

Freehold Royalties Ltd. Announces 2014 Third Quarter Results

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CALGARY, ALBERTA--(Marketwired - Nov 13, 2014) - [Freehold Royalties Ltd.](#) (Freehold) (TSX:FRU) announced third quarter results for the period ended September 30, 2014.

RESULTS AT A GLANCE

FINANCIAL (\$000s, except as noted)	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	Change	2014	2013	Change
Gross revenue	52,343	51,545	2 %	156,219	136,291	15 %
Net income	17,913	18,961	-6 %	55,365	43,746	27 %
Per share, basic and diluted (\$)	0.24	0.28	-14 %	0.79	0.66	20 %
Funds from operations (1)	39,561	36,407	9 %	107,673	90,339	19 %
Per share (\$) (1)	0.54	0.54	0 %	1.54	1.35	14 %
Operating income (1)	46,012	44,642	3 %	137,608	117,890	17 %
Net operating income from royalties (%)	78	69	13 %	77	72	8 %
Property and royalty acquisitions (6)	76,780	2,542	-	187,708	3,200	-
Capital expenditures	2,811	5,725	-51 %	20,201	23,952	-16 %
Dividends declared	31,148	28,206	10 %	88,435	84,122	5 %
Per share (\$) (2)	0.42	0.42	0 %	1.26	1.26	0 %
Net debt obligations (3)	122,091	41,715	193 %	122,091	41,715	193 %
Shares outstanding, period end (000s)	74,286	67,326	10 %	74,286	67,326	10 %
Average shares outstanding (000s) (4)	73,214	67,078	9 %	69,844	66,703	5 %
OPERATING						
Average daily production (boe/d) (5)	9,430	8,699	8 %	8,957	8,825	1 %
Average price realizations (\$/boe) (5)	59.54	63.74	-7 %	63.14	55.79	13 %
Operating netback (\$/boe) (1) (5)	53.03	55.79	-5 %	56.28	48.93	15 %

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

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

(3) Net debt obligations as at September 30, 2014 were \$122.1 million, down \$38.0 million from \$160.1 million at June 30, 2014.

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

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

(6) On July 16, 2014, Freehold closed a \$120 million strategic joint venture with a Canadian based company of which \$69.6 million has been expended to September 30, 2014.

November Dividend Announcement

The Board of Directors has declared the November dividend of \$0.14 per share, will be paid on December 15, 2014 to shareholders of record on November 30, 2014. The dividend is designated as an eligible dividend for Canadian income tax purposes. Including the December 15, 2014 payment, the 12-month trailing cash dividends total \$1.68/share.

Results of Operations

2014 Third Quarter Highlights:

- Funds from operations totalled \$39.6 million (\$0.54/share) for the quarter, in-line (on a per share basis) with both Q3-2013 and Q2-2014. Reductions in oil prices were offset by reduced current income tax expense resulting from spending on our East Edson joint venture. Royalty production comprised 78% of total operating income through the third quarter, up from 69% in Q3-2013.
- Net income of \$17.9 million (\$0.24/share) is a 14% decline from Q3-2013 on a per share basis. With offsetting production and commodity price effects, the variance was largely associated with increased depletion and depreciation charges and increased number of shares outstanding.

- Production through Q3-2014 averaged 9,430 boe/d, an 8% increase versus Q3-2013 and a 7% improvement when compared to Q2-2014. Gains were associated with acquisitions and joint ventures made by Freehold through the first nine months of 2014. Royalty production represented 75% of volumes in Q3-2014.
- Working interest production through the quarter declined by 16% versus Q3-2013 primarily associated with corporate consolidations and wetter than normal weather delaying activity amongst our operating partners. Through the quarter, we spent only \$2.8 million on development activities.
- Q3-2014 included minimal prior period adjustments, whereas Q3-2013 had approximately 200 boe/d (60% oil) of positive adjustments.
- Freehold closed a \$120 million strategic joint venture with a Canadian based company in the East Edson area of Alberta on July 16, 2014. Freehold assumes a priority share of production through the creation of a gross overriding royalty (GORR) joint venture. Royalty production associated with this agreement is forecasted at approximately 5.6 mmcf/d of sales natural gas plus associated liquids to year-end 2022, declining 10% per year thereafter.
- Dividends for Q3-2014 totalled \$0.42 per share, unchanged from the prior year.
- Average participation in our DRIP was 20% (Q3-2013-32%). Cash retained totalled \$6.2 million for the quarter and \$21.3 million for the first nine months of 2014.
- At September 30, 2014, net debt totalled \$122.1 million, down \$38 million from \$160.1 million at June 30, 2014 largely due to the equity raise we completed in the quarter. Net debt for the third quarter implied 0.9x times trailing funds from operations and net debt obligations was approximately 22% of total capitalization.

Guidance Update

The table below summarizes our key operating assumptions for 2014, updated to reflect actual statistics for the first nine months of 2014 and our current expectations for the remainder of the year.

- We are revising our 2014 production forecast from 9,500 boe/d to 9,100 boe/d. Reduced volumes reflect the timing of capital expenditures (wet weather, corporate acquisitions) within our drilling program (only \$20 million spent to date), with volumes expected to be shifted to early part of 2015. Average production is expected to be weighted 74% to royalty production.
- Increased royalty production percentage has resulted in a downward revision to our operating cost assumption through 2014.
- For 2014, we are forecasting WTI to average \$94.00/bbl for the year, down from our previous guidance forecast of \$99.00/bbl (represents a \$16/bbl revision to our Q4-2014 forecast), and WCS down to \$83.00/bbl from \$85.00/bbl.
- Through 2014, we are forecasting year-end long term debt of \$142 million, up from previous guidance of \$131 million, largely due to the above mentioned production and pricing changes.
- Our 2014 capital spending budget is expected to remain at \$35 million with a large portion to be spent through Q4-2014.

KEY OPERATING ASSUMPTIONS

2014 Annual Average		Guidance Dated			
		Nov. 13, 2014	Aug. 7, 2014	May 14, 2014	Mar. 6, 2014
Daily production	boe/d	9,100	9,500	9,100	8,700
WTI oil price	US\$/bbl	94.00	99.00	98.00	97.00
Western Canada Select (WCS)	Cdn\$/bbl	83.00	85.00	85.00	83.00
AECO natural gas price	Cdn\$/Mcf	4.25	4.25	4.50	4.50
Exchange rate	Cdn\$/US\$	0.91	0.92	0.90	0.90
Operating costs	\$/boe	5.70	6.00	6.00	6.00
General and administrative costs (1)	\$/boe	2.60	2.60	2.60	2.60
Capital expenditures	\$ millions	35	35	35	35
Dividends paid in shares (DRIP) (2)	\$ millions	29	31	29	29
Long-term debt at year end	\$ millions	142	131	137	38
Current income tax expense (3)	\$ millions	26	28	33	32
Weighted average shares outstanding	millions	71	71	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.

2015 Outlook

For 2015, the Board has approved a capital budget of \$30 million. Our focus will continue to centre on oil development within our mineral title lands and includes approximately 47 gross (7.0 net risked) wells. Our spending will be comprised of approximately one-half to be deployed in southeast Saskatchewan (light oil) with the other half allocated to our Western Alberta (Cardium oil) plays. We maintain that capital may be adjusted as the year progresses, depending on the operating environment and individual well results. Also, an increasing percentage of our capital expenditures are non-operated and therefore dependent on the budgets and changing plans of our partners.

<i>2015 Annual Average</i>		<i>Guidance Dated Nov. 13, 2014</i>
<i>Daily production</i>	<i>boe/d</i>	9,700
<i>WTI oil price</i>	<i>US\$/bbl</i>	85.00
<i>Western Canada Select (WCS)</i>	<i>Cdn\$/bbl</i>	77.00
<i>AECO natural gas price</i>	<i>Cdn\$/Mcf</i>	3.75
<i>Exchange rate</i>	<i>Cdn\$/US\$</i>	0.87
<i>Operating costs</i>	<i>\$/boe</i>	6.60
<i>General and administrative costs (1)</i>	<i>\$/boe</i>	2.90
<i>Capital expenditures</i>	<i>\$ millions</i>	30
<i>Dividends paid in shares (DRIP) (2)</i>	<i>\$ millions</i>	27
<i>Weighted average shares outstanding</i>	<i>millions</i>	75

(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.

Based on this level of capital investment, anticipated drilling activity by lessees on our royalty lands, and normal production declines (and excluding any potential acquisitions), we expect 2015 production to average approximately 9,700 boe/d. Volumes will be comprised of approximately 58% oil and NGL's and 42% natural gas. We continue to maintain our royalty focus with royalty production expected to account for approximately 66% of forecasted 2015 production and 73% of operating income.

Recognizing the cyclical nature of the oil and gas industry, we continue to closely monitor commodity prices and industry trends. We caution that it is inherently difficult to predict activity levels on our lands since we have minimal 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.

With the changing commodity price environment, we will be monitoring our dividend rate closely, and the Board may adjust if required.

Availability on SEDAR

Freehold's 2014 third 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 November 13, 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, acquisitions and the Joint Venture;
- key operating assumptions; and
- amounts and rates of income taxes and timing of payment thereof;

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, net debt obligations, 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 obligations is long-term debt less working capital (current assets less current liabilities). Net debt to funds from operations is calculated as net debt 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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