

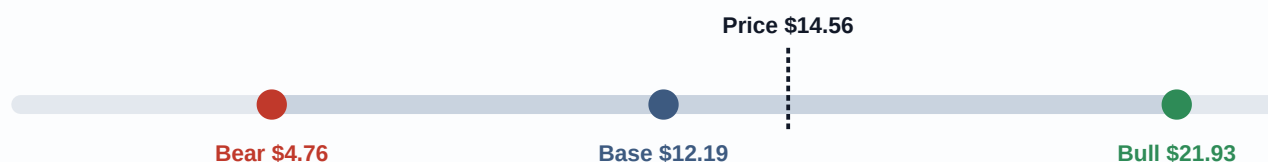
Initiated 2026-10-03 · Price \$14.56 (as of 2026-10-02, stockanalysis) · Mkt cap \$3.10bn (212.7mm common units) · Energy / oil & gas mineral and royalty interests (gas-weighted) · Model: verified

Rating: Hold — Conviction: Low

Black Stone is a low-leverage, gas-weighted royalty owner with drilling commitments on its Shelby Trough and Haynesville acreage, but the units already trade at a premium to royalty peers while production is still shrinking (−9% in 2025, −9% q/q in Q2 2026). The 8.8% distribution is covered. What happens from here turns on whether the development agreements actually turn the volume decline into growth and whether gas holds near \$4. That is a real option, not something to pay up for, so Hold, leaning negative.

Conviction tests (3a-v-c): T1 fail (Base −9% at −1pp still Hold; −22% at +1pp → Sell) · T2 pass (Gordon \$12.24, exit multiple \$12.15) · T3 pass (historicals from the 10-Ks and 8-K releases; no est. inputs) · T4 pass (no pending event outside the cases moves value >25%)

MODEL VALUE RANGE VS PRICE



Business overview

Black Stone owns mineral and royalty interests whose key development acreage sits in the Shelby Trough and Haynesville of East Texas and Louisiana (total acreage n/a (unverified) this session), with no drilling or operating costs on ~97% of volumes. FY2025 production was 34.6 MBoe/d, about 74–77% natural gas by volume. Revenue from oil, gas and lease bonus was \$422.3mm, and oil was about half of it. Proved reserves were 54.8 MBoe at year-end 2025 (88% developed), only ~4.3 years of production. So the value sits mostly in undeveloped acreage, which operators drill under development agreements: Adamas in the Shelby Trough, Revenant (270,000 gross acres, 122,000 undeveloped net) and Caturus (220,000 gross). Their minimum commitments come to the equivalent of 8 wells in 2026, ramping to 37 by 2031. Earnings turn on three things: unhedged gas and oil prices beyond the 2027 swap book, how fast operators deliver those wells, and a cost base (G&A + exploration ~\$100mm guided for 2026) that is heavy for a royalty owner.

Competition

Black Stone competes on two fronts. Its acreage competes for operator capital and LNG-bound supply against the rest of the Haynesville, Appalachia and Permian associated gas. Its acquisitions compete against Viper, Kimbell, Dorchester and private mineral funds. The basin is growing: rigs reached ~35 on 2026-09-23 (RBN), the highest since March, and EIA projected Haynesville output +8.3% in 2026 to 15.6 Bcf/d. Even so, Black Stone's Q2 royalty gas fell. Its acreage is being drilled less than the basin, which is why the agreements matter. Q2 2026 acquisitions were only \$37.2mm (\$299.7mm since Sept 2023), small next to Kimbell's \$221mm summer drop-down. On one source and definition (stockanalysis TTM EV/EBITDA, 2026-10-02), BSM is at 9.83x versus 8.41–8.67x for the three peers.

Bull case

1. **LNG pulls Gulf Coast gas higher** — new export capacity keeps Henry Hub above \$4.5, realized gas ~\$4.25 and oil ~\$85, so realized prices hold ~\$42/Boe. Plays out if Gulf Coast feedgas keeps rising and the Middle East supply premium persists. *Model: realized_price*
2. **The development agreements turn decline into growth** — Adamas, Revenant and Caturus deliver their ramp toward 37 wells a year and volumes grow 5–6% a year from 2027. Plays out if Haynesville rigs stay at or above ~35 and Revenant restores its pre-incident pace. *Model: volume_growth, terminal_growth*
3. **The market keeps paying a premium for long-lived, low-leverage gas royalties** — exit at 10.5x, retaining part of today's premium to peers. Plays out if the gas-for-power narrative holds. *Model: exit_ev_ebitda*

Bear case

1. **Both commodity legs fall** — the war premium unwinds (G7 100mm-barrel release, Hormuz talks) to ~\$58 oil, and new supply leaves gas at ~\$2.75 realized, so prices drop to ~\$29/Boe from 2027 when the swaps roll off. Plays out if a Middle East settlement lands while LNG start-ups slip. *Model: realized_price*
2. **Commitments slip and the developed base declines** — Revenant has already cut its 2026 commitment to 4 wells after a well-control incident, and Q2 Haynesville royalty volumes fell. Without the ramp the PDP base declines 4–6% a year. Plays out if operators defer wells or renegotiate. *Model: volume_growth, terminal_growth*
3. **Heavy overhead and a peer-level multiple** — ~\$100mm a year of G&A plus exploration (~20% of revenue) stays, and the multiple compresses to 7x as the premium fades. Plays out if 2027 overhead guidance doesn't fall. *Model: fixed_costs, exit_ev_ebitda*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA, model basis (mkt cap – cash + revolver + Series B pref at book) ÷ FY0 EBITDA	12.0x FY2025	n/a	—	Model; Q2 10-Q, 2026-10-02
EV/EBITDA, TTM (stockanalysis definition, excludes preferred)	9.83x	n/a (unverified)	VNOM 8.55x · KRP 8.67x · DMLP 8.41x	stockanalysis, 2026-10-02
Forward P/E (stockanalysis consensus)	15.0x	n/a	VNOM 15.7x · KRP 12.6x · DMLP n/a	stockanalysis, 2026-10-02
Distribution yield (trailing) / FCF yield	8.24% / 6.18%	Q2 2026 \$0.32 (1.28 ann., 8.8%), coverage 1.18x	VNOM 6.15% / 1.36% · KRP 10.77% / 10.67% · DMLP 9.75% / 11.14%	stockanalysis; Q2 2026 release

Model-implied value range (from `model-summary.json` ; energy module, DCF (Gordon) and DCF (exit multiple), midpoints): Bear \$4.76 · Base \$12.19 · Bull \$21.93 per share, i.e. implied returns of –67.3% / –16.3% / +50.6% vs \$14.56. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The price sits between Base and Bull, so the market is already paying for part of the bull case: gas near \$4 and the drilling ramp. Base embeds a de-rating: its 9.0x exit is 25% below today's 12.0x on FY2025 EBITDA, and the two methods agree within 1% (\$12.24 / \$12.15). The gap to the price comes mostly from the discount rate. At the reported 0.12 unit beta the cost of equity would be 5.9%, not the 10.0% used here, and the market seems to price the units close to that.

Balance sheet: gross leverage 0.66x, net 0.65x FY2025 EBITDA (model Credit), falling below 0.2x by FY2028 on Base. Coverage 23.5x. Liquidity: \$179mm undrawn on \$375mm commitments (\$580mm borrowing base) at 2026-06-30, with \$196mm drawn. Nearest material maturity: the revolver, 2028 (est., not verified this session). Ratings: none. The Series B preferred (\$300.5mm book, 9.8% distribution, convertible 1:1 at a \$20.39 issue price, redeemable in cash at issue price) ranks ahead of common and costs \$29.5mm a year.

Model note: verified (LibreOffice matched all 3,511 formula cells). Unverified inputs: none flagged. The revolver coupon (6.5%) and maturity year are estimates outside value. Assumptions without basis: none. No scenario CHECKs. EBITDA is GAAP-derived and unhedged, with seismic/exploration and unit-based comp as costs, so FY2025's \$299.1mm runs below company Adjusted EBITDA (\$337.4mm). Swaps are not modelled. Oil at ~\$63–64 through 4Q 2027 sits well below spot, a liability. Gas at \$3.73–3.91 sits near today's

strip. Model EPS (Base FY2026 \$1.35) is before Series B distributions (~\$0.14/unit). The company gives no EPS guidance. No tail sensitivity was run: no single customer or contract is ≥50% of revenue, and the bear case is already a decline, not a plateau.

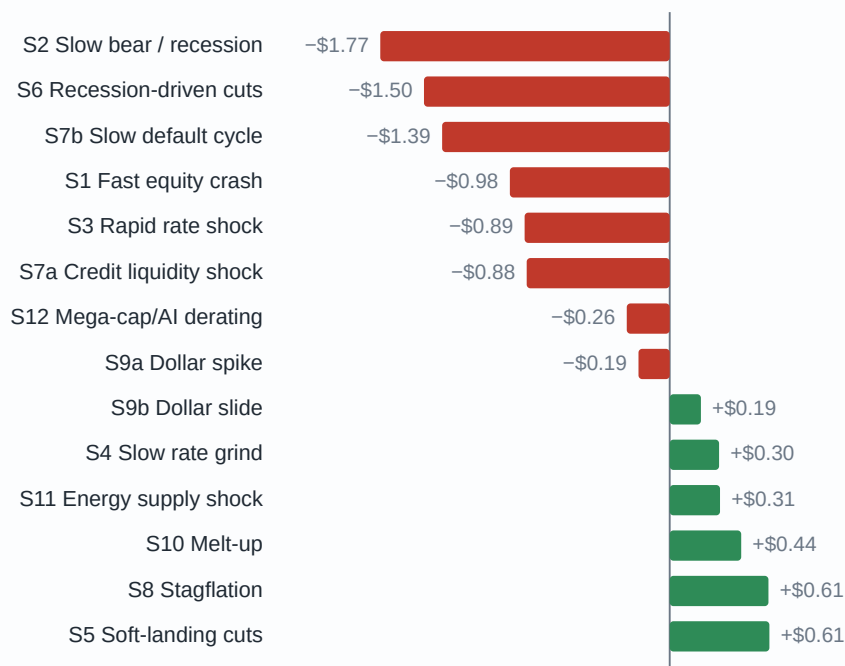
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	De-rating of small-cap yield names plus a brief commodity dip; activity unchanged	Med	–\$0.98
S2 Slow bear / recession	–	Prices –20% and operator activity lower for two years; milder than the bear case because it is transitory, while the bear deck and decline are permanent	High	–\$1.77
S3 Rapid rate shock	–	An ~8.8% yield re-prices against a 5%+ 10Y; floating-rate revolver costs more	Med	–\$0.89
S4 Slow rate grind	±	Inflation supports prices while the discount rate grinds up; roughly a wash	Low	+\$0.30
S5 Soft-landing cuts	+	Lower rates lift yield multiples; steady demand	Med	+\$0.61
S6 Recession-driven cuts	–	Price and activity collapse outweigh lower rates	High	–\$1.50
S7a Credit liquidity shock	–	Spreads gap; equity multiple and revolver cost both hit	Med	–\$0.88
S7b Slow default cycle	–	Private Haynesville operators lose funding and slip commitments; refinancing costs rise	High	–\$1.39
S8 Stagflation	+	Unhedged realization outruns severance-tax creep; no operating costs to inflate	Med	+\$0.61
S9a Dollar spike	–	USD-priced oil falls; gas mostly domestic, so smaller than for oil-weighted peers	Low	–\$0.19
S9b Dollar slide	+	Weaker dollar lifts oil and LNG netbacks	Low	+\$0.19
S10 Melt-up	+	Low-beta yield name participates modestly	Low	+\$0.44
S11 Energy supply shock	+	One-year windfall: oil is ~27% of volume but about half of revenue; a sustained spike is the bull case	Low	+\$0.31
S12 Mega-cap/AI derating	–	Unwind of the AI data-center power-demand narrative trims the gas-royalty multiple	Low	–\$0.26

Currently active/on watch per the playbook: S3 partially active (the 10-02 macro log has all three legs met), S8, S10 and S11 on watch.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: Q3/Q4 production returns above 35 MBoe/d with the Caturus wells online on schedule and Revenant back above its 4-well pace, or the units fall toward ~\$12 with the deck unchanged, or 2027 guidance cuts G&A plus exploration materially below ~\$95mm.

Downgrades if: production falls below 32 MBoe/d for two quarters, a development partner defers or renegotiates its commitment, or Henry Hub falls below \$3 for a quarter as the oil premium fades.

Watch items

- **W1:** Q3 2026 total production — ≥ 33.5 MBoe/d holds Base; < 32 points to bear decline — Q3 2026 release — early Nov 2026 — *Model: volume_growth*
- **W2:** Development-agreement delivery — Caturus ~2 gross wells in H2 2026, Adamas 8 gross wells online in the rest of 2026, Revenant 4-well 2026 commitment — Q3/Q4 releases — Nov 2026 / Feb 2027 — *Model: volume_growth*
- **W3:** Realized price — Q3 $\geq \$38/\text{Boe}$ keeps Base; $\leq \$33$ points to the bear deck — Q3 2026 release — early Nov 2026 — *Model: realized_price*
- **W4:** 2027 guidance for G&A + exploration — $\leq \$95\text{mm}$ keeps Base; $\geq \$100\text{mm}$ is bear:3 — FY2026 release — Feb 2027 — *Model: fixed_costs*

Sources

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- Repository macro log (10Y, Brent, fed funds, G7 release) — <logs/macro-2026-10.md> — read 2026-10-03

Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.