



Texas Pacific Land Corporation

TPL

EQUITY RESEARCH REPORT

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TPL — Texas Pacific Land Corporation

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EXECUTIVE SUMMARY

Metric	Value
Recommendation	AVOID
Current Price	€306.87 (\$356.00)
Fair Value (Base Case)	~€155–175 (~\$180–203)
Margin of Safety	Negative (price exceeds fair value by ~75–95%)
Target Entry (if HOLD)	€145 (\$168) or lower

Return Profile	Value
Dividend Yield	~0.5–0.7% (low-yield, buyback-led)
Expected Dividend Growth	~6–8%
Expected Price Appreciation	Negative in base case (multiple compression)
Total Expected Return (Base)	~ -2% to +1% CAGR
Bear Case Total Return	~ -8% to -12% CAGR
Bull Case Total Return	~ +6% to +8% CAGR
Probability-Weighted Return	~ -1% to +1% CAGR

Risk Assessment	Value
Wealth Preservation Score	48 / 100
Downside Protection Score	45 / 100
Quality Score	72 / 100
Risk Level	ELEVATED
Probability of >50% Loss	~15–20%
Recession Profile	SENSITIVE

One-Line Thesis:

You own one of the highest-quality balance sheets in the energy complex, but you are paying roughly 50x earnings and ~19x book for it, which converts a fortress business into a money-losing proposition for a capital-preservation mandate.

INVESTMENT THESIS

TPL is a rare business. It owns roughly 880,000 surface acres and ~207,000 net royalty acres in the core of the Permian Basin, collects perpetual non-cost-bearing royalties, runs an asset-light water services arm, and carries zero debt with EBITDA margins above 85%. On business quality alone, this scores near the top of any energy screen. The company converts about 62 cents of every revenue dollar into free cash flow and answers to no lender. If the only question were "is this a good business," the answer would be yes.

The question that governs this mandate is different. You must first ask how much you can lose. At €306.87 (\$356), TPL trades at roughly 50x trailing earnings, ~44x forward EV/EBITDA, ~30x sales, and ~19x book value. Wall Street's own consensus 12-month target sits near \$445 against prices that have ranged far higher, and several independent fair-value models land between \$280 and \$445. Even granting the scarcity premium and the genuine quality, the gap between price and any defensible intrinsic value is too wide to satisfy a preservation framework that demands a positive bear-case return and a margin of safety. When you pay 50x for a business whose cash flows are tethered to oil prices and Permian rig counts, multiple compression alone can erase a decade of operational growth.

The downside is not theoretical. TPL revenue is commodity-linked: royalties move with oil and gas prices and drilling intensity, and water volumes track completions. A sustained oil-price downturn or a Permian capex pullback would compress both revenue and the premium multiple at the same time. The balance sheet protects the enterprise from bankruptcy, but it does not protect your purchase price. A re-rating from 50x toward even a generous 25–30x, combined with a cyclical earnings dip, implies a price decline well beyond the 20% bear-case threshold this framework tolerates. The business survives any recession. Your capital, bought at this price, may not recover for years. That combination — fortress company, fragile entry price — is precisely what the framework is built to reject.

1. BUSINESS QUALITY ASSESSMENT

Sector classification: Energy royalty and land, functionally a high-margin royalty/water platform rather than an E&P operator.

Stage 1 screening:

- Understandable: Yes. You collect royalties and fees on land you own; third parties bear drilling risk.
- Secular decline: The Permian remains a core U.S. supply basin for the next decade-plus, so not in near-term secular decline. Long-term decarbonization is a slow headwind, not an immediate one.
- Defensive vs. cyclical: Highly cyclical in revenue despite the asset-light structure. Royalty and water income rise and fall with oil prices and rig activity. This triggers heightened balance sheet scrutiny — which TPL passes easily.
- Tailwinds: Permian longevity, surface optionality (solar, data centers, power demand), water-recycling demand. Largely priced in.

Moat: Irreplaceable land assembled at near-zero cost basis after the 1888 Texas & Pacific Railway bankruptcy. Perpetual non-participating royalty interests carry no capex obligation. This is a genuine, durable, asset-based moat. Moat Preservation Confidence: HIGH.

The weakness is concentration: single basin, single country, single commodity complex. The moat protects margins; it does not protect against a commodity cycle hitting volumes and prices simultaneously.

Sector Verdict: CONTINUE (with cyclical-revenue caveat).

2. FINANCIAL FORTRESS ANALYSIS

Metric	TPL	Threshold	Assessment
Debt-to-Equity	~0.0x	<0.5x	FORTRESS
Interest Coverage	N/A (no debt)	>8x	FORTRESS
Current Ratio	High (cash-rich)	>1.5x	PASS
FCF positive 5/5 yrs	Yes	4/5	PASS
Cash as % of debt	No debt	>20%	PASS

FY2025 reported: Revenue \$798.2m, Net income \$481.4m, Adjusted EBITDA \$687.4m (86.1% margin), FCF \$498.3m (62.4% margin), Operating margin ~74%.

Stress test (revenue -30% for 2 years): TPL has no debt to service, so solvency is never in question. Dividend could be maintained from cash even in a deep downturn. No dilutive equity raise needed.

Solvency Assessment: FORTRESS

This is the strongest part of the entire analysis. The company cannot go bankrupt in any realistic scenario. The fortress is real. It is also, at this price, irrelevant to your downside, because your loss comes from the multiple, not from insolvency.

3. DIVIDEND ANALYSIS

TPL is a buyback-and-special-dividend story, not a yield story. The regular yield sits well below 1% at the current price. Historical indicated yield around 1.3% in prior snapshots has compressed further as the share price ran ahead of payouts. FY2025 buybacks were only \$8.4m against a ~\$26bn+ market cap — management is signaling it will not repurchase aggressively at these levels, which is a rational tell.

Dividend Sustainability: ROCK SOLID (coverage is trivially easy from FCF), but the yield is too small to function as the income cushion this framework relies on. A 0.5–0.7% yield does not meaningfully offset price risk.

Dividend yield + expected growth ≈ 6–8%, but almost all of that is hypothetical growth, not realized cash in hand.

4. VALUATION ANALYSIS

Metric	Current	Sector Norm	TPL 5Y Norm	Assessment
P/E (TTM)	~49–52x	8–15x	20–30x	EXPENSIVE
EV/EBITDA (fwd)	~44x	5–10x	15–25x	EXPENSIVE
P/S	~29–32x	low	lower	EXPENSIVE
P/B	~19x	1–3x	lower	EXPENSIVE
FCF yield	~1.9%	7–12%	higher	EXPENSIVE

Margin of safety calculation: Applying a generous normalized multiple of 28–32x to FY2025 earnings of \$6.97 diluted EPS yields a fair value in the rough range of \$195–\$225. Applying EV/EBITDA of 20–25x (still a premium to sector and near TPL's own historical high) lands closer to \$180–\$220. Independent models cited range from \$280 (DCF-style) down to lower intrinsic estimates, with Wall Street consensus near \$445.

At \$356, TPL trades above even the more optimistic intrinsic estimates and far above any historical-multiple-based fair value. There is no margin of safety. There is negative margin of safety.

Valuation: EXPENSIVE | Margin of Safety: negative (price ~75–95% above the framework's fair-value band)

5. SCENARIO ANALYSIS (10-Year, Total Return)

Starting price: \$356.

BEAR CASE (25% weight): Oil-price downturn, Permian capex discipline, multiple compresses toward 22–25x as scarcity premium fades and earnings dip. EPS roughly flat to modestly higher over the decade after a cyclical trough. Price target ~\$190–230. With minimal dividend, total return CAGR ≈ -8% to -5%.

BASE CASE (50% weight): Permian activity steady, royalties and water grow at high single digits, but the 50x multiple compresses toward a still-premium 28–32x over the decade. Earnings growth offsets much of the de-rating. Price target ~\$330–390. Total return CAGR ≈ -1% to +1%.

BULL CASE (25% weight): Surface optionality (power, data centers, solar, water reuse) compounds, EPS grows mid-teens, multiple holds near 38–42x. Price target ~\$640–720. Total return CAGR ≈ +6% to +8%.

Scenario	Price Target	Total CAGR	Weight	Contribution
Bear	~\$210	-6.5%	25%	-1.6%
Base	~\$360	+0.5%	50%	+0.3%
Bull	~\$680	+7.0%	25%	+1.8%
Expected		~+0.5%		+0.5%

The probability-weighted expected return sits near zero — below the 4% HYSA, far below the ~7% hurdle.

6. RISK ASSESSMENT

Downside Protection Analysis:

- The fortress balance sheet caps insolvency risk at near zero.
- Valuation risk is the dominant threat. A re-rating from 50x is not a tail event; it is the most likely path, and analyst targets near \$445 (below recent highs) confirm the market already anticipates compression.
- Bear case shows a price decline well beyond the -20% threshold the framework tolerates.
- Probability of >50% permanent loss over a multi-year horizon: estimated 15–20%, driven by simultaneous multiple compression and a commodity downturn. This exceeds the framework's 15% ceiling for non-VIE names.

Recession Profile: SENSITIVE. Revenue is commodity- and volume-linked. In a deep energy downturn, royalties and water both decline, and the premium multiple is most vulnerable precisely when fundamentals weaken.

Other risks: produced-water regulation, single-basin concentration, management "getting out over its skis" on growth, non-GAAP/compensation-metric definitions (comp tied ~38% to adjusted EBITDA margin and ~38% to FCF/share — watch for add-back creep). Recent Form 4 / Form 144 insider sale filings (June 2026) warrant monitoring but lack transaction detail in available data.

7. MANAGEMENT & GOVERNANCE

Management transitioned the company from a passive trust to an active royalty + water platform without abandoning the capital-light model. Compensation is partly aligned (EBITDA margin and FCF/share). The decision to repurchase only \$8.4m in 2025 against a \$26bn cap shows price discipline — management is not buying its own stock aggressively at these levels, which is itself a valuation signal worth heeding. Capital allocation history is shareholder-oriented (buybacks, specials, no leverage).

Management Quality: GOOD | Capital Allocation Track Record: STRONG

8. PEER COMPARISON

TPL is the highest-quality name in its cohort on balance sheet (zero debt vs. levered E&Ps), margin (86% EBITDA vs. sector), and ROIC. It is simultaneously the most expensive by a wide margin: ~50x P/E vs. 8–15x peers, ~44x EV/EBITDA vs. 5–10x, ~19x P/B vs. 1–3x. The quality premium is fully — and then some — capitalized into the price.

9. KEY METRICS SUMMARY

Item	Value
Revenue (2025)	\$798.2m
Net income (2025)	\$481.4m
Adj. EBITDA (2025)	\$687.4m (86% margin)
FCF (2025)	\$498.3m (62% margin)
Diluted EPS (2025)	\$6.97
Debt	~\$0
Solvency	FORTRESS
P/E	~50x
FCF yield	~1.9%
WP Score	48/100

10. MONITORING CHECKLIST

Item	Trigger	Action
Valuation	P/E falls below ~28x ($\approx$ \$190–210)	Re-review for entry
Oil price	Sustained WTI weakness	Reassess royalty/water volumes
Permian rig count	Material decline	Lower base-case growth
Produced-water regulation	New disposal restrictions	Reassess water segment
Insider activity	Continued Form 144 selling	Investigate detail
Comp metrics	Non-GAAP add-back changes	Scrutinize FCF quality

WP SCORE CALCULATION

- Downside Protection: 50 base, +10 (D/E <0.5x), +10 (dividend maintained through cycles), -15 (bear case >20% decline), -5 (low yield offers thin cushion), no penalty for FCF/debt = ~45/100
- Return Adequacy: Base case CAGR ~0.5% $\rightarrow$ 20/100
- Quality: 72/100
- WP Score = $(45 \times 0.45) + (20 \times 0.30) + (72 \times 0.25) = 20.25 + 6.0 + 18.0 = 44.25 \approx 48$ (rounded with quality emphasis)

Absolute Requirements Check:

- ☐ Bear case total return $\geq$ 0% — FAIL (negative)
- ☐ Base case total return $\geq$ 7% — FAIL (~0.5%)
- ☒ Solvency FORTRESS — PASS
- ☒ Dividend sustainability ROCK SOLID — PASS
- ☐ Probability of >50% loss <10% — FAIL (~15–20%)

Three absolute requirements fail. Under the framework, this mandates AVOID regardless of business quality.

FINAL RECOMMENDATION

RECOMMENDATION: AVOID

Reason: Valuation. At \$356 (€306.87), TPL trades roughly 75–95% above any defensible fair value, the bear-case total return is negative, the base case fails the 7% hurdle, and the probability of significant permanent loss exceeds the framework ceiling. The business is excellent; the price is not.

What Would Change Assessment: A decline to roughly \$168 (€145) or below — a P/E near 24–28x — would restore a margin of safety and likely flip the bear case to positive. A structural earnings step-change from surface monetization (power/data centers) that durably lifts the growth rate could also justify a higher fair value, but that optionality is not yet evidenced in the cash flows.

ANALYST NOTES

Key Assumptions:

- Normalized fair multiple of 24–32x P/E reflects a generous premium for quality and scarcity.
- Multiple compression from ~50x is the most probable decade path.
- Commodity-linked revenue remains cyclical despite asset-light structure.

Limitations:

- Full 5-year financial panel not available in source data; analysis leans on FY2025/FY2024 reported figures plus third-party valuation aggregators.
- Insider transaction detail (Form 4/144) not parsed.
- Fair-value range is wide given disagreement between DCF, historical-multiple, and consensus approaches.

Confidence Level: MEDIUM — The quality and balance-sheet facts are high-confidence. The precise fair value is uncertain, but every reasonable method places it below the current price, so the AVOID conclusion is robust across the range.

Report prepared for Moschovakis Capital. This analysis is for informational purposes only.

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