Freehold Royalties Ltd. Announces Second Quarter 2020 Results

12.08.2020 | GlobeNewswire

CALGARY, Aug. 12, 2020 - Freehold Royalties Ltd. (Freehold or the Company) (TSX:FRU) announces second quarter results for the period ended June 30, 2020.

Results at a Glance

	Three Months Ended June 30			Six Months Ended June 30		
FINANCIAL ($000s, except as noted)	2020	2019	Change	2020	2019	Change
Royalty and other revenue	14,758	35,333	-58 %	41,042	70,942	-42 %
Net income (loss)	(5,421)	3,430	-258 %	(14,443)	(3,649)	-296 %
Per share, basic and diluted ($)(1)	(0.05)	0.03	-267 %	(0.12)	(0.03)	-300 %
Cash flows from operations	13,144	27,816	-53 %	44,027	47,136	-7 %
Funds from operations	10,622	30,095	-65 %	30,870	59,443	-48 %
Per share, basic ($) (1)	0.09	0.25	-64 %	0.26	0.50	-48 %
Acquisitions and related expenditures	981	30,973	-97 %	6,421	31,902	-80 %
Dividends Paid	9,790	18,674	-48 %	28,473	37,322	-24 %
Per share ($) (2)	0.0825	0.1575	-48 %	0.2400	0.3150	-24 %
Dividends declared	5,341	18,660	-71 %	24,026	37,311	-36 %
Per share ($) (2)	0.045	0.1575	-71 %	0.2025	0.3150	-36 %
Payout ratio (3)	92 %	62 %	48 %	92 %	63 %	46 %
Net debt	96,071	98,310	-2 %	96,071	98,310	-2 %
Shares outstanding, period end (000s)	118,705	118,513	-	118,705	118,513	-
Average shares outstanding (000s) (1)	118,664	118,458	-	118,644	118,431	-
OPERATING						
Royalty production (boe/d) (4)	9,150	10,311	-11 %	9,884	10,226	-3 %
Light and medium oil (bbl/d)	3,313	3,727	-11 %	3,588	3,731	-4 %
Heavy oil (bbl/d)	872	983	-11 %	1,055	947	11 %
NGL (bbl/d)	772	962	-20 %	822	937	-12 %
Total liquids (bbl/d)	4,957	5,672	-13 %	5,465	5,615	-3 %
Natural gas (Mcf/d)	25,156	27,834	-10 %	26,513	27,664	-4 %
Total production (boe/d) (4)	9,285	10,664	-13 %	10,155	10,646	-5 %
Oil and NGL (%)	54	55	-2 %	55	55	-
Average price realizations ($/boe) (4)	17.08	35.88	-52 %	21.75	36.08	-40 %
Cash Costs ($/boe) (3) (4)	4.79	5.05	-5 %	5.30	5.72	-7 %
Operating netback ($/boe) (3) (4)	16.86	35.36	-52 %	21.40	35.79	-40 %

(1) Weighted average number of shares outstanding during the period, basic
(2) Based on the number of shares issued and outstanding at each record date
(3) See Non-GAAP Financial Measures
(4) See Conversion of Natural Gas to Barrels of Oil Equivalent (boe)

President’s Message

The focus through Q2-2020 was on stabilizing our business in a very dynamic environment. Early in the quarter, we announced a 71% reduction in our monthly dividend and reduced our general and administrative

(G&A) expenses by 15%. These changes were necessary to maintain the sustainability of our business during the sharp drop in oil prices. Our balance sheet remains strong including a reduction of net debt by $5.7 million compared to Q1-2020 despite volatile commodity pricing and as further supported by the expectation that our debt to funds from operations will remain below 1.5 times through 2020.

In addition, we successfully disposed of a large percentage of our remaining working interest production. This disposition will improve our corporate netbacks and profitability margins while reducing our asset retirement liability.

Operationally, Q2-2020 royalty production averaged 9,150 boe/d, down 11% versus the same period last year. The reduction in volumes were primarily associated with shut-in volumes as a result of producer response to low oil pricing. These shut-in volumes represented 11% of production, with much of this production now expected to come back on-line through the third quarter. These relatively low shut-in volumes are a testament to the quality and resiliency of Freehold’s royalty portfolio. Given the seasonal nature of drilling in western Canada (Q2 generally has less activity given operating conditions) combined with the uncertainty associated with COVID-19, drilling was muted on our royalty lands over the period. Since quarter-end however, we have had indications that our top industry partners are looking to restart drilling operations in the latter part of 2020, which should aid production volumes into 2021.

In the initial phase of the COVID-19 pandemic we prioritized the health and safety of our workforce by directing all employees to work remotely from home. As Alberta public health measures were relaxed in June, our Return to Office Task Force worked diligently to develop office safety protocols in alignment with government and public health guidelines. With this preparation we were able to reopen our office in July with a reduced staff complement. We will continue to monitor COVID-19 updates and follow the latest guidance to move to our next phase of return. We appreciate the continued efforts of our staff during this time and we want to thank our shareholders for their ongoing support.

Looking forward, we expect the next three to six months to be a challenging period for the North American exploration and production industry. There remains considerable uncertainty associated with the ultimate impact of COVID-19 as it pertains to supply/demand fundamentals surrounding oil prices. Setting ourselves apart from the broader industry, Freehold has continued to provide investors some level of dividend throughout the different business cycles, as royalties represent a high margin business, enabling more returns to be transferred to our shareholders. Over our history, Freehold has been able to pay out greater than $32.50/share in cumulative dividends to its shareholders through varying cycles of the commodity. Moving forward, we expect to revisit our payout on a quarterly basis with the expectation that dividend levels will increase as cash flows improve.

Tom Mullane
President and CEO

Dividend Announcement

Our Board of Directors has declared a dividend of $0.015 per common share to be paid on September 15, 2020 to shareholders of record on August 31, 2020. The dividend is designated as an eligible dividend for Canadian income tax purposes.

2020 payout levels are in-line with our previously stated dividend policy, which outlines a 60%-80% payout based on annualized funds from operations. The COVID-19 pandemic however has caused significant destruction of demand for oil, volatility in commodity prices and uncertainty regarding the timing for recovery, which has made the preparation of financial forecasts challenging. As a result, there may be adverse changes in funds from operations that are currently unforeseen that could require further adjustments to dividend levels. We will continue to evaluate our production expectations and the commodity price environment and adjust the dividend level accordingly.

Q2 2020 Highlights

- Our payout ratio(1) totaled 92% for the quarter, versus 64% during the same period last year. Dividends paid for Q2-2020 totaled $0.0825 per share, down from Q2-2019 and Q1-2020 when dividends paid totaled $0.1575 per share. The increased payout reflected April’s paid dividends of $0.0525 per share. To position Freehold’s dividend within the guided payout thresholds of 60%-80% of annualized funds flow, the dividend paid in May and June was lowered to $0.015 per share. Previously, Freehold reported its payout ratio on a dividend declared basis that for Q2-2020 totaled $0.045 per share or 50% relative to funds from operations.
- Through an unprecedented Q2-2020, where we observed depressed crude oil benchmark pricing caused by demand destruction due to geopolitical forces and the COVID-19 pandemic, Freehold demonstrated its superior performance and relatively low risk profile compared to other investments in the petroleum and natural gas industry through continued dividend payouts and the generation of funds from operations.
- Q2-2020 funds from operations totaled $10.6 million, or $0.09 per share over the quarter, compared to $30.1 million or $0.25 per share in Q2-2019. The reduction in funds from operations from the same period in 2019 and the previous quarter reflected continued weakness in commodity prices along with reduced production volumes associated with shut-in volumes and no third-party drilling. Based on Freehold’s share price at quarter-end of $3.52/share and annualizing Q2-2020 funds from operations, Freehold offers investors a 10% free cash flow yield, a strong return particularly given the volatility associated with Q2-2020.
- Freehold's royalty production averaged 9,150 boe/d during Q2-2020. This represented a 11% decline versus the same period last year and a 14% reduction when compared to the previous quarter. Royalty liquids production averaged 4,957 boe/d for Q2-2020, down 13% versus the same period in 2019 and 17% when compared to Q1-2020. The decline in liquids and overall volumes reflected price driven shut-in volumes during the quarter along with reduced third-party drilling on our royalty lands.
- Production from Freehold’s U.S. royalty assets averaged 74 boe/d in Q2-2020, representing a 69% reduction from 242 boe/d in Q1-2020, as a result of the temporary shut-in of production due to price declines. This is expected to recover in Q3-2020.
- Overall, 11% of payor’s production was shut-in during Q2-2020, given historically low crude oil benchmark pricing observed starting in March and lasting through to May.
- Oil and natural gas liquids represented 54% of production in Q2-2020, down slightly from 55% in Q2-2019 as shut-in production was oil weighted.
- Q2-2020 net loss totaled $5.4 million compared with $3.4 million in net income in Q2-2019. Despite Q2-2020 funds flow of $10.6 million, the higher net loss reflected lower revenues due to the retreat in oil prices and lower production volumes relative to a higher non-cash depletion rate.
- Closing net debt as at June 30, 2020 was $96.1 million, a decrease of $5.7 million versus the previous quarter. The decrease quarter-over-quarter reflects continued positive funds from operations despite lower realized commodity pricing and a reduction to our monthly dividend obligations.
- Cash costs(1) for the quarter totaled $4.79/boe, down from $5.05/boe in Q2-2019 and $5.74/boe in Q1-2020. The decrease in costs year-over-year reflects lower operating costs associated with our completed disposition over the quarter, reduced interest charges reflecting lower absolute debt levels and reduced G&A charges.

(1) See Non-GAAP Financial Measures.

Drilling Muted Through Q2

With crude prices trading at multi-decade lows during Q2-2020 largely caused by geopolitical forces combined with demand destruction due to the COVID-19 pandemic, producers chose to preserve capital through a cessation of drilling activities. As a result, there was no drilling activity for this quarter other than previous period adjustments of 54 (0.4 net) wells drilled. This lag in reporting is largely due to the addition of unit wells that take longer to be made publicly available. This compares to 175 (6.2 net) in Q1-2020 and 127 (2.9 net) royalty wells drilled in Q2-2019. In dialogue with some of our major operators on our royalty lands, we believe that with continued stability in commodity prices, that activity levels will increase through Q3-2020 and year-end on our royalty lands.

Royalty Interest Drilling

	Three Months Ended June 30				Six Months Ended June 30			
	2020		2019		2020		2019	
	Gross	Net (1)	Gross	Net (1)	Gross	Net (1)	Gross	Net (1)
Total	54	0.4	127	2.9	229	6.6	274	10.2

(1) Equivalent net wells are the aggregate of the numbers obtained by multiplying each gross well by our

royalty interest percentage.

Executive Retirement

Michael Stone retired as Vice-President, Land effective June 30, 2020. The Board of Directors and management would like to thank Mr. Stone for his dedication and years of service and wish him well in his retirement.

Conference Call Details

A conference call to discuss financial and operational results for the period ended June 30, 2020 will be held for the investment community on Thursday, August 13, 2020 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 4525123#.

Forward-Looking Statements
This news release offers our assessment of Freehold’s future plans and operations as at August 12, 2020 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 expectations of the impact the recent disposition will have on corporate netbacks, profitability margins, asset retirement obligations and cash costs;
- our expected timing for certain production to come back on-line;
- our expectation that resumption of drilling operations will add in production volumes in 2021;
- our intent to continue to monitor COVID-19 updates and follow the latest guidance to move to our next phase of return;
- our expectation of industry conditions over the near term;
- our expectation of our U.S. royalty production recovering in Q3;
- our expectation that with continued stability in commodity prices activity levels will increase through Q3-2020 and year-end on our royalty lands;
- our outlook for commodity prices including supply and demand factors relating to crude oil, heavy oil and natural gas including the impact of COVID-19 on such factors;
- changing economic conditions; and
- our dividend policy and expectations for future dividends

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including the impact of the COVID-19 pandemic on economic activity and demand for oil and natural gas, 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 for the year ended December 31, 2019 available at www.sedar.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. Additional 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 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.

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 royalty and operating expenses, represents the cash margin for product sold, calculated on a per boe basis.

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. Freehold’s payout ratio is calculated as dividends paid as a percentage of funds from operations.

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.

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 & administrative expense, interest expense and share based compensation payments. It is key to funds from operations, representing the ability to sustain dividends, repay debt and fund capital expenditures.

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 figures by the total volume of oil, NGL 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, including reconciliations to the most directly comparable GAAP terms, see our most recent MD&A.

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Die URL für diesen Artikel lautet:
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