



# Mossberg's Investor Digest Idea Profile

## Texas Pacific Land Trust (NYSE: TPL)

### DESCRIPTION:

In 1888, Texas Pacific Land Trust was established by the bond holders of a bankrupt railroad to hold and sell land that was pledged as security against the bonds that they owned. For the past 120 years, TPL has sold approximately 2.5 million acres of land to interested buyers at prevailing market rates. Today, **TPL is one of the largest land owners in Texas with ownership just shy of one million acres.** That's about 1.5x the size of the state of Rhode Island.

The Trust's sources of income are land sales, income produced by the land (oil and gas royalties, easements, grazing leases, etc.) and interest income. After paying commissions, taxes, a limited overhead of 8 employees, and a modest dividend, excess cash is used to buy back shares of stock.

### KEY INVESTMENT CONSIDERATIONS:

**Raw land offers a hedge against inflation** – With the rapid increase in the prices of other inflation hedges, such as precious metals, oil & gas, and other commodities; it is becoming more challenging to find a good entry point to hedge against inflation. TPL owns some of the cheapest land in the United States and its value did not participate in the real estate bubble experienced in other parts of the country.

**Oil and gas royalty streams are growing** – TPL owns royalty interests under approximately 470,000 acres of land, which produced \$3.2 million in royalty revenue during the first quarter of 2008, up 57% from the \$2.1 million posted during same period a year ago. In addition to increased royalties from existing wells, the high price of energy is driving interest in drilling new wells and using new technologies to extract oil and gas from previously abandoned wells on the Trust's lands.

**Disparity between land value and stock value is accretive to shareholders** – Trust expenses and dividends are covered by revenue produced by oil and gas royalties and easements. The proceeds from land sales are primarily used to repurchase shares of stock. As long as disparity between the current stock price and the real value of the trust exists, TPL will be able to continue to sell its land at full value and buy back undervalued shares of stock. If this continues, a single share of stock will represent ever greater portions of the Trust's land

### KEY RISKS:

**Limited Trading Volume** – Limited float and average daily trading of less than 15,000 shares makes the stock susceptible to price fluctuations.

**Cash Flows Could be Lumpy** - As a passive seller, TPL does not control when land sales are generated, which means that there could be extended periods where lands sales drop off and cash flows could be lumpy.

### CATALYSTS:

**Growing interest in wind power generation in West Texas could increase easement income** – With 40 different projects generating more than 5,000 megawatts (MW), Texas produces the most wind power of any U.S. state (California is second with 2,400 MW). With Texas' relatively high electricity rates and abundant wind resources, there is significant interest in adding capacity. One of the largest new projects is T. Boone Pickens' Mesa Energy, which plans to install 2,000 wind turbines over the next 6 years. With easement rates at approximately \$20,000 per year/ per turbine, easement income could increase significantly, should energy producers locate windmills on TPL lands.

### VALUATION:

Since almost all of the land's value is held on the balance sheet with a zero cost, book value is not an accurate measure for the value of the Trust. Based on an annual survey of tax assessors and real estate agents in the counties where TPL's land are, TPL's land value is valued at approximately \$560 million, or \$560 per acre. Anecdotally this is supported by TPL land sales over the last 12 months that have ranged from \$150 to \$5,000 per acre.

**Buy the land, get the royalties for free** – The current value of the royalty stream, less expenses, is approximately \$20 per share at a 10% cap rate. At \$560 per acre, the land value per share is approximately \$56, more than the current share price.

### (NYSE: TPL)

Investment Data (As of 7/15/08)

<b>Recent Price</b>	<b>\$43.60</b>
52-Week Range	30.40 - 61.98
Fiscal Year End	Dec
Dividend	\$0.18
Yield	0.4%
Shares Outstanding	10.4 MM
Average Trading Volume (3 mos)	14,500
Market Capitalization	456 MM
Cash	10.8 MM
Long Term Debt	0.0
Enterprise Value (EV)	437.0
LT Debt/ Equity	0%
Tangible BV/ Share	\$2.4
TTM Revenue	17.6 MM
<b>P/ Revenue</b>	<b>25.9x</b>
TTM EPS	0.92
<b>P/ EPS</b>	<b>47.4x</b>
TTM EBITDA	13.5 MM
<b>EV/ TTM EBITDA</b>	<b>32.4x</b>

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