APA](#), [APC](#), [BHP](#), [CVX](#), [CXO](#), [OXY](#), [PDCE](#), [PXD](#), [RDS.A](#), [REN](#), [XEC](#)



## **Eric Sprague**

Long-term horizon

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## Summary

The Company holds Permian Basin acreage where oil and gas production is increasing.

New drilling technology continually adds value to the Company's acreage.

New discoveries like Apache's Alpine High can be game changers.

## **Introduction**

Texas Pacific Land (NYSE:[TPL](#)) owns surface acreage, mineral interests and pipeline easements in West Texas. U.S. oil and gas production in recent years has been volatile as prices have fluctuated widely. The Company has interests in Texas counties with low break-evens such that the combination of oil and gas royalty revenue along with pipeline easement revenue has

been growing steadily. The Company has interests in oil and gas districts 7B, 7C and 8. The [RRC Oil and Gas Division District Boundaries Map](#) shows the counties in each district and we will focus on District 8 and part of District 7C. Within the Permian Basin, we're looking extremely closely at three Delaware Basin counties and somewhat closely at two Midland Basin counties. Evidence from the last few years shows that Reeves County and Loving County have been important to the Company for both royalty revenue and pipeline easement revenue. Culberson County is producing more gas every year and it will be significant for both royalties and easements in the coming years. The company has a tremendous amount of surface and royalty acreage in these three counties. These are some of the reasons why we are paying special attention to these three Delaware Basin counties throughout the article. Midland County is second only to Karnes County in the entire state of Texas for oil production. Upton County comes in at number four in the state for oil. These two Midland Basin counties are consequential to the Company because of their high oil output and the considerable royalty acreage the Company has in them. Looking at the top 15 counties for Texas gas production, only five of them have higher production in September 2016 than September 2014 and they are the five in this paragraph.

It is an exciting time to own land in South Reeves County. Land values have been rising as Apache Corporation (NYSE:[APA](#)) made an important announcement about their "Alpine High" discovery in early September. Reeves County has about 2,642 square miles and there are about 640 acres per mile so the county has about 1.7 million acres. The Texas Pacific Land 2015 annual report shows that the Company has 185,529.85 surface acres in the county or about 11% but much of this acreage is north of the Alpine High area. Still, the Company has a tremendous amount of land just to the northwest of Alpine High in Reeves and Culberson counties. Apache controls 352,000 acres in Alpine High which comes to about 20% of the Reeves County acreage.

The 2015 10-K states that the Company received \$7.6 million, or about 30.8% of its oil and gas royalty income, from Chevron and \$4.9 million, or about 19.9%, from Anadarko. In terms of easements and sundry income, the Company received \$3.7 million, or about 11.8%, from BHP Billiton Petroleum.

We discuss Anadarko Petroleum Corporation (NYSE:[APC](#)), Apache Corporation, BHP Billiton Limited (NYSE:[BHP](#)), Chevron (NYSE:[CVX](#)), Cimarex Energy (NYSE:[XEC](#)), Concho (NYSE:[CXO](#)), Occidental Petroleum (NYSE:[OXY](#)), PDC Energy (NASDAQ:[PDCE](#)), Pioneer Natural Resources (NYSE:[PXD](#)), Resolute Energy Corporation (NYSE:[REN](#)) and Shell (NYSE:[RDS.A](#)).

The [USGS Wolfcamp](#) announcement is fantastic for the Midland Basin:

This is the largest estimate of continuous oil that USGS has ever assessed in the United States.

The Wolfcamp shale in the Midland Basin portion of Texas' Permian Basin province contains an estimated mean of 20 billion barrels of oil, 16 trillion cubic feet of associated natural gas, and 1.6 billion barrels of natural gas liquids, according to an assessment by the U.S. Geological Survey.

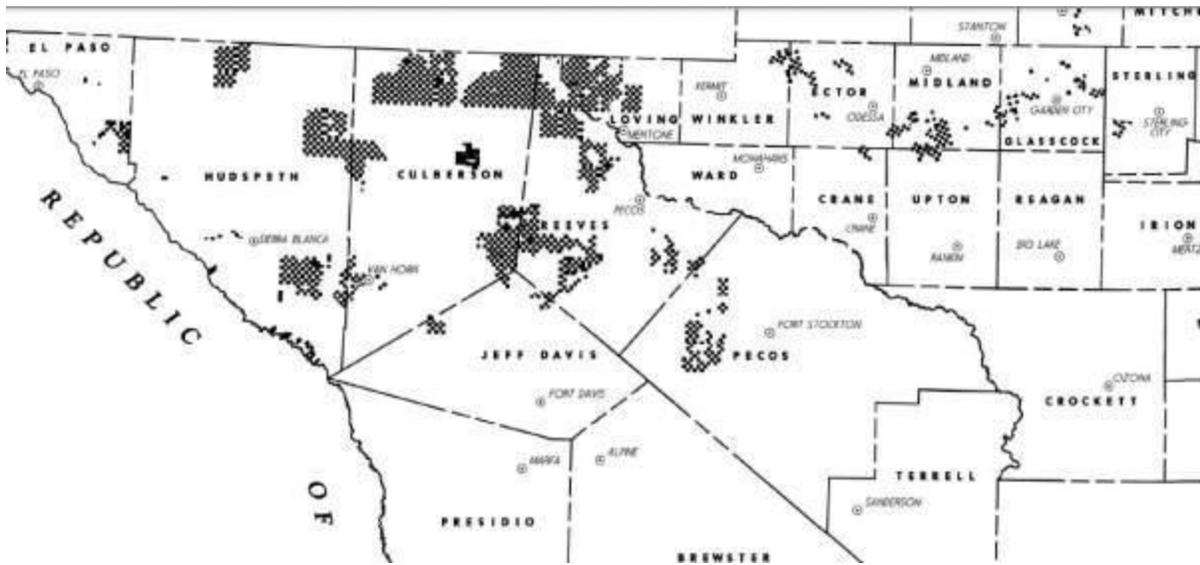
Midland and Upton counties have already produced many barrels of oil and this announcement means there should be many more to come. The USGS will be studying the Delaware Basin as well over the next few years.

The Company is dangerous for short sellers as it sits on top of some of the best oil and gas land in the world. New oil and gas assessments in this area are a recurring theme. Using horizontal drilling and hydraulic fracturing, producers are continually using new technology to extract resources from this land.

The Railroad Commission of Texas or RRC is a major resource for TPL investors.

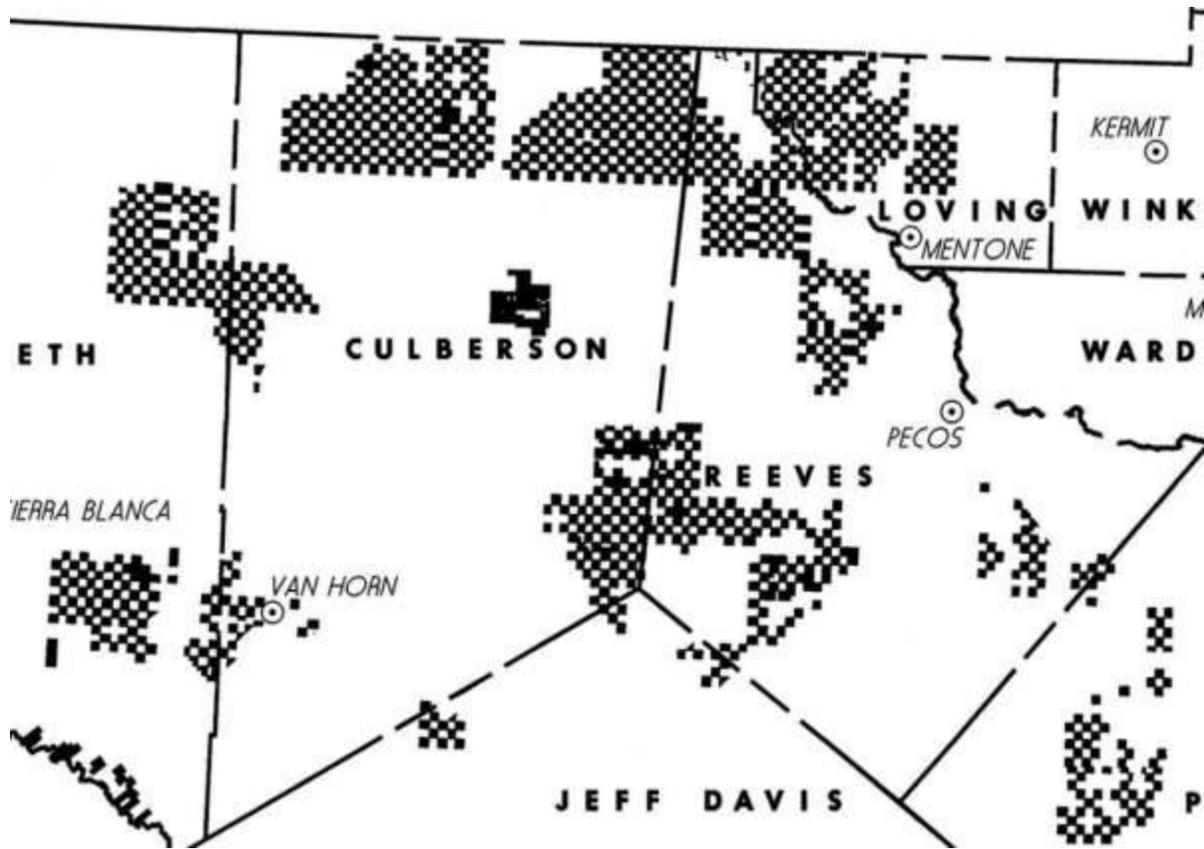
## **TPL Land Maps**

The bottom of the TPL 2015 annual report has a map showing Company acreage:



Here is a zoomed in view of the TPL land in the Delaware Basin including Culberson County, Reeves County and Loving County. The Company has the most royalties in these three counties:

:



**TPL Land by County**

The 2015 TPL annual report shows surface and nonparticipating perpetual royalty interest acreage by county as of December 31, 2015:

County	Surface	Royalty 1/28	Royalty 1/16	District
<b>Culberson</b>	299,693.49		<b>111,513.14</b>	8
<b>Reeves</b>	185,529.85	3,013.34	<b>116,690.98</b>	8
Hudspeth	155,405.88		1,008.00	8
<b>Loving</b>	73,608.62	6,106.66	<b>48,066.00</b>	8
Pecos	43,407.12	320	16,895.31	8
Midland	29,007.55	13,425.00	15,360.00	8
Glasscock	20,712.70	3,600.00	11,110.91	8
Ector	19,887.46	33,633.45	11,792.88	8
El Paso	16,628.40			8
Jeff Davis	13,117.24		7,554.65	8
Winkler	7,803.69	1,181.75	3,040.00	8

Upton	6,020.22	6,903.00	9,100.60	7C
Sterling	5,212.46	640	2,080.00	8
Howard	4,788.04	3,098.54	2,320.00	8
Crane	3,621.36	264.65	5,198.15	8
Nolan	1,600.00	2,487.73	3,157.43	7B
Mitchell	1,599.00	1,760.00	585.91	8
Taylor	689.73		966	7B
Callahan			80	7B
Coke			1,183.50	7C
Fisher			320	7B
Martin			320	8
Palo Pinto			800	7B
Presidio			3,200.00	8
Reagan		6,162.15	1,273.63	7C
Stephens		2,817.33	160	7B
Total	888,332.81	85,413.60	373,777.09	

The top 8 counties make up 93% of the surface acreage or 827,252.67 of 888,332.81. Hudspeth, Culberson, Reeves, Loving and Pecos counties touch the Delaware Basin while Ector, Midland and Glasscock counties touch the Midland Basin. Reeves County and Culberson County have more than 100,000 acres each in 1/16 Royalty. Upton is not one of the top counties for surface acreage but it is one of the top five counties in all of Texas for oil production and TPL has considerable royalty acreage in the county.

The TPL 10-K specifies some royalty details:

The Trust also owns a 1/128 nonparticipating perpetual oil and gas royalty interest under 85,414 acres of land and a 1/16 nonparticipating perpetual oil and gas royalty interest under 373,777 acres of land in the western part of Texas. Generally speaking, if the Trust sells the surface estate in real property with respect to which it holds a perpetual oil and gas royalty interest, that oil and gas royalty interest is excluded from the sale and retained by the Trust.

The part about royalty interests is key. If surface acreage is sold on land where the Company holds perpetual royalty interests then the Company keeps the royalties. Pipeline easement revenue can be lost but holding onto royalty revenue when selling surface land is huge. In other words, the company is slowly liquidating itself with respect to surface real estate but not so much with respect to royalties for the minerals below the surface.

### Texas Oil Production by County

RRC tells us that Texas produced less oil in September 2016 than September 2014. Here are the totals: September 2014: 84.4 million barrels; September 2015: 87.7 million barrels; September 2016: 71.4 million barrels.

Based on RRC numbers, I made a monthly oil spreadsheet that shows the top 15 counties in the state for September 2016. We see that Loving, Midland and Reeves counties are doing well now compared to 2014:

County	District	Sep. 2014	Sep. 2015	Sep. 2016	Sep. '14 to '16
		BBL	BBL	BBL	Change
KARNES	2	7,638,183	7,426,959	5,095,593	(33%)
<b>MIDLAND</b>	8	2,944,564	4,066,041	5,068,465	<b>72%</b>
MARTIN	8	2,853,152	3,693,323	3,700,401	30%
<b>UPTON</b>	7C	3,024,170	3,768,606	3,501,453	<b>16%</b>
LA SALLE	1	5,982,499	5,548,109	3,422,097	(43%)
DE WITT	2	4,658,443	6,054,797	3,246,232	(30%)
<b>REEVES</b>	8	2,268,245	3,587,900	3,178,649	<b>40%</b>
MCMULLEN	1	3,556,275	3,439,578	3,021,614	(15%)
GONZALES	1	3,841,800	3,038,043	2,949,145	(23%)
ANDREWS	8	3,065,342	3,176,104	2,865,602	(7%)
REAGAN	7C	2,090,131	2,663,151	2,223,491	6%
<b>LOVING</b>	8	1,097,578	1,929,567	2,188,440	<b>99%</b>
DIMITT	1	2,923,332	2,835,401	2,179,844	(25%)
GLASSCOCK	8	2,153,115	2,245,803	1,960,877	(9%)
YOAKUM	8A	1,778,418	1,899,709	1,867,084	5%

Source: RRC General Production Data

BBL = barrel of oil.

Excludes condensate.

### Texas Natural Gas Production by County

Here are the Texas casinghead and GW gas production numbers for the last three Septembers from RRC: September 2014: 720 million MCF; September 2015: 723 million MCF; September 2016: 561 million MCF.

I made a monthly casinghead & GW gas spreadsheet based on RRC numbers that shows the top 15 counties for September 2016. We see that Culberson County is exciting, having more than doubled its production since 2014. Like we saw in the oil spreadsheet, Reeves, Midland and Loving counties are looking good as well:

:

County	District	Sep 2014 MCF	Sep 2015 MCF	Sep 2016 MCF	Sep. '14 to '16 Change
WEBB	4	58,545,060	71,759,857	55,387,471	(5%)
TARRANT	5	54,387,676	48,443,182	35,487,204	(35%)
DIMITT	1	24,203,622	25,637,075	21,963,351	(9%)
KARNES	2	22,688,777	25,530,591	19,877,341	(12%)
PANOLA	6	31,536,250	28,510,499	19,046,575	(40%)
JOHNSON	5	25,703,428	21,140,905	18,091,421	(30%)
DE WITT	2	23,197,830	29,588,399	17,928,345	(23%)
LA SALLE	1	21,031,364	21,888,761	17,073,641	(19%)
WISE	9	22,330,337	19,924,196	15,597,579	(30%)
DENTON	9	18,915,328	17,658,336	13,386,327	(29%)
<b>REEVES</b>	8	7,831,578	14,517,760	12,862,172	<b>64%</b>

<b>MIDLAND</b>	8	8,137,409	10,135,997	11,943,247	<b>47%</b>
<b>CULBERSON</b>	8	5,625,236	10,768,978	11,924,769	<b>112%</b>
<b>UPTON</b>	7C	11,079,176	12,136,456	11,384,714	<b>3%</b>
<b>LOVING</b>	8	7,491,443	10,495,378	10,368,214	<b>38%</b>

Source: RRC General Production Data

MCF = thousand cubic feet.

### **Key Producers in Culberson, Reeves, Loving, Midland and Upton Counties**

These RRC numbers are for September 2016:

<b>County</b>	<b>Operator Name</b>	<b>Operator No.</b>	<b>Oil BBL</b>	<b>Gas MCF</b>
Culberson	CIMAREX ENERGY CO.	153438	1,546	6,168,566
Loving	ANADARKO E&P ONSHORE LLC	20528	697,374	3,986,719
Midland	PIONEER NATURAL RES. USA, INC.	665748	1,899,426	3,907,146
Upton	COG OPERATING LLC	166150	552,049	2,503,269
Upton	PIONEER NATURAL RES. USA, INC.	665748	1,176,156	2,244,434
Culberson	CAPITAN ENERGY, INCORPORATED	130061	0	1,878,399
Culberson	COG OPERATING LLC	166150	4,612	1,867,947
Reeves	CIMAREX ENERGY CO.	153438	287,905	1,726,402
Loving	EOG RESOURCES, INC.	253162	346,648	1,548,395
Reeves	OXY USA WTP LP	630555	536,469	1,545,456
Midland	XTO ENERGY INC.	945936	636,712	1,443,719
Upton	PARSLEY ENERGY OPERATIONS, LLC	642652	438,764	1,350,230
Reeves	ANADARKO E&P ONSHORE LLC	20528	179,162	1,307,747
Loving	SHELL WESTERN E&P	774719	327,077	1,192,242
Reeves	COG OPERATING LLC	166150	422,203	1,015,647
Reeves	RESOLUTE NATURAL RES. CO., LLC	703352	215,883	827,453
Midland	ENCANA OIL & GAS(NYSE:USA) INC.	251691	262,730	803,804
Midland	CHEVRON U. S. A. INC.	148113	327,996	782,947
Upton	SUMMIT PETROLEUM LLC	829221	147,430	761,955
Upton	APACHE CORPORATION	27200	208,213	760,480

Culberson	CONOCOPHILLIPS COMPANY	172232	0	740,054
Upton	XTO ENERGY INC.	945936	110,366	711,613
Reeves	EOG RESOURCES, INC.	253162	93,847	699,979
Loving	APACHE CORPORATION	27200	211,787	673,300
Midland	FASKEN OIL AND RANCH, LTD.	263696	148,751	607,910
Loving	MATADOR PRODUCTION COMPANY	532993	66,852	604,428
Loving	RKI EXPLORATION & PRODUCTION LLC	714221	95,425	588,843
Midland	ENDEAVOR ENERGY RESOURCES L.P.	251726	254,456	586,177
Culberson	CHEVRON U. S. A. INC.	148113	200	580,305
Midland	COG OPERATING LLC	166150	151,483	550,513
Reeves	THOMPSON, J. CLEO	855610		
152,110	517,379			
Reeves	ROSETTA RESOURCES OPERATING LP	728883	185,880	514,569
Upton	SM ENERGY COMPANY	788997	176,079	497,020
Midland	CALLON PETROLEUM OPERATING CO	124828	264,277	446,532
Midland	RSP PERMIAN, LLC	732224	363,487	431,655
Loving	SILVER HILL ENERGY PARTNERS, LLC	781871	208,475	395,360

\*OXY USA WTP LP isn't the only Oxy interest in Reeves County.

Note that BHP was a leading producer in Reeves County through July 2016. In that month they had 2.2 million MCF of gas. As we said earlier, BHP made up 11.8% of the 2015 TPL easement revenue.

### **Apache Announcement**

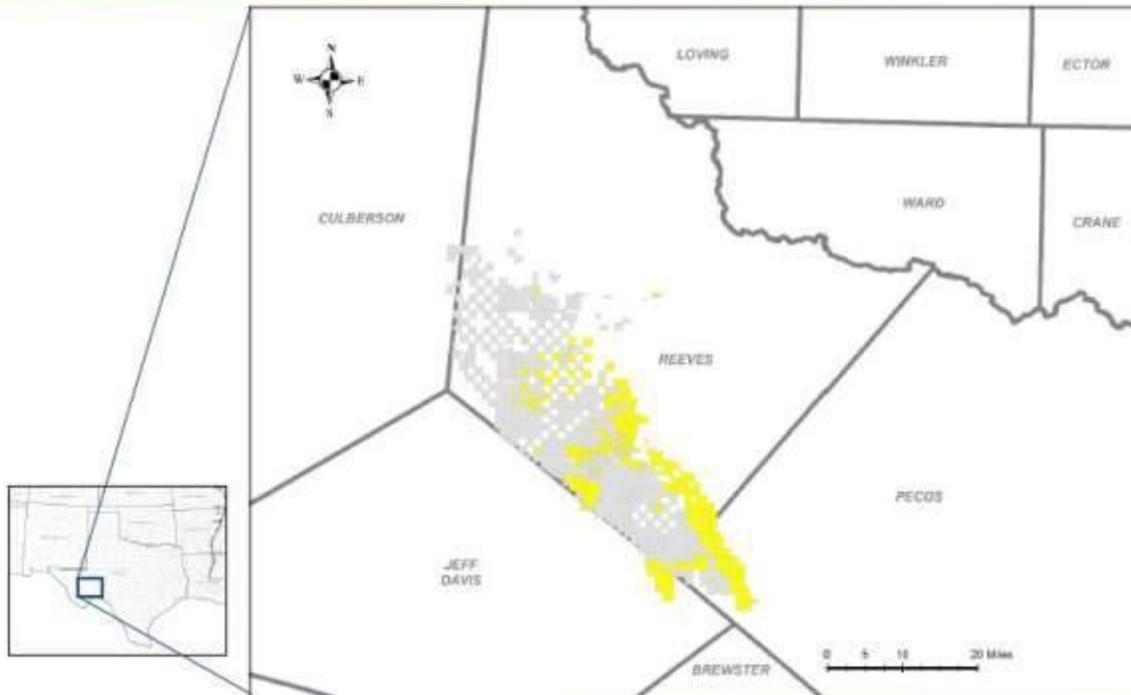
A September 7th [press release](#) by Apache notes that a world class resource named Alpine High has been discovered in an area that is mainly comprised of South Reeves County. The area is estimated to have 75 trillion cubic feet [Tcf] of rich gas and 3 billion barrels of oil in the Barnett and Woodford formations. Leasing acreage over the last few years, the average cost for Apache came to about \$1,300 per acre.

The Apache September 7, 2016 [Barclays Presentation](#) has a map of the Alpine High acreage and most of it is in or near South Reeves County. The

gray dots represent acreage that Apache acquired in previous years and the yellow dots represent acreage that Apache acquired in 2016:

## ALPINE HIGH: LEASED ~70K NET ACRES IN 2016

Expanding the Margins



Apache

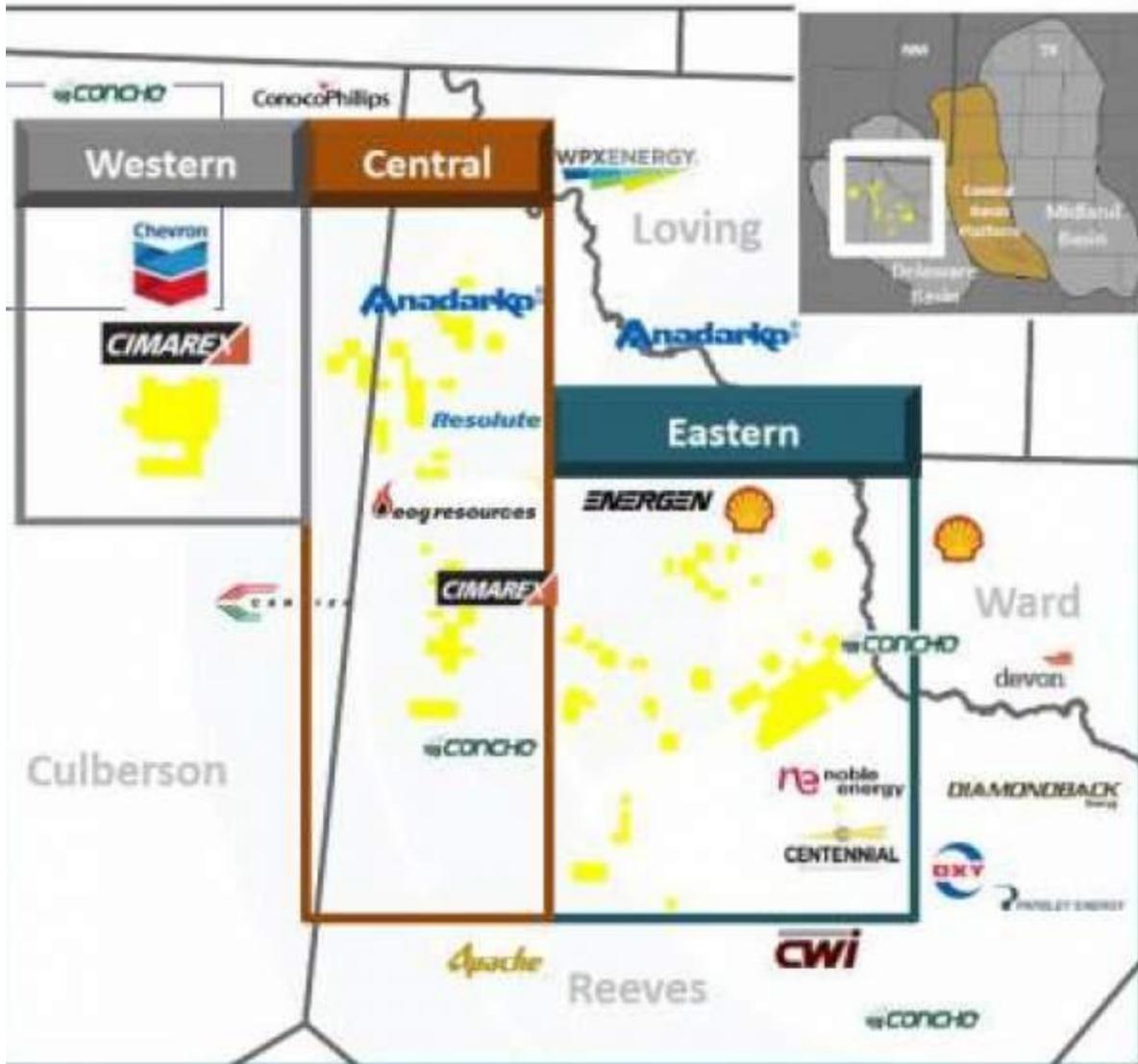
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In addition to owning some land in South Reeves County, TPL owns a great deal of land on the other side of the Culberson County border. There is speculation that this Culberson County land to the northwest of Alpine High could have sizable resources.

### Overview of Producers in Reeves and Culberson Counties

PDC Energy isn't one of the top producers in Reeves and Culberson counties over the last few months but they have a useful map that shows the location of important producers in the area. On August 24th they announced a [Transformative Core Delaware Basin Acquisition](#) involving about 23,500 acres in West Reeves County, about 17,500 in Central Reeves County and about 16,000 in Culberson County. Their map from the above announcement

shows PDC acreage in yellow along with an overview of other producers in the area:

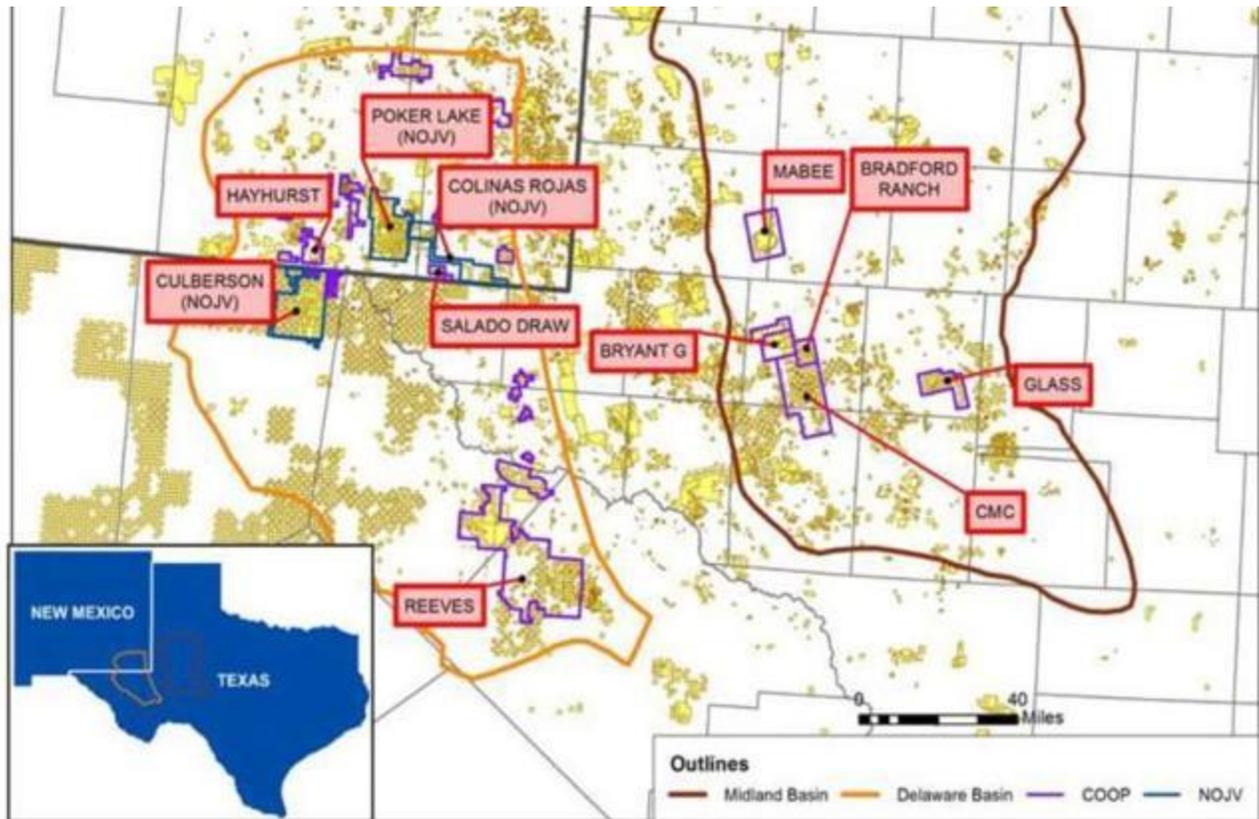


The above announcement notes that the price works out to about \$22,000 per acre.

### **Chevron and Cimarex**

Accounting for almost 31% of TPL's oil and gas royalties in 2015, Chevron is very important to the Company. Chevron has a long history with TPL and they are consistently mentioned as a contributor of more than 10% of the oil and gas royalty revenues.

The Chevron [September 2015 Barclays Presentation](#) shows key acreage:



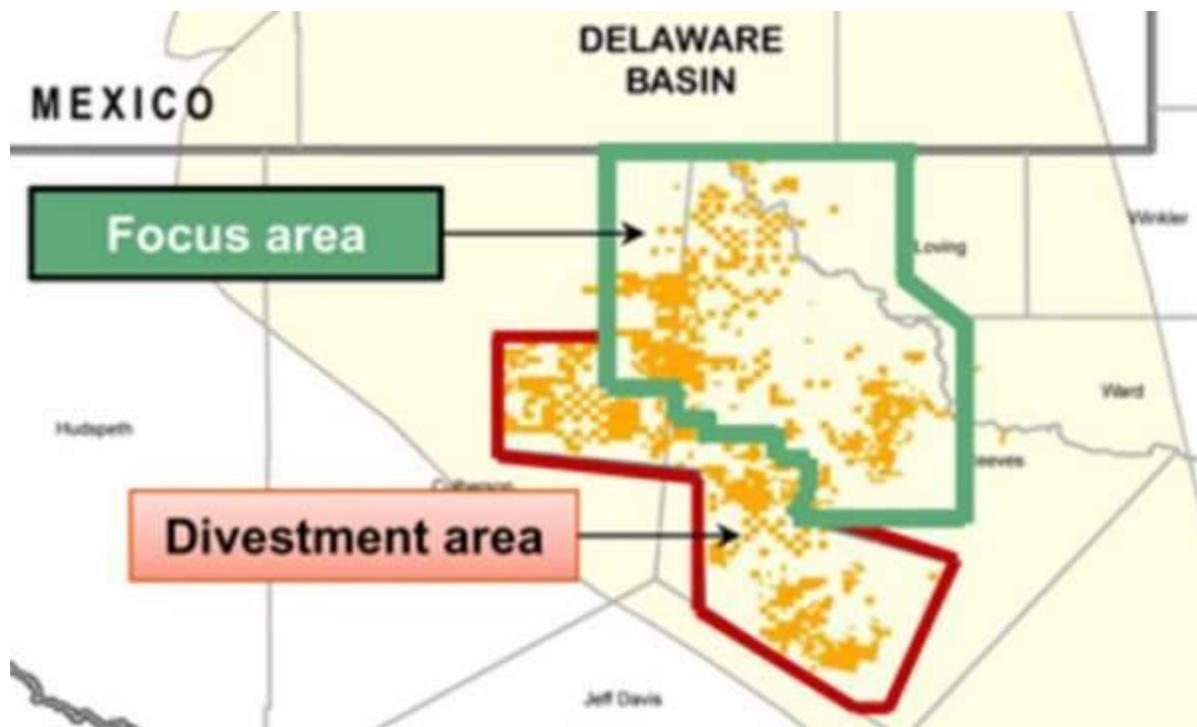
The Culberson County acreage stands out as it looks very similar to the Culberson County acreage on the TPL map. The same is true of much of the land in Reeves, Midland and Upton counties.

Reeves County has been getting a large share of headlines recently but TPL has even more land next door in Culberson County. The Cimarex September 2016 [Barclays Presentation](#) by Thomas Jorden lists Delaware Basin Wolfcamp as their biggest opportunity. It shows over 100,000 acres in the northeast corner of Culberson County and the south part of Eddy County in a joint development agreement with Chevron. It also shows 80,000 acres in Reeves County.

### **Anadarko and Shell**

Almost 20% of TPL's oil and gas royalty revenue came from Anadarko in 2015. In addition, Anadarko made up 10.2% of the TPL easement revenues in 2014. Anadarko created Western Gas Partners as a master limited





Per RRC, BHP had strong gas production numbers in Reeves County over the last several years that verify this focus area as follows: 2013: 3,929,821 MCF; 2014: 12,460,882 MCF; 2015: 26,814,906 MCF.

### **Other Permian Basin Producers**

Oxy is the largest Permian producer and their May 2016 [UBS Global Oil and Gas Conference Presentation](#) shows the eastern part of Reeves County as a 2016 focus area. It appears TPL has land in and around this area.

Resolute has impressive production numbers in Reeves County. In September they showed a presentation detailing their acquisition of Firewheel interests in Reeves County. Much of the acreage acquired is in the "Mustang" part of Reeves County which appears to be just south of some TPL acreage. The October 5, 2016 [Resolute Switches to Buy Mode Article](#) by Emily Moser notes that this acquisition comes to over \$26,000 per acre.

Tim Leach of Concho Resources has a September 6th [Barclays Presentation](#) where he notes that 40% of the rigs running in the country today are in the Permian Basin. He notes that everybody is trying to get a foothold in the

Permian but that Concho has drilled the most horizontal wells and Concho has the most rig activity.

The COG Operating subsidiary has impressive numbers in Culberson and Reeves counties on the Delaware side of the Permian and Midland and Upton counties on the Midland side.

Looking at the Concho maps, much of their Reeves County acreage is in parts of the county not owned by TPL. However, some of Concho's Culberson acreage is in the northeast corner of the county where TPL has a presence.

Pioneer is the leading operator in the Spraberry shale. Being a powerful force on the Midland side of the Delaware, their production numbers in Midland County and Upton County are very impressive.

### **Valuation and Ownership**

The TPL valuation is tricky. Among other complications, much of the land in the portfolio is not related to energy at this time. Still, the Apache announcement changes things - land that was passed over by the industry in previous years is now being re-evaluated. If Alpine High or anything like it ends up including land farther northwest in Culberson County then it will be a nice blessing for TPL.

Pipeline easements are a big part of the Company's overall revenue, we see easement revenue has been growing much faster than royalty revenue over the last 10 years:

<b>Year</b>	<b>Easements &amp; Sundry</b>	<b>Oil Royalties</b>	<b>Gas Royalties</b>	<b>Oil Barrels</b>	<b>Gas MCF</b>	<b>Avg. Barrel</b>
2006	\$3,651,571	\$5,947,643	\$2,825,869	94,557	477,343	\$62.90
2007	\$1,565,581	\$7,056,858	\$2,965,851	107,969	387,693	\$65.36
2008	\$2,934,426	\$10,206,759	\$3,488,084	99,287	434,382	\$102.80
2009	\$2,166,381	\$6,823,871	\$1,862,316	123,935	419,440	\$55.06
2010	\$4,166,102	\$8,815,689	\$2,757,874	118,220	499,615	\$74.57
2011	\$6,362,745	\$11,434,640	\$3,250,862	128,170	572,506	\$89.21
2012	\$10,911,848	\$11,870,354	\$2,800,561	135,561	721,560	\$87.56

2013	\$12,220,187	\$19,930,212	\$4,566,639	217,682	1,065,458	\$91.56
2014	\$21,517,232	\$22,766,264	\$6,579,839	260,829	1,370,377	\$87.28
2015	\$31,413,158	\$18,607,031	\$6,253,174	383,961	1,910,389	\$48.46
9 mo. 2016	down 13.6%	up 10.8%	up 26.0%	up 52.3%	up 38.6%	

\*The above numbers come from 10-K filings and the 2016 q3 10-Q filing except the 2015 price per barrel of \$48.46 which is from the annual report.

2015 oil and gas revenue was down relative to 2014 but easements were up dramatically such that the sum of royalties and easements was up.

The 2016 q3 10-Q filing says the following about pipeline easements:

The Trust is currently moving toward the use of term easements (in lieu of perpetual) which will require us to gradually recognize the income for easements over the life of the agreement, in lieu of recognizing it all at the beginning of the term of the easement. As a result, \$3,240,403 of easement income received in the third quarter of 2016 was deferred and therefore not reflected in the statements of income and total comprehensive income.

The good news is that some pipeline easement revenue starting in 2016 can now be recurring every 10 years or so but the accounting might be confusing.

The 2016 Q3 10-Q shows 877,606 surface acres and 7,950,961 shares through September 30, 2016. The share price was \$178.04 on September 6th which was the day before the Apache Alpine High press release. This implies a September 6 equity market cap of about \$1.4 billion. I bought shares on September 8th and 9th at prices between \$178 and \$197. The stock reached \$304.50 on October 25th implying an equity market cap of about \$2.4 billion. I've sold just over half of the shares that were purchased in early September. It's hard to say how much longer I'll hold shares. That said, it would be very dangerous to short the company in my opinion as more Alpine High type announcements could come at any time.

The 2015 10-K shows 74,750 Sub-shares owned by Chairman Maurice Meyer III and another 11,500 owned by his wife.

## **Risks**

Even great companies can make bad investments if the price isn't right. It seems nearly impossible to figure out the present value of future pipeline easement revenue. It is hard to say whether current stock prices make sense.

There is no guarantee that the Apache Alpine High discovery will pan out.

The Company audits are done by Lane Gorman Trubitt as opposed to a big name accounting firm.

The CEO resigned in November per the 10-27-16 8-K filing.

The Company doesn't have many options with respect to capital allocation. The Company is basically buying back shares regardless of the cost as opposed to being opportunistic.

## **Closing Thoughts**

The Company has valuable acreage in some of the best areas in the world for oil and gas production. That said, the stock has gone up dramatically since early September and it isn't clear whether the market has gotten ahead of itself.

Special thanks to Craig and Steph.

## **Sources**

Barclays September 6-8, 2016 Global CEO Energy-Power Conference

[Webcasts](#)

[RRC General Production Data](#)

[RRC GIS Viewer](#)

TPL [10-Q/10-K Filings](#) and 2015 [Annual Report](#)