



COMPANY UPDATE

Key Metrics

NRP - NYSE - as of	2/23/17	\$40.20
Price Target		NA
52-Week Range	\$6.89 -	\$41.95
Shares Outstanding (mm)		12.2
Market Cap. (\$mm)		\$491.7
1-Mo. Average Daily Volume		59,961
Institutional Ownership		15.9%
Net Debt/Total Capital	Q3'16	79.5%
ROE	FY'15	7.6%
Book Value / Share	Q3'16	\$ 12.46
Price / Book Value		3.2x
Distribution & Yield	\$1.80	4.5%
LTM EBITDA Margin		64.0%

Net Inc. / Unit FY 12/31

		Prior	Current	Prior	Current
	2015A*	2016E	2016E*	2017E	2017E
1Q	\$1.40		\$0.29	A --	--
2Q	\$2.80		\$3.82	A --	--
3Q	\$2.80		\$1.26	A --	--
4Q	\$2.34	\$0.61	\$0.61	--	--
Year	\$8.87	\$5.98	\$5.98	\$2.49	\$2.49
P/E	4.5x		6.7x		16.1x

* - ex- non-recurring items

Revenue (\$mm)

		Prior	Current	Prior	Current
	2015A	2016E	2016E	2017E	2017E
1Q	\$110		\$103	A --	--
2Q	\$138		\$118	A --	--
3Q	\$125		\$98	A --	--
4Q	\$116	\$82	\$82	--	--
Year	\$489	\$401	\$401	\$325	\$325

Company Description: Houston, TX – based Natural Resource Partners L.P. is a publicly-traded partnership that sub-leases its land and mineral rights on a royalty producing basis. The company's lessors produced ~47M (million) tons of coal in 2015 (~36% of which was metallurgical) from an estimated reserve base of 1.8B tons. Limited partnerships pay the majority of available cash flow to unit holders as a cash distribution. These distributions generally receive favorable tax treatment, more fully described in an annual Schedule K-1.

Energy

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Natural Resource Partners L.P.

NRP – NYSE – Neutral - 4

Balance Sheet Strengthened; Potential for Longer-term Equity Dilution

Investment Highlights

- Yesterday NRP unveiled a series of transactions that in the aggregate are designed to address its credit facility and \$425M 9.125% senior notes issue due October 2018.
- The \$250M preferred issue is a \$1000 face value perpetual convertible with a 12% coupon (\$30M per year), half of which may be payable in kind (pik) in common units. Proceeds are to be used to pay off the credit facility, which had a balance of \$250M at Q3'16. The credit facility is also to be extended two years to April 2020 with reductions in the borrowing base to \$180M at closing, \$150M at year-end 2017 and \$100M at year-end 2018. The issue is redeemable, but also adds certain leverage and distributable cash flow coverage restrictions on NRP's ability to raise common distributions.
- The shares are convertible after five years at a common unit price above \$51, and come with a total of 4.0M warrants attached, or ~32% of the current units outstanding. Forty four percent of the warrants are exercisable at \$22.81 while the remaining 56% have a \$34.00 strike price, for total potential proceeds of \$116M.
- The 2018 senior notes refinancing is to be accomplished via a \$241M exchange for March 2022 10.5% notes, at par and thus with no cancellation of debt income, or CODI, and a new issue of \$105M.
- NRP has bought breathing space to continue its strategic realignment, but at the potential for meaningful future dilution. We thus maintain our Neutral /4 rating.

Note Important Disclosures on Pages 5-6
Note Analyst Certification on Page 5

ADDITIONAL DISCUSSION

The proposed transactions are anticipated to close in March 2017. We are maintaining our estimates in the interim, but will update our forecast to reflect the financial impact at such time.

SUITABILITY RATING

Our Suitability rating is 4 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive). This reflects our favorable view of the partnership's revenue diversification and low-cost royalty structure. However, the coal industry has been under severe pressure from the broad shift of the electrical generation sector to natural gas and has seen a number of bankruptcies, among which were NRP lessees. Further, the partnership remains in restructuring mode, which could result in transactions or events that expose investors to tax liability issues. Lastly, the partnership disclosed "going concern" commentary in its 2015 annual report file via SEC Form 10-K and in the subsequent quarterly filings, highlighting the risk to the firm's long-term viability.

CONSIDERATIONS AND RISKS

This entity is classified as a Partnership for US income tax purposes. Tax information is provided by the Partnership directly to the investor on Form 1065, Schedule K-1. Please discuss the tax implications of this investment with a qualified tax advisor.

Annual yield is calculated by dividing the distribution amount by the current price of the security. All or a portion of the Company's distributions are paid from the Partners Capital Account at the Company's discretion. Actual classification for income tax purposes is reported on IRS Form 1065, Schedule K-1 and is provided directly to the investor by the Company. For US income tax purposes, the Company will make a determination regarding all allocable tax information after calendar year end on Form 1065, Schedule K-1. Partnership interests held in tax-exempt accounts including retirement plans and Individual Retirement accounts may be subject to Unrelated Business Income Tax (UBIT). We urge each investor to consult with his or her own tax advisor to determine the tax consequences of ownership of partnership interests, including any state, local or foreign tax considerations.

The energy production industry is capital intensive, highly competitive and subject to a range of economic and operational risks. Foremost among these risks may be volatility in the underlying commodity pricing, which is subject to supply and demand fundamentals related to factors such as economic conditions, weather patterns and logistical constraints. The industry is also subject to a range of regulatory risks, including changes in environmental and pollution policies, permitting requirements, and employee benefits obligations.

Company-specific risks include the potential for shut-downs by its lessees, delays or interruptions in the ongoing strategic realignment and balance sheet constraints in a more restricted lending environment, which could lead to elimination of the distribution. In the intermediate to longer term, increasing Federal regulations on CO2 emissions continue to erode demand and increase costs for coal-fired electricity generation. The potential for additional debt restructuring activities exists, which could potentially raise "cancellation of debt income" (CODI) tax liability for common unitholders. Continued "going concern" commentary in NRP's regulatory filings highlight the risk to the partnership's long-term viability.

Additional information is available upon request.

Natural Resource Partners L.P. (NRP)

Financial Model (\$'s in '000's) FYE Dec.

Income Statement Analysis	FY'13	FY'14	Q1'15	Q2'15	Q3'15	Q4'15	FY'15	Q1'16	Q2'16	Q3'16	Q4'16E	FY'16E	FY'17E
Revenues													
Coal	274,212	226,724	49,482	60,904	55,004	59,825	225,215	39,045	76,396	48,938	39,400	203,779	155,240
Aggregates - VantaCore	13,461	54,124	28,946	42,886	42,326	31,979	146,137	24,682	31,642	31,757	31,860	119,941	127,800
Oil & Gas	17,080	59,566	15,230	14,839	12,416	11,080	53,565	7,298	1,091			8,389	-
Equity Investment Inc. - Ciner	34,186	41,416	12,523	11,599	12,617	13,179	49,918	9,801	10,188	10,753	10,500	41,242	42,000
Property Taxes	15,416	13,609	3,004	3,070	2,528		8,602						
Other	3,762	4,313	492	4,332	588		5,412	21,925	(1,071)	6,426		27,280	-
Total Revenues	\$ 358,117	\$ 399,752	\$ 109,677	\$ 137,630	\$ 125,479	\$ 116,063	\$ 488,849	\$ 102,751	\$ 118,246	\$ 97,874	\$ 81,760	\$ 400,631	\$ 325,040
Costs & Expenses													
D, D & A	64,377	79,876	25,392	30,660	26,624	18,152	100,828	14,743	11,176	12,831	12,590	51,340	52,540
G & A	36,821	36,437	11,240	5,769	9,284	2,525	28,818	4,172	4,039	5,135	5,020	18,366	20,700
Operating & Maintenance			-			42,391	42,391	34,650	32,199	35,304	34,530	136,683	140,510
Property, Franchise & Other Taxes	16,463	21,279	5,138	5,066	4,286		14,490						
Coal Expenses	2,747	5,579	1,321	613	581		4,840						
Aggregate Operations		32,309	22,407	32,800	31,107		86,314						
Oil & Gas LOEs	739	9,144	3,762	2,999	3,049		9,810						
Operating Profit	\$ 236,970	\$ 215,128	\$ 40,417	\$ 59,723	\$ 50,548	\$ 52,995	\$ 201,358	\$ 49,186	\$ 70,832	\$ 44,604	\$ 29,620	\$ 194,242	\$ 111,290
%	66.2%	53.8%	36.9%	43.4%	40.3%	45.7%	41.2%	47.9%	59.9%	45.6%	36.2%	48.5%	34.2%
Interest (Exp.)	(64,396)	(80,185)	(22,943)	(23,343)	(23,711)	(23,830)	(93,827)	(23,748)	(22,115)	(22,491)	(22,000)	(90,354)	(80,000)
Interest Inc.	238	96	15	1	-	2	18	19	7	3	-	29	-
Other Inc. / (Exp.)	(734)	(26,209)	(965)	(3,803)	(626,838)	(50,953)	(681,594)	(2,030)	(91)	729	-	(1,392)	-
Non-controlling interest / Disc. Ops.	-	-	-	(1,244)	108	198	(1,693)	(545)	(1,725)	7,112	-	4,842	-
Net Income	172,078	108,830	16,524	31,334	(599,893)	(21,588)	(575,738)	22,882	46,908	29,957	7,620	102,525	31,290
Attributable to:													
General Partner	3,442	2,177	330	627	(12,744)	(460)	(12,228)	403	863	(203)	150	1,213	620
IDR Holders	-	-	-	-	-	-	-	-	-	-	-	-	-
Limited Partners	168,636	106,653	16,194	30,707	(587,257)	(21,326)	(559,492)	23,024	45,627	23,048	7,470	101,312	30,670
Units Outstanding: Common	10,958	11,324	12,400	12,230	12,230	12,232	12,273	12,230	12,232	12,232	12,252	12,237	12,305
Net Inc. / LP Unit	\$ 15.39	\$ 9.42	\$ 1.31	\$ 2.51	\$ (48.02)	\$ (1.74)	\$ (45.75)	\$ 1.88	\$ 3.72	\$ 1.88	\$ 0.61	\$ 8.28	\$ 2.49
<i>EPU excluding non-recurring items</i>		\$ 11.68	\$ 1.40	\$ 2.80	\$ 2.80	\$ 2.34	\$ 8.87	\$ 0.29	\$ 3.82	\$ 1.26		\$ 5.98	
Rate of Change Analysis													
Coal Royalties	-16.4%	-17.3%	-5.5%	10.0%	-15.6%	11.2%	-0.7%	-21.1%	25.4%	-11.0%	-34.1%	-9.5%	12.1%
Aggregates Revenues	104.0%	302.1%	752.4%	1103.6%	1494.2%	-28.2%	170.0%	-14.7%	-26.2%	-25.0%	-0.4%	-17.9%	6.6%
Oil & Gas Revenues	86.5%	248.7%	51.4%	-16.7%	29.3%	-49.8%	-10.1%	-52.1%	-92.6%			-84.3%	
Total Revenues	-49.4%	11.6%	36.6%	52.0%	37.0%	-15.5%	22.3%	-6.3%	-14.1%	-22.0%	-29.6%	-18.0%	-18.9%
Op. Inc.	-60.4%	-9.2%	-22.9%	6.6%	-8.1%	2.6%	-6.4%	21.7%	18.6%	-11.8%	-44.1%	-3.5%	-42.7%
EPU	-69.6%	-38.8%	-55.1%	-9.9%	-1606.8%	-349.9%	-585.7%	44.2%	48.2%	-103.9%	-135.0%	-118.1%	-69.9%
EBITDDA	-48.1%	-11.8%	-8.2%	17.1%	-1.4%	-11.2%	0.6%	-2.9%	-9.3%	-25.6%	-40.7%	-18.7%	-33.3%
Units Outstanding	3.4%	3.3%	12.9%	10.8%	9.9%	0.7%	8.4%	-1.4%	0.0%	0.0%	0.2%	-0.3%	0.6%
	Guide: 2/13- Rev \$330-375M EPU \$1.60-1.80; 5/6- tacit affirmation (no comment); 8/7- \$330-360M & \$1.40-1.60; 11/5- affirm	Guide: 1/10- Rev \$305-340M EPU \$1.10-1.30; 8/7- affirm; 10/6- \$370-390M	Mar-Jul: carbon monoxide issue at Deer Run	4/22- 75% cut distribution 74%, roll over credit facility	8/3- #2 (~10%) customer Alpha Natural Resources declares bankruptcy; 8/11- Deer Run problems re-emerge; 10/22- cut dist 50%. Q3-book \$614M impairment charge	Guide: 2/12- Rev \$490-535M & DCF \$175-200M; 8/6- Rev \$460-505M & DCF \$145-170M	1/27- announce 1:10 reverse split, @ 18 Feb; 2/16- \$48M asset sales in aggregates and O&G; 3/11- "going concern" commentary in 10-K re O&G segment, /22- BB \$10M	6/14- sell remaining O&G assets for \$116M, residual interests rolled into mineral segment; Q2- \$44M revenues from lessees' settlement of minimum royalties	\$50M borrowing base reduction scheduled for Dec	\$30M borrowing base reductions scheduled Jun and Dec			

Source: Company reports and Hilliard Lyons estimates

Natural Resource Partners L.P. (NRP) (\$'s '000's)

Cash Flow Analysis	FY'13	FY'14	Q1'15	Q2'15	Q3'15	Q4'15	FY'15	Q1'16	Q2'16	Q3'16	Q4'16E	FY'16E	FY'17E
Net Inc. (Cont. Ops.)	172,078	108,830	16,524	32,578	(600,001)	(21,786)	(571,720)	23,427	48,633	22,845	7,620	102,525	31,290
D, D & A	64,377	79,876	25,392	30,660	26,624	18,152	100,828	14,743	11,176	12,831	12,590	51,340	52,540
Distributions from Unconsolidated Affil.	26,940	46,638	10,903	10,902	12,740	12,250	46,795	12,250	9,800	12,250	12,250	46,550	42,000
(Increase) Decrease in Wrkg. Cap.	9,250	(18,405)	94,546	(9,299)	(69,163)	(10,682)	5,402	69,056	(33,786)	40,165	(28,260)	47,175	(17,520)
Operating C.F.	272,645	216,939	147,365	64,841	(629,800)	(2,066)	(418,695)	119,476	35,823	88,091	4,200	247,590	108,310
Cap Ex	-	(2,454)	(1,365)	(3,708)	(3,508)	(1,594)	(10,175)	(2,221)	(1,698)	(512)	(500)	(4,931)	(3,600)
Oil & Gas CapEx	-	(18,062)	-	-	-	-	-	-	-	-	-	-	-
Acquisition Exp.	(365,085)	(514,025)	(16,788)	(12,333)	(6,818)	(4,740)	(40,679)	(2,725)	-	-	-	(2,725)	-
Acquisition of Contracts (affiliate)	-	-	-	-	-	-	-	-	-	-	-	-	-
Asset Sales	10,929	1,418	5,166	3,330	9,451	173	18,120	42,653	1,499	13,789	1,800	59,741	-
Equity Interest Distributions Rcv'd	48,833	3,633	-	-	-	-	-	-	-	-	-	-	-
Distributions Paid	(249,039)	(163,106)	(43,678)	(11,232)	(11,232)	(5,616)	(71,758)	(5,616)	(5,616)	(5,617)	(5,617)	(22,466)	(89,864)
Free C.F.	(281,717)	(475,657)	90,700	40,898	(641,907)	(13,843)	(523,187)	151,567	30,008	95,751	(117)	277,209	14,846
Debt Drawn	567,020	637,375	25,000	-	75,000	41,530	141,530	-	20,000	-	-	20,000	-
(Debt Repaid)	(386,230)	(327,983)	(41,166)	(27,317)	(82,692)	(39,808)	(190,983)	(51,166)	(57,316)	2,308	(10,000)	(116,174)	(60,000)
Units Issued	75,000	127,202	-	-	-	-	-	-	-	-	-	-	-
(Units Repurchased)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net C.F.	(25,927)	(39,063)	74,534	13,581	(649,599)	(12,121)	(572,640)	100,401	(7,308)	98,059	(10,117)	181,035	(45,154)
Adjusted EBITDA	340,345	300,322	64,204	79,153	78,539	70,220	292,116	66,397	81,627	58,935	44,210	251,169	180,960
EBITDA / Unit	\$ 31.06	\$ 26.52	\$ 5.31	\$ 7.39	\$ 6.31	\$ 5.82	\$ 24.62	\$ 5.23	\$ 6.70	\$ 4.70	\$ 3.45	\$ 20.07	\$ 13.31
Distributable Cash Flow	309,394	217,710	52,627	47,171	58,007	39,176	196,981	58,412	25,320	156,212	23,800	263,744	102,310
Dist CF / Unit	\$ 28.234	\$ 19.226	\$ 4.244	\$ 3.857	\$ 4.743	\$ 3.203	\$ 16.050	\$ 4.776	\$ 2.070	\$ 12.771	\$ 1.943	\$ 21.554	\$ 8.315
Distribution / Unit:	\$ 22.000	\$ 14.000	\$ 3.500	\$ 0.900	\$ 0.900	\$ 0.450	\$ 5.750	\$ 0.450	\$ 0.450	\$ 0.450	\$ 0.450	\$ 1.800	\$ 1.800
Coverage Ratio	1.3x	1.4x	1.2x	4.3x	5.3x	7.1x	2.8x	10.6x	4.6x	28.4x	4.3x	12.0x	4.6x
Payout Ratio	80.5%	74.9%	83.0%	23.8%	19.4%	14.3%	36.4%	9.6%	22.2%	3.6%	23.6%	8.5%	87.8%
Balance Sheet Analysis													
Cash	92,513	50,076	33,275	27,525	61,156	51,773	51,773	52,097	21,391	92,391	82,270	82,270	37,100
Accounts Receivable	33,737	66,455	52,323	62,422	62,338	57,031	57,031	48,154	49,431	44,139	39,200	39,200	38,800
Other Current Assets	9,357	19,587	15,795	9,980	9,510	12,325	12,325	18,766	125,827	24,435	24,400	24,400	24,400
Total Current Assets	135,607	136,118	101,393	99,927	133,004	121,129	121,129	119,017	196,649	160,965	145,870	145,870	100,300
Land	24,340	25,243	25,243	25,243	25,022	25,022	25,022	25,022	25,020	25,020	25,020	25,020	25,020
Net PP&E	26,435	60,093	78,584	77,287	71,194	61,239	61,239	57,444	55,763	52,516	52,070	52,070	50,270
Coal/Mineral Rights	1,405,455	1,781,896	1,773,449	1,788,454	1,144,809	1,094,027	1,094,027	1,060,829	946,355	924,181	917,200	917,200	891,000
Intangibles	66,950	60,689	59,713	59,182	58,269	56,927	56,927	55,975	55,040	53,907	53,410	53,410	51,410
Goodwill	-	52,012	29,465	4,840	4,840	-	-	-	-	-	-	-	-
Other Assets	333,069	328,673	355,543	335,012	334,096	325,731	325,731	306,606	306,259	304,817	304,800	304,800	304,800
Total Assets	1,991,856	2,444,724	2,393,925	2,385,105	1,766,394	1,684,075	1,684,075	1,624,893	1,585,086	1,521,406	1,498,370	1,498,370	1,422,800
Current Maturities	80,983	80,983	155,983	155,983	80,983	80,983	80,983	154,441	157,996	158,597	158,600	158,600	620,000
Accounts Payable	8,659	32,416	16,862	17,631	13,943	9,929	9,929	8,822	6,039	6,223	19,600	19,600	19,400
Other Current Liabilities	33,746	34,532	51,708	45,924	54,895	45,735	45,735	40,004	113,784	46,480	46,500	46,500	46,500
Total Current Liabilities	123,388	147,931	224,553	219,538	149,821	136,647	136,647	203,267	277,819	211,300	224,700	224,700	685,900
Bank Debt	1,084,226	1,394,240	1,283,352	1,256,218	1,323,708	1,284,083	1,284,083	1,166,894	1,050,562	1,041,984	1,031,980	1,031,980	410,000
Deferred Revenue	142,586	160,260	79,052	80,706	79,242	80,812	80,812	158,618	42,608	40,050	40,700	40,700	43,100
Accrued Incentive Plan Exp.	10,526	6,554	-	-	-	-	-	-	-	-	-	-	-
Other LT Liabilities	14,341	14,300	114,629	116,830	113,416	109,591	109,591	5,839	82,463	75,673	75,700	75,700	75,700
Partners' Capital	616,789	720,155	692,339	711,813	100,207	72,942	72,942	90,275	131,634	152,399	125,290	125,290	208,100
Book Value	\$ 56.28	\$ 63.60	\$ 55.83	\$ 58.20	\$ 8.19	\$ 5.96	\$ 5.94	\$ 7.38	\$ 10.76	\$ 12.46	\$ 10.23	\$ 10.24	\$ 16.91
Current Ratio	1.1x	0.9x	0.5x	0.5x	0.9x	0.9x	0.9x	0.6x	0.7x	0.8x	0.6x	0.6x	0.1x
LT Debt/Cap.-Net of Cash	58.3%	63.6%	63.3%	62.4%	88.7%	90.8%	90.8%	88.7%	87.1%	79.5%	82.1%	82.1%	60.3%
ROE: DuPont	20.3%	7.6%	3.9%	9.2%	nm	48.7%	nm	48.3%	93.6%	40.3%	6.3%	43.2%	4.2%

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

I, Joel K. Havard, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

- 1** - A large cap, core holding with a solid history
- 2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
- 3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
- 4** - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically two to three years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

Other Disclosures

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