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Texas Pacific Land Corporation (NYSE: TPL)

A remarkable business, priced for the option rather than the operation

RATING	PRICE (8/7/26)	FAIR VALUE	12-MO TOTAL RETURN	RISK / REWARD
HOLD	$340.65	$321	-5.1%	1.06 : 1

We are initiating on Texas Pacific Land with a **HOLD** and a $321 fair value.

TPL is one of the highest-quality businesses in American energy, and we want to say that plainly before explaining why we are not buying it. The company owns roughly 894,006 surface acres and about 224,057 net royalty acres across the Permian Basin, collects royalties without drilling a well, carries no debt, and converted 88% of last quarter's revenue into adjusted EBITDA.

The second quarter of 2026 was a record on essentially every line. Revenue of $246.1M rose 31.2% year over year, net income of $153.9M rose 32.5%, and free cash flow reached $155.5M.

Our hesitation is about what produced that record. TPL realized **$97.55 per barrel** of oil in the quarter, against $70.57 in the first quarter. The company is deliberately unhedged, so an unusually strong oil market flows straight to the bottom line. It also flows straight back out when prices normalize.

At a more ordinary $70 oil price, the same asset base earns roughly $7.48 per share on our numbers, which puts the stock near 46x earnings and a 2.3% free cash flow yield. That is a full price for a business whose primary input is a commodity nobody can forecast.

SNAPSHOT	
Market cap	$23.5B
Enterprise value	$23.2B
Net cash	$249M
Debt	None
TTM revenue	$898M
TTM adj. EBITDA	$749M
TTM EPS (dil.)	$7.84
P/E (TTM)	43.4x
EV/EBITDA (TTM)	31.0x
FCF yield	2.27%
Dividend yield	0.70%
Surface acres	894,006
Net royalty acres	224,057
Q2 production	39.7 MBoe/d
Q2 realized oil	$97.55/Bbl
Adj. EBITDA margin	88%

THE CALL IN ONE PARAGRAPH · Texas Pacific Land is a better business than almost anything else in energy: perpetual royalties, no debt, no drilling obligation, and an 88% adjusted EBITDA margin. We are not arguing with the quality. We are arguing with the price. At 31x EV/EBITDA the market is paying roughly three times the royalty peer multiple, on earnings inflated by a $97.55 oil price, for a surface option that has so far produced one agreement. Own the business at a price that does not require both a normal oil price and a permanently generous multiple. Our fair value is $321; we would get interested nearer $211 to $267.

1 · The asset

What you are actually buying

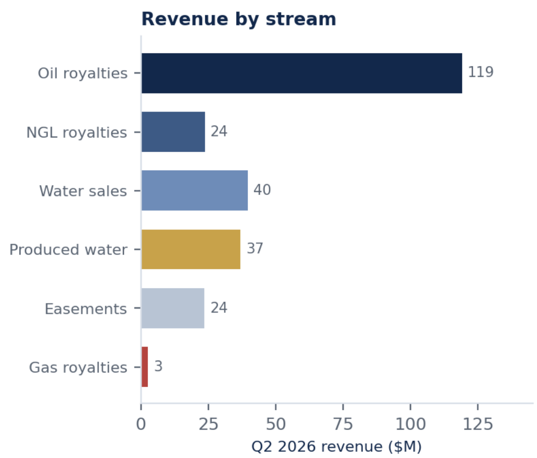
TPL is not an oil company. It does not drill, does not operate, and does not carry the cost of either. It owns land and it owns the right to a share of what comes out of land it does not even own. Those are different businesses with very different economics, and conflating them is the most common error in analyzing this security.

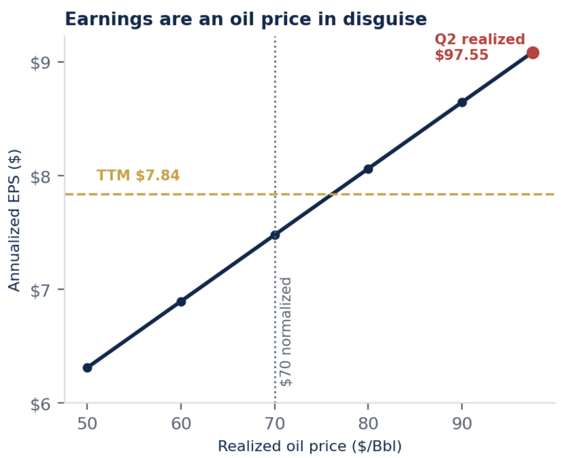
Three revenue engines sit on the same acreage, which is the structural elegance of the thing:

Oil and gas royalties. A perpetual, non-cost-bearing share of production across about 224,057 net royalty acres. When an operator drills, TPL receives a cut of revenue and pays none of the capital. Q2 royalties were $145.6M.

Water. Sourcing and treated water sales plus produced water royalties, together $76.8M in Q2. Permian wells consume and generate enormous water volumes; produced water royalty volumes ran 4.87 million barrels per day.

Surface. Easements, commercial leases, materials and land sales across 894,006 acres, $23.7M in Q2. This is the smallest line today and the one with the widest range of future outcomes.





The concentration is the point. Oil is about 35% of production volume but roughly 82% of royalty revenue, because gas realizations in the Permian have collapsed. In the second quarter TPL produced 24% more natural gas than in the first quarter and collected 73% *less* gas royalty revenue, at a realized price of $0.40 per Mcf. Takeaway constraints out of the basin mean associated gas is close to worthless at the wellhead. Treat this company as an oil royalty with a water business attached.

The balance sheet is genuinely unusual. Zero drawn debt against a $500M undrawn revolver, $249M of cash, and no drilling obligation of any kind. There is no scenario in which this company is a forced seller of anything, which is worth more than it sounds during a commodity downturn.

2 · The quarter

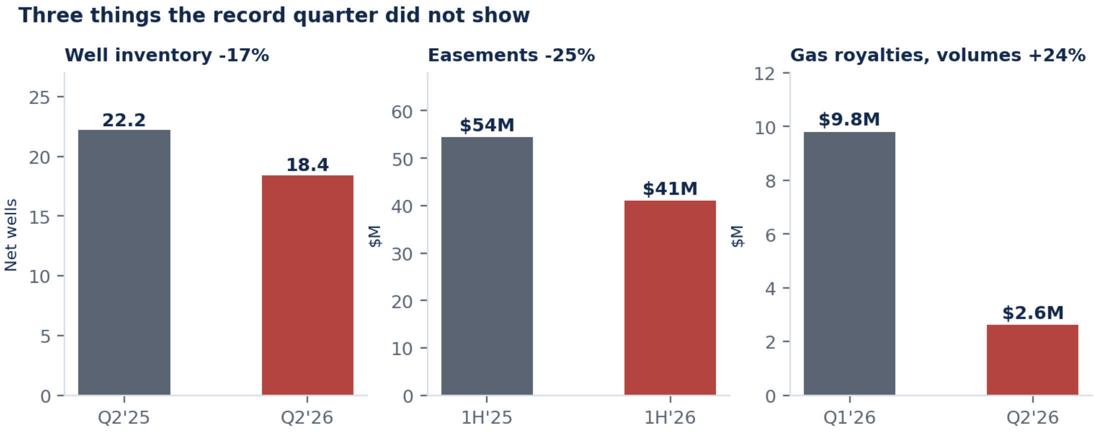
A record built on a price, not a business

The results were excellent and we do not want to diminish them:

- Revenue $246.1M, up 31.2% year over year and 3.9% sequentially.
- Net income $153.9M, up 32.5%; diluted EPS $2.23.
- Adjusted EBITDA $215.6M, a 88% margin. Free cash flow $155.5M, a 63% margin.
- Record royalty production of 39.7 MBoe/d, up 19.6% year over year, helped by the 33,380 net royalty acres acquired in the Midland Basin in November 2025.

What the headline does not show

Three things moved the wrong way underneath the record, and each is a leading rather than a lagging indicator.



- **Well inventory fell 17%.** Net permits, drilled-but-uncompleted wells and completed-but-not-producing wells together came to 18.4 net wells at June 30, against 22.2 a year earlier. That inventory converts into future royalty volume, so a shrinking number is the clearest early signal of operator activity slowing on TPL acreage.
- **Easements fell 25% year over year** in the first half, from $54.4M to $41.0M. This is the surface business, which is precisely the line the data center thesis says should be growing.
- **Water sales volumes fell 19% sequentially**, from 819 to 663 thousand barrels per day, partly offset by better pricing.

None of these is alarming on its own, and one quarter is not a trend. Together they suggest the operating momentum is more dependent on the oil price and on last year's acquisition than the record headline implies.

3 · The debate

The bull case, and where we part company

THE BULL CASE	OUR RESPONSE
A perpetual royalty on the best oil basin in the world deserves a premium multiple. There is no depletion of the right itself, no capital requirement, and no debt.	We agree, and this is why we are not bearish. The question is not whether TPL deserves a premium but whether 31x EBITDA is the right premium when royalty peers trade in the high single digits to low teens.
The surface acreage is a free option on West Texas becoming a power and data center hub. Project Kilby with Chevron proves the model works.	The option is real and we think it is the most interesting thing about the company. But it is currently tiny: the Kilby agreement produced $20.9M of recognized land sale revenue and $21.4M of receivable against contractual payments through 2046. That is rounding error against a $23.5B market capitalization. You are paying for the option, not receiving it free.
Unhedged commodity exposure means full participation in any oil upside.	It cuts both ways, and it is currently cutting in TPL's favor. Q2 realized $97.55/Bbl. Our concern is that the market is capitalizing a peak-price quarter as if it were a run rate.
Water is a growing, less commodity-sensitive business, and desalination could be transformative.	Produced water royalty volumes did grow. But water sales volumes fell sequentially, and the Orla desalination facility is a 10,000 barrel per day test facility that has just begun commissioning. That is a pilot, not a segment.
The stock is already down sharply from its high and the de-rating has happened.	It has fallen a long way, which is why our bear case is a scenario rather than a forecast. But a stock can fall a long way and still be expensive if the starting point was extreme.

Reduced to a sentence: we think the operating business is worth a lot and the option is worth something, and the current price already reflects a generous view of both.

4 · Valuation

What the price already assumes

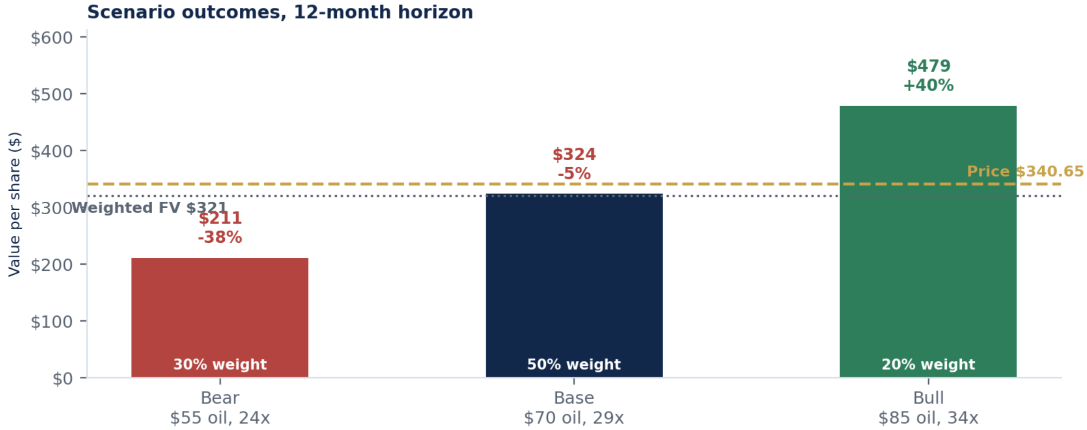
We value TPL on enterprise value to adjusted EBITDA, because the royalty stream is perpetual, capital requirements are minimal, and the capital structure has no debt to complicate the bridge. Earnings multiples are shown alongside for reference.

The single most useful exercise here is not our fair value but the implied expectation. Holding volumes and the water and surface businesses at the second-quarter run rate, this is the oil price required to justify today's price at a range of multiples:

Exit multiple	Required EBITDA	Implied oil price	Comment
24x	$969M	$116/Bbl	Toward royalty peers
29x	$802M	$84/Bbl	Our base case
31x	**$750M**	**$73/Bbl**	**Roughly today's multiple**
34x	$684M	$61/Bbl	Premium re-rating
40x	$581M	$40/Bbl	Prior-cycle enthusiasm

At roughly today's 31x, the stock is priced for about $73 oil. That is not an absurd assumption, and it is the reason this is a HOLD rather than a SELL. But it does mean there is no margin of safety: you need a normal oil price *and* a multiple that stays near three times the royalty peer group.

Scenarios



Scenario	Oil	Adj. EBITDA	Multiple	Value/share	Return	Wt.
Bear	$55	$596M	24x	$210.96	-38.1%	30%
Base	$70	$762M	29x	$323.82	-4.9%	50%
Bull	$85	$964M	34x	$478.58	+40.5%	20%
Weighted				**$320.91**	**-5.1%**	**100%**

Bear. Oil settles near $55. Permian activity slows, the net well inventory keeps shrinking, water volumes flatten, and the data center optionality stays an option. Multiple compresses toward the royalty peer group.

Base. Oil normalizes near $70, the level that clears most Permian budgets. Modest volume growth from the Midland acreage, water grows with produced volumes, and Project Kilby proceeds without further large deals signed.

Bull. Oil holds near $85, surface monetization accelerates as power and water scarcity bites in West Texas, additional data center or power agreements follow Kilby, and desalination reaches commercial scale.

5 · Financial summary

Metric	Q2 FY26A	Q1 FY26A	FY2025A	TTM
Revenue	$246.1M	$236.8M	$798.2M	$897.6M
Adjusted EBITDA	$215.6M	$181.4M	$687.4M	$748.8M
Adj. EBITDA margin	88%	77%	86%	83%
Net income	$153.9M	$142.9M	$481.4M	$541.4M
Diluted EPS	$2.23	$2.07	$6.97	$7.84
Free cash flow	$155.5M	$136.4M	$498.3M	$533.6M
Production (MBoe/d)	39.7	37.1	n/a	n/a
Realized oil ($/Bbl)	$97.55	$70.57	n/a	n/a
Realized gas ($/Mcf)	$0.40	$1.83	n/a	n/a
Realized ($/Boe)	$42.17	$37.06	n/a	n/a
Net producing wells	131.9	n/a	n/a	n/a
Net well inventory	18.4	n/a	n/a	n/a
Cash	$248.6M	n/a	$144.8M	n/a
Debt	None	None	None	None
Dividend / share	$0.60/qtr	$0.60/qtr	n/a	$2.40/yr

A = actual. TTM is fiscal 2025 less the first half of 2025 plus the first half of 2026. Fiscal year ends December 31. All per-share figures reflect the three-for-one forward split effected December 22, 2025. Adjusted EBITDA and free cash flow are non-GAAP measures as defined and reconciled by the company.

Valuation multiples at $340.65

Metric	Value	Metric	Value
Market capitalization	$23.50B	P/E (TTM)	43.4x
Enterprise value	$23.25B	EV/EBITDA (TTM)	31.0x
Shares outstanding	68.97M	P/FCF (TTM)	44.0x
Price / book	14.0x	FCF yield	2.27%
EV per surface acre	$26,004	Dividend yield	0.70%
EV per net royalty acre	$103,758	Buyback remaining	$170.2M

6 · Risks

What would change our mind, in both directions

Sev.	Risk	Assessment
HIGH	**Oil price**	The dominant variable by a wide margin. Q2 realized $97.55/Bbl against $70.57 in Q1. Our sensitivity shows annualized EPS moving from $6.31 at $50 oil to $9.09 at the Q2 realized price. TPL is deliberately unhedged, so this is undamped in both directions.
HIGH	**Multiple compression**	At 31x EV/EBITDA the stock trades at roughly three times the royalty peer group. Most of the bear case is multiple, not earnings. If the market decides to value TPL as a royalty company rather than a land bank with optionality, the de-rating is severe regardless of results.
MED	**Operator activity**	Net well inventory fell to 18.4 from 22.2 a year earlier. TPL does not control drilling decisions; it receives whatever its operators choose to produce. A sustained slowdown in Permian activity feeds through with a lag of several quarters.
MED	**Data center optionality fails to convert**	Project Kilby includes a put option held by the developer and a call option held by TPL if development milestones are not achieved, which is a candid acknowledgment that these projects can stall. Power interconnection and permitting timelines in Texas are long. The market appears to be capitalizing a pipeline that has so far produced one agreement.
MED	**Natural gas realizations**	Realized gas of $0.40/Mcf is effectively zero. Basin takeaway constraints can persist for years. Upside if they resolve, but we assume nothing.
LOW	**Water regulation**	Produced water handling and disposal are subject to Texas regulatory change, including seismicity-driven injection restrictions. Desalination is a potential mitigant and a potential cost.
LOW	**Concentration and governance**	Single-basin, single-commodity exposure with no operational diversification. Horizon Kinetics is the largest stockholder and holds a board seat, which aligns interests but concentrates influence.

What would move us to a BUY

A second and third surface agreement of Kilby's scale or larger, demonstrating a repeatable pipeline rather than a single transaction.

The well inventory stabilizing or rebuilding, indicating operator activity on TPL acreage is not rolling over.

A price closer to $211 to $267, which would offer a margin of safety against a normal oil price rather than requiring one.

What would move us to a SELL

Oil sustained below $60 with the multiple holding, which would make the earnings shortfall visible against an unchanged valuation.

Continued deterioration in easements and well inventory alongside further multiple expansion.

Methodology, sources & disclosures

Methodology

Fair value of $321 is the probability-weighted average of three scenarios, each applying an exit multiple to enterprise value over adjusted EBITDA and then bridging to equity value by adding net cash of $248.6M and subtracting debt of zero. Scenario EBITDA is built by annualizing the second quarter of 2026, flexing the realized oil price, applying a volume multiplier, and applying a separate multiplier to the water and surface businesses. Gas and NGL royalties are held at second quarter levels. The effective tax rate used is 21.3%, the first half 2026 rate. Capital expenditure is assumed at $60M annually, approximating the 2025 run rate excluding acquisitions. Total return combines the price change to fair value with the annualized dividend at the current rate.

The implied-expectation table inverts the same model: for each exit multiple it solves for the oil price required to produce the EBITDA that today's enterprise value would represent. We consider this more informative than the point estimate, because it makes the assumption explicit rather than burying it.

Scenario weights (30% bear, 50% base, 20% bull) reflect our view that a normalized oil price is the most likely outcome, with meaningful downside if the multiple converges toward the royalty peer group. The multiple assumption is the largest single driver of the output and we have deliberately shown its sensitivity rather than defending one number.

Sources

All company figures are taken from primary filings and releases: the Form 10-Q for the quarter ended June 30, 2026, filed August 5, 2026; the second quarter 2026 earnings release of August 5, 2026; and the fourth quarter and full year 2025 earnings release of February 18, 2026. Acreage, well counts, realized prices, segment results, balance sheet items, the credit facility, the Chevron Project Kilby agreement terms and the three-for-one stock split are as disclosed in those documents. The reference price of $340.65 is the closing price on 8/7/26, the last trading day before publication. No figure in this report was estimated where a reported figure exists.

Trailing twelve month figures are derived as fiscal 2025 less the first half of 2025 plus the first half of 2026, because the company does not report a trailing twelve month column. Royalty peer multiple ranges are our characterization of publicly traded mineral and royalty companies and are used qualitatively; no peer figure is relied upon for the valuation.

Scoring

This call will be scored on **August 10, 2027**, twelve months from publication, against the total return of the S&P 500 over the same period. Consistent with our published scoring policy, a HOLD is recorded as correct if the excess return of TPL over the benchmark is below positive five percentage points. The rule was fixed before the result is known and will not be revised afterward. The scoring methodology is published in full at twocommainvestor.com/scoring.html.

Disclosures

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