

Freehold Royalties Ltd. Announces 2014 First Quarter Results

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CALGARY, ALBERTA--(Marketwired - May 14, 2014) - [Freehold Royalties Ltd.](#) (Freehold) (TSX:FRU) announced first quarter results for the period ended March 31, 2014.

RESULTS AT A GLANCE

FINANCIAL (\$000s, except as noted)	Three Months Ended		
	March 31		
	2014	2013	Change
Gross revenue	49,200	40,637	21 %
Net income	17,854	10,493	70 %
Per share, basic and diluted (\$)	0.26	0.16	63 %
Funds from operations (1)	30,793	23,817	29 %
Per share (\$) (1)	0.45	0.36	25 %
Operating income (1)	43,795	35,350	24 %
Net operating income from royalties (%)	77	74	4 %
Capital expenditures (not including acquisitions)	11,106	14,914	-26 %
Property and royalty acquisitions (2)	1,884	-	-
Dividends declared	28,576	27,897	2 %
Per share (\$) (3)	0.42	0.42	0 %
Long-term debt, period end (4)	49,000	47,000	4 %
Shares outstanding, period end (000s)	68,157	66,522	2 %
Average shares outstanding (000s) (5)	67,965	66,375	2 %
OPERATING			
Average daily production (boe/d) (6)	8,623	9,067	-5 %
Average price realizations (\$/boe) (6)	62.72	49.09	28 %
Operating netback (\$/boe) (1) (6)	56.43	43.32	30 %

(1) See Additional GAAP Measures and Non-GAAP Financial Measures.

(2) Net of adjustments.

(3) Based on the number of shares issued and outstanding at each record date.

(4) Net debt as at March 31, 2014 was \$48.6 million, up \$3.2 million from \$45.4 million at December 31, 2013.

(5) Weighted average number of shares outstanding during the period, basic.

(6) See Conversion of Natural Gas to Barrels of Oil Equivalent (boe).

May Dividend Announcement

The Board of Directors has declared the May dividend of \$0.14 per share, will be paid on June 16, 2014 to shareholders of record on May 31, 2014. The dividend is designated as an eligible dividend for Canadian income tax purposes. Including the June 16, 2014 payment, the 12-month trailing cash dividends total \$1.68/share.

2014 First Quarter Highlights

- Average production for the first quarter declined 5% while average price realizations increased 28%, resulting in a 21% increase in gross revenue compared to the first quarter of 2013.
- Compared to the first quarter of 2013, oil and NGL production was down 10%, while natural gas volumes improved 5%. The first quarter included positive prior period adjustments to production of 380 boe/d (90% natural gas) mainly the result of our ongoing audit program.
- Royalty production was down 2% compared to the first quarter of 2013, averaging 6,351 boe/d. Total royalty barrels accounted for 74% of production, versus 71% in the first quarter of 2013.
- Working interest production was down 13% when compared to the same period last year. The reduction in volumes was primarily driven by lower spending levels associated with non-operated drilling, temporary shut-ins, along with the end of flush production from a number of locations brought on in the fourth quarter 2013.
- Funds from operations totalled \$30.8 million in the first quarter, up 29% from the same period last year, mainly due to higher realized pricing. We remain primarily a liquids producer with 62% of our volumes weighted to liquids production.
- Net income of \$17.9 million, represented a 70% improvement from the first quarter of 2013.
- In total, royalty interests accounted for 69% of gross revenue through the first three months of 2014, but contributed 77% of operating income.
- Dividends for the first quarter of 2014 totalled \$0.42 per share, unchanged from the prior year.
- Average participation in our DRIP was 27% (Q1 2013 - 16%). Cash retained totalled \$7.6 million (first three months of 2014) and continues to fund our capital program.
- Net capital expenditures on our working interest properties totalled \$11.1 million over the quarter versus our forecast of \$14.0 million, with the majority invested on our mineral title lands.
- At March 31, 2014, net debt totalled \$48.6 million, up \$3.2 million from \$45.4 million at December 31, 2013.
- Net debt as of the first quarter 2014 implied a 0.4 times trailing funds from operations and net debt obligations represented approximately 14% of total capitalization.
- During the quarter, Freehold acquired working interest participation rights in three wells in Ferrier, Alberta. As at March 31, 2014, \$1.8 million has been spent. The total expected expenditure for all three wells is \$4.2 million. Upon each well paying out, Freehold's working interest will convert to an overriding royalty.

Second Quarter Acquisition

On May 2, 2014, Freehold acquired royalty interests on certain producing and non-producing lands in southeast Saskatchewan and Manitoba for \$111 million, prior to normal closing adjustments. Total proceeds associated with the purchase and sale agreement were funded through Freehold's existing bank credit facilities. The acquisition further added to Freehold's land position within southeast Saskatchewan while enhancing Freehold's near-term growth profile.

Acquisition Highlights:

- 2013 average production of 470 boe/d (99% oil weighted), from over 400 producing wells.
- Revenue is derived from a combination of Lessor Royalties and Non-Convertible Overriding Royalties, offering Freehold enhanced netbacks.
- 2013 operating income of \$15.0 million.
- Increased land exposure comprised of 71,700 acres of Mineral Title Lands.
- Proved plus probable reserves of approximately 1.5 million boe, based on an independent engineering report prepared by Trimble Engineering Associates Ltd. as of December 31, 2013.

Guidance update

The table below summaries our key operating assumptions for 2014, updated to reflect actual statistics for the first three months and our current expectations for the remainder of the year. We note that subsequent to Q1, Freehold closed a purchase and sale agreement to acquire additional royalty barrels and mineral title lands in Saskatchewan and Manitoba for total proceeds of \$111 million, prior to normal closing adjustments. The updated guidance reflects this transaction.

- Through 2014, we are now forecasting WTI and WCS prices to average \$98.00/bbl and \$85.00/bbl respectively, up slightly from our previous guidance forecast.
- Adding debt associated with our recent royalty transaction, we are now forecasting 2014 year-end net debt of approximately \$137 million. This is down slightly from our initial guidance range (\$140-\$145 million) accounting for higher than forecast revenues.

- We have made no changes to our 2014 production forecast (9,100 boe/d) as stated April 14, 2014. Volumes are expected to be weighted approximately 64% oil and natural gas liquids (NGL's) and 36% natural gas. We continue to maintain our royalty focus with royalty production accounting for 69% of forecasted 2014 production.
- We have increased our 2014 tax expense assumption, accounting for greater revenues.
- Our capital spending budget remains at \$35 million.

2014 Annual Average		Guidance Dated	
		May 14, 2014	Mar. 6, 2014
Daily production	boe/d	9,100	8,700
WTI oil price	US\$/bbl	98.00	97.00
Western Canada Select (WCS)	Cdn\$/bbl	85.00	83.00
AECO natural gas price	Cdn\$/Mcf	4.50	4.50
Exchange rate	Cdn\$/US\$	0.90	0.90
Operating costs	\$/boe	6.00	6.00
General and administrative costs (1)	\$/boe	2.60	2.60
Capital expenditures	\$ millions	35	35
Dividends paid in shares (DRIP) (2)	\$ millions	29	29
Long-term debt at year end	\$ millions	137	38
Current income tax expense (3)	\$ millions	33	32
Weighted average shares outstanding	millions	68	68

(1) Excludes share based and other compensation.

(2) Assumes an average 25% participation rate in Freehold's dividend reinvestment plan, which is subject to change at the participants' discretion.

(3) Corporate tax estimates will vary depending on commodity prices and other factors.

Recognizing the cyclical nature of the oil and gas industry, we continue to closely monitor commodity prices and industry trends for signs of deteriorating market conditions. We caution that it is inherently difficult to predict activity levels on our royalty lands since we have no operational control. As well, significant changes (positive or negative) in commodity prices (including Canadian oil price differentials), foreign exchange rates, or production rates may result in adjustments to the dividend rate.

Based on our current guidance and commodity price assumptions, and assuming no significant changes in the current business environment, we expect to maintain the current monthly dividend rate through 2014, subject to the Board's quarterly review and approval.

Availability on SEDAR

Freehold's 2014 first quarter interim unaudited condensed consolidated financial statements and accompanying Management's Discussion and Analysis (MD&A) are being filed today with Canadian securities regulators and will be available at www.sedar.com and on our website.

Forward-looking Statements

This news release offers our assessment of Freehold's future plans and operations as at May 14, 2014, and contains forward-looking statements that we believe allow readers to better understand our business and prospects. These forward-looking statements include our expectations for the following:

- our outlook for commodity prices including supply and demand factors relating to crude oil, heavy oil, and natural gas;
- light/heavy oil price differentials;
- changing economic conditions;
- foreign exchange rates;
- industry drilling, development and licensing activity on our royalty lands, and the potential impact of horizontal drilling on production and reserves;
- development of working interest properties;

- participation in the DRIP and our use of cash preserved through the DRIP;
- estimated capital budget and expenditures and the timing thereof;
- estimated operating and general and administrative expenses;
- long-term debt at year end;
- average production and contribution from royalty lands;
- key operating assumptions;
- amounts and rates of income taxes and timing of payment thereof; and
- maintaining our monthly dividend rate through 2014 and our dividend policy.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, royalties, environmental risks, taxation, regulation, changes in tax or other legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, and our ability to access sufficient capital from internal and external sources. Risks are described in more detail in our Annual Information Form.

With respect to forward-looking statements contained in this news release, we have made assumptions regarding, among other things, future oil and gas prices, future capital expenditure levels, future production levels, future exchange rates, future tax rates, future participation rates in the DRIP and use of cash retained through the DRIP, future legislation, the cost of developing and producing our assets, our ability and the ability of our lessees to obtain equipment in a timely manner to carry out development activities, our ability to market our oil and natural gas successfully to current and new customers, our expectation for the consumption of crude oil and natural gas, our expectation for industry drilling levels, our ability to obtain financing on acceptable terms, and our ability to add production and reserves through development and acquisition activities. The key operating assumptions with respect to the forward-looking statements referred to above are detailed in the body of this news release.

You are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Our actual results, performance, or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them. The forward-looking information contained in this document is expressly qualified by this cautionary statement. Our policy for updating forward-looking statements is to update our key operating assumptions quarterly and, except as required by law, we do not undertake to update any other forward-looking statements.

You are further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates may change, having either a positive or negative effect on net income, as further information becomes available and as the economic environment changes.

Conversion of Natural Gas To Barrels of Oil Equivalent (BOE)

To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (boe). We use the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 boe ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on either energy content or current prices. While the boe ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

Additional GAAP Measures

This news release contains the term "funds from operations", which does not have a standardized meaning prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other

entities. Funds from operations, as presented, is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to net income or other measures of financial performance calculated in accordance with GAAP. We consider funds from operations to be a key measure of operating performance as it demonstrates Freehold's ability to generate the necessary funds to fund capital expenditures, sustain dividends, and repay debt. We believe that such a measure provides a useful assessment of Freehold's operations on a continuing basis by eliminating certain non-cash charges. It is also used by research analysts to value and compare oil and gas companies, and it is frequently included in their published research when providing investment recommendations. Funds from operations per share is calculated based on the weighted average number of shares outstanding consistent with the calculation of net income per share.

Non-GAAP Financial Measures

Within this news release, references are made to terms commonly used as key performance indicators in the oil and natural gas industry. We believe that operating income, operating netback, and net debt to funds from operations are useful supplemental measures for management and investors to analyze operating performance, financial leverage, and liquidity, and we use these terms to facilitate the understanding and comparability of our results of operations and financial position. However, these terms do not have any standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities.

Operating income, which is calculated as gross revenue less royalties and operating expenses, represents the cash margin for product sold. Operating netback, which is calculated as average unit sales price less royalties and operating expenses, represents the cash margin for product sold, calculated on a per boe basis. Net debt to funds from operations is calculated as net debt (total debt less working capital) as a proportion of funds from operations for the previous twelve months. In addition, we refer to various per boe figures, such as revenues and costs, also considered non-GAAP measures, which provide meaningful information on our operational performance. We derive per boe figures by dividing the relevant revenue or cost figure by the total volume of oil and natural gas production during the period, with natural gas converted to equivalent barrels of oil as described above.

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