Freehold Royalties Ltd. Announces Third Quarter Results

14.11.2019 | GlobeNewswire

CALGARY, Nov. 13, 2019 - Freehold Royalties Ltd. (Freehold) (TSX:FRU) announces third quarter results for the period ended September 30, 2019.

Results At A Glance

	Three Months Ended September 30			Nine Months Ended September 30		
FINANCIAL ($000s, except as noted)	2019	2018	Change	2019	2018	Change
Royalty and other revenue	33,068	40,587	-19%	104,010	119,705	-13%
Net income (loss)	2,729	8,389	-67%	(870)	18,198	-105%
Per share, basic and diluted ($)	0.02	0.07	-71%	(0.01)	0.15	-107%
Funds from operations (1)	27,996	35,900	-22%	87,439	102,824	-15%
Per share, basic ($)	0.24	0.30	-20%	0.74	0.87	-15%
Acquisitions and related expenditures	15,060	18,750	-20%	46,962	54,662	-14%
Dividends declared	18,669	18,634	-	55,980	55,285	1%
Per share ($) (2)	0.1575	0.1575	-	0.4725	0.4675	1%
Net debt	105,524	78,657	34%	105,524	78,657	34%
Shares outstanding, period end (000s)	118,568	118,348	-	118,568	118,348	-
Average shares outstanding (000s) (3)	118,513	118,293	-	118,459	118,239	-
OPERATING						
Royalty production (boe/d) (4)	10,149	10,322	-2%	10,200	10,854	-6%
Total production (boe/d) (4)	10,482	11,002	-5%	10,591	11,572	-8%
Oil and NGL (%)	56	54	4%	55	54	2%
Average price realizations ($/boe) (4)	33.87	38.95	-13%	35.35	36.76	-4%
Operating netback ($/boe) (4) (5)	33.36	38.75	-14%	34.98	36.47	-4%

(1) Funds from operations is equivalent to free cash flow.
(2) Based on the number of shares issued and outstanding at each record date.
(3) Weighted average number of shares outstanding during the period, basic.
(4) See Conversion of Natural Gas to Barrels of Oil Equivalent (boe).
(5) See Non-GAAP Financial Measures.

President's Message

Royalty production averaged 10,149 boe/d for Q3-2019, essentially flat versus the previous quarter. We are focused on generating per share growth and we expect to achieve this by enhancing third-party drilling on our royalty lands and acquiring quality royalty assets in both Canada and in the U.S.

Our attractive cost structure enabled Freehold to generate significant free cash flow at current commodity price levels ($0.24 funds from operations per share versus $0.1575 per share in dividends for Q3-2019), resulting in a payout ratio of 67% for Q3-2019.

We executed on Freehold’s U.S. strategy during Q3-2019 by completing our first transaction at accretive multiples, both for production and funds from operations.

Activity levels on our royalty lands continue to meet expectations, with 455 (16.3 net) wells drilled on our lands year-to-date. We expect full year 2019 drilling to achieve our forecast of 20 net wells.

It is our objective to drive oil and gas development on our lands, generate per share production growth, acquire royalties with acceptable growth and risk profiles, and provide a sustainable dividend to our shareholders. During the quarter, we believe we have largely achieved these mandates.

Tom Mullane
President and CEO

Executive Announcement

Freehold is also pleased to announce the appointment of David Hendry as Vice-President, Finance and Chief Financial Officer effective December 1, 2019. Mr. Hendry is a Chartered Professional Accountant with over 25 years of finance experience. Most recently, Mr. Hendry served as the Chief Financial Officer of Obsidian Energy Ltd. Prior to joining Obsidian in 2015, Mr. Hendry served as a finance Vice President at Talisman Energy Inc. At Talisman, he also worked overseas in the Norway and U.K. North Sea offices. Mr. Hendry started his career working nine years in public accounting, largely at PricewaterhouseCoopers. Alan Withey will continue to serve as Interim Vice-President, Finance and Chief Financial Officer until November 30, 2019. Freehold's Board of Directors and management would like to thank Mr. Withey for serving in this role over the last eight months.

Dividend Announcement

Our Board of Directors has declared a dividend of $0.0525 per common share to be paid on December 16, 2019 to shareholders of record on November 30, 2019. The dividend is designated as an eligible dividend for Canadian income tax purposes.

2019 Third Quarter Highlights

- Dividends declared for Q3-2019 totaled $0.1575 per share, unchanged from Q3-2018 and Q2-2019. Our payout ratio totaled 67% for the quarter and 64% for the first nine months of 2019. We continue to position Freehold’s dividend within our guided payout thresholds of 60%-80% of annualized funds flow, positioning Freehold as a defensive investment within oil and gas.
- Freehold's royalty production averaged 10,149 boe/d during Q3-2019. This represents a modest 2% decline versus the same period last year, as well as the previous quarter. The third quarter typically represents a period of weaker production as lower activity levels during spring break-up results in declines in production on our lands.
- Royalty oil production averaged 4,919 boe/d for Q3-2019, up 4% versus the same period in 2018 and 4% when compared to the previous quarter. We remain focused on oil weighted acquisition opportunities and most of the third-party drilling on our royalty lands targets oil prospects.
- Royalty interests accounted for 97% of total production and contributed 100% of operating income (1) in Q3-2019. Oil and natural gas liquids amounted to 56% of production in Q3-2019, up from 55% in Q2-2019.
- Q3-2019 funds from operations and free cash flow (1) totaled $28.0 million, or $0.24 per share, slightly below the $0.25 per share level achieved in Q2-2019. Compared to the prior quarter, funds from operations were impacted by modest weakness in commodity prices and a slight decline in production volumes. Using Freehold’s closing share price as at September 30, 2019 of $7.52 and the average shares outstanding in the quarter, this represents an annualized free cash flow (1) yield of 12%.
- Q3-2019 net income totaled $2.7 million, slightly below the $3.4 million net income recorded in Q2-2019, reducing the year-to-date net loss to $0.9 million for the first nine months of 2019. Freehold incurred a non-recurring impairment of $14.1 million in Q1-2019 which has significantly impacted the year-to-date totals.
- Closing net debt as at September 30, 2019 was $105.5 million, an increase of $7.2 million from the previous quarter and reflective of acquisitions completed in Q3-2019, partially offset by free cash flow in excess of our dividend.

- Freehold closed a US$9.8 million acquisition of certain royalty assets located in North Dakota. Production and funds from operations in 2020 associated with the acquired assets is forecasted to be approximately 200 boe/d and US$2.3 million respectively. In addition, we completed the acquisition of a further largely undeveloped 230 net mineral acres in North Dakota for total cash consideration of US$1.3 million. These deals were completed at attractive rates of return, with expected near-term development of the lands.
- Wells drilled on our royalty lands totaled 181 (6.1 net) in the quarter compared to 175 (6.3 net) in Q3-2018. Despite broader weakness in activity within western Canada, our royalty lands continue to attract capital. During the quarter, activity was focused primarily on our light oil play at Dodsland which continues to deliver strong economics. In addition, we saw drilling within our southwest Saskatchewan Shaunavon/Cantuar oil play, heavy oil drilling in Lloydminster from a well-capitalized producer and activity within our key southeast Saskatchewan acreage.
- In Q3-2019, Freehold issued 24 new lease agreements with 10 companies, compared to 16 leases issued in Q2-2019 and 19 leases issued in Q3-2018. For the year, we expect leasing activity to remain consistent with the previous two years at approximately 100 new leases, with most of the focus this year on acreage in southeast Saskatchewan.
- Cash costs (1) for the quarter totaled $4.67/boe, down from $5.05/boe in Q2-2019 and proximal to $4.22/boe in Q3-2018. The increase in costs year-over-year reflect added general and administrative and interest charges associated with acquisition activity.

(1) See Non-GAAP Financial Measures.

Drilling Activity

In the first nine months of 2019, 455 (16.3 net) wells were drilled on our royalty lands. 181 (6.1 net) wells were drilled in the third quarter of 2019. This represents a 3% decline on a net measure and a 3% improvement on a gross measure over the same period in 2018. Despite significant headwinds associated with Canadian energy and broader activity levels in western Canada, Freehold’s royalty lands continue to attract capital with activity levels in-line or slightly ahead of expectations year-to-date. We are optimistic in meeting our forecast of approximately 20 net wells drilled on our royalty lands in 2019.

Activity through the end of the third quarter of 2019 has been dominated by drilling in Saskatchewan and Manitoba. Together, Saskatchewan and Manitoba wells represented approximately 60% of our gross drilling in 2019 (77% on a net basis). Activity year-to-date has also been primarily focused on oil prospects. Drilling continues in the Viking in west central Saskatchewan (116 gross wells in 2019, 9.7 net). Mississippian plays in southeast Saskatchewan and southwest Manitoba (69 gross wells, 1.8 net), and Jurassic oil plays in southwest Saskatchewan (36 gross wells, 0.4 net) are also strong contributors through the end of this quarter. In Alberta, activity has been concentrated in the Viking in east central Alberta (81 gross wells, 0.3 net), as well as the Cardium in western Alberta (38 gross wells, 0.9 net). Activity has been growing in Mannville oil plays throughout the basin in the latter part of 2019 (77 gross wells, 2.3 net). The emerging plays in the Duvernay and Clearwater continue to develop, with 17 gross, 0.3 net wells drilled between these two new plays through the end of this quarter.

Our top payors continue to represent some of the most well capitalized upstream companies in Canada.

Royalty Interest Drilling

	Three Months Ended September 30				Nine Months Ended September 30			
	2019		2018		2019		2018	
	Gross	Net (1)	Gross	Net (1)	Gross	Net (1)	Gross	Net (1)
Total	181	6.1	175	6.3	455	16.3	499	13.9

(1) Net wells are the equivalent aggregate of the number obtained by multiplying each gross well by our royalty interest percentage.

2019 Guidance Update

Below are details of some of the changes made to our key operating assumptions for 2019 based on results for the third quarter and expectations for the remainder of the year. We expect to provide our 2020 operating and financial guidance as part of our fourth quarter results, which we will release in March 2020.

- We are maintaining our 2019 average royalty production range of 10,000 boe/d to 10,500 boe/d. Volumes are expected to be weighted approximately 55% oil and natural gas liquids and 45% natural gas. We continue to maintain our royalty focus with royalty production accounting for 96% of forecasted 2019 production and virtually all of our operating income.
- We are lowering our expected 2019 full year oil price assumptions for WTI to US$56.50/bbl (previously US$57.50/bbl) and for Edmonton Light Sweet prices to $64.50/bbl (previously $66.00/bbl). Our C$/US$ currency exchange assumption remains at US$0.75 per Canadian dollar.
- Our 2019 AECO natural gas price assumption increases slightly to $1.70/mcf (previously $1.60/mcf).
- Based on our current $0.0525/share monthly dividend level, we expect our 2019 payout ratio (dividends declared/funds from operations) to approximate 65% (previously 60% to 65%).
- General and administrative costs remain at $3.00/boe reflecting slightly lower costs for the remainder of the year.
- Total cash costs remain at $5.25/boe primarily as a result of lower general and administrative and operating costs for the remainder of the year.
- Estimated year-end net debt to funds from operations for exit 2019 is unchanged at 0.8 times.

Key Operating Assumptions

		Guidance Date			
2019 Annual Average		Nov. 13, 2019	Aug. 1, 2019	May 7, 2019	Mar
Royalty production (excludes working interest production)	boe/d	10,000-10,500	10,000-10,500	9,900-10,300	9,90
West Texas Intermediate crude oil	US$/bbl	56.50	57.50	62.50	55.0
Edmonton Light Sweet crude oil	Cdn$/bbl	64.50	66.00	71.00	61.0
AECO natural gas	Cdn$/Mcf	1.70	1.60	1.60	1.60
Exchange rate	Cdn$/US$	0.75	0.75	0.75	0.76
Operating costs	$/boe	1.00	1.00	1.00	1.00
General and administrative costs	$/boe	3.00	3.00	3.00	3.00
Weighted average shares outstanding	millions	119	119	119	119

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 the next quarter. We will continue to evaluate the commodity price environment and adjust the dividend levels as necessary (subject to the quarterly review and approval of our Board of Directors).

Conference Call Details

A conference call to discuss financial and operational results for the period ended September 30, 2019 will be held for the investment community on Thursday, November 14, 2019 beginning at 7:00 am MT (9:00 am ET). To participate in the conference call, approximately 10 minutes prior to the conference call, please dial 1-800-898-3989 (toll-free in North America) participant passcode is 4242086#.

Availability on SEDAR

Freehold’s 2019 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 at www.freeholdroyalties.com.

Forward-looking Statements

This news release offers our assessment of Freehold’s future plans and operations as at November 13, 2019 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 expectation of generating per share growth by enhancing third-party drilling on our royalty lands and by acquiring quality royalty assets in both Canada and in the U.S.;
- our intent to maintain balance sheet strength (1.5 times net debt to funds from operations) and achieve a sustainable payout ratio;
- our expected area of focus for future U.S. acquisitions;
- our intent to advance drilling and further development on our land base and to add high quality royalties that enhance our sustainability;
- our expectation of near-term development of our recently acquired lands in the U.S.;
- our forecast of approximately 20 net wells drilled on our royalty lands in 2019;
- 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;
- our intention to allocate free cash flow towards a combination of debt repayment, value enhancing acquisitions and our dividend, with the goal of maximizing returns for our shareholders;
- 2019 general and administrative and total cash costs forecasted at approximately $3.00 and $5.25/boe respectively;
- foreign exchange rates;
- forecast 2019 average royalty production, including product mix and percentage of total production and operating income from royalties;
- forecast 2019 payout ratio;
- forecast 2019 year-end net debt to funds from operations;
- key operating assumptions including forecast operating costs and general and administrative costs;
- our dividend policy and expectations for future dividends;
- treatment under governmental regulatory regimes and tax laws; and

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 dated March 7, 2019, which is available at www.sedar.com and on our website at www.freeholdroyalties.com.

With respect to forward-looking statements contained in this news release, we have made assumptions regarding, among other things, future commodity prices, future capital expenditure levels, future production levels, future exchange rates, future tax rates, 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 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, shut-in production, production additions from our audit function 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. To the extent any guidance or forward-looking statements herein constitute a financial outlook, they are included herein to provide readers with an understanding of management's plans and assumptions for budgeting purposes and readers are cautioned that the information may not be appropriate for other purposes. 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 International Financial Reporting Standards (IFRS), which are the Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises, 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 barrel). 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, 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.

Non-GAAP Financial Measures

Within this news release, references are made to terms commonly used as key performance indicators in the oil and gas industry. We believe that operating income, operating netback, payout ratio, free cash flow and cash costs 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 is calculated as royalty and other revenue less operating expenses. It shows the profitability of our revenue streams as it provides the cash margin for product sold after directly related expenses. Operating netback, which is calculated as average unit sales price less operating expenses, represents the cash margin for product sold, calculated on a per boe basis.

Free cash flow is calculated by subtracting capital expenditures from funds from operations. In periods where Freehold has no capital expenditures, this figure is interchangeable with funds from operations. Free cash flow is a measure often used by dividend paying companies to determine cash available for the payment of dividends, reducing debt or available for investment.

Payout ratios are often used for dividend paying companies in the oil and gas industry to identify its dividend levels in relation to the funds it receives and uses in its capital and operational activities. Our payout ratio is calculated as dividends declared as a percentage of funds from operations.

Cash costs is a total of all recurring costs in the statement of income deducted in determining funds from operations. For Freehold cash costs are identified as operating expense, general and administrative expense, interest expense and share based compensation payments. It is key to funds from operations, representing the ability to sustain dividends and/or repay debt.

We refer to various per boe figures 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, natural gas liquids and natural gas production during the period, with natural gas converted to equivalent barrels of oil as described above.

For further information related to these non-GAAP terms see our most recent MD&A.

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