

Freehold Royalties Ltd. Announces Second Quarter 2021 Results, Three Value Enhancing Acquisitions and Increases Dividend by 25%

10.08.2021 | [GlobeNewswire](#)

CALGARY, Aug. 10, 2021 - [Freehold Royalties Ltd.](#) (Freehold or the Company) (TSX:FRU) announces second quarter results for the period ended June 30, 2021.

Operating and Financial Highlights

	Three Months Ended June 30			Six Months Ended June 30		
FINANCIAL (\$000s, except as noted)	2021	2020	Change	2021	2020	Change
Royalty and other revenue	44,925	14,758	204 %	81,670	41,042	99 %
Net income (loss)	12,545	(5,421)) nm	18,180	(14,443)) nm
Per share, basic (\$) ⁽¹⁾	0.10	(0.05)) nm	0.14	(0.12)) nm
Cash flows from operations	33,420	13,144	154 %	58,410	44,027	33 %
Funds from operations	40,208	10,622	279 %	72,629	30,870	135 %
Per share, basic (\$) ⁽¹⁾	0.31	0.09	244 %	0.55	0.26	112 %
Acquisitions and related expenditures	930	981	-5 %	80,712	6,421	nm
Dividends paid	13,147	9,790	34 %	20,780	28,473	-27 %
Per share (\$) ⁽²⁾	0.10	0.0825	21 %	0.16	0.24	-34 %
Dividends declared	14,464	5,341	171 %	23,665	24,026	-2 %
Per share (\$) ⁽²⁾	0.11	0.045	144 %	0.18	0.2025	-11 %
Payout ratio (%) ⁽³⁾	33	% 92	% -59	% 29	% 92	% -63
Long term debt	78,000	102,000	-24 %	78,000	102,000	-24 %
Net debt	40,751	96,071	-58 %	40,751	96,071	-58 %
Shares outstanding, period end (000s)	131,490	118,705	11 %	131,490	118,644	11 %
Average shares outstanding (000s) ⁽¹⁾	131,463	118,664	11 %	131,170	118,623	11 %
OPERATING						
Light and medium oil (bbl/d)	4,102	3,314	24 %	3,958	3,595	10 %
Heavy oil (bbl/d)	1,199	920	30 %	1,122	1,140	-2 %
NGL (bbl/d)	1,107	788	40 %	1,087	842	29 %
Total liquids (bbl/d)	6,408	5,022	28 %	6,167	5,577	11 %
Natural gas (Mcf/d)	28,376	25,576	11 %	29,250	27,468	6 %
Total production (boe/d) ⁽⁴⁾	11,137	9,285	20 %	11,042	10,155	9 %
Oil and NGL (%)	58	% 54	% 4	% 56	% 55	% 1
Average price realizations (\$/boe) ⁽⁴⁾	44.22	17.06	159 %	40.71	21.67	88 %
Cash costs (\$/boe) ^{(3) (4)}	4.48	4.79	-6 %	4.43	5.30	-16 %
Netback (\$/boe) ^{(3) (4)}	39.83	12.68	214 %	36.43	16.91	115 %

nm - not meaningful

(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

Freehold delivered exceptional operational results in the second quarter with production averaging 11,137 boe/d, approximately 1,850 boe/d higher than a year ago and a 2% increase versus the previous quarter, highlighting an organic growth profile within Freehold's North American royalty portfolio. Funds from operations of \$40.2 million, or \$0.31/share also marked the highest level achieved in the past six years while Freehold was able to reduce net debt by \$24 million versus Q1-2021.

The strategic shift to a North American portfolio allows Freehold to participate in increased drilling and completion activity funded by high quality operators, in the best basins in both Canada and the U.S. This balanced approach of Canadian drilling and strong asset performance, alongside our U.S. production outperformance and higher U.S. sales margins, has resulted in Freehold's realized pricing outpacing the increase in benchmark pricing.

We continue to enhance our royalty portfolio, completing three transactions subsequent to Q2-2021. These transactions in the Permian and Eagle Ford basins in Texas and the Clearwater oil play in Canada provide a growth-oriented royalty footprint in the most desirable and economically attractive plays in North America. The assets are expected to contribute an estimated 635 boe/d in Q4-2021 and expected to grow by almost 50% in 2022.

With an improved outlook for commodity prices and strengthened business model, we are increasing our monthly dividend from \$0.04 to \$0.05 per share, or \$0.60 per share annualized. The revision reflects a measured increase in our payout strategy, with the goal of aligning dividend levels to a stronger and stabilizing business outlook.

The groundwork is in place for an exciting second half of 2021 and beyond. We have set production guidance for the second half of 2021 to a range of 11,000-11,500 boe/d, and expect record royalty production levels in the latter half of 2021, exiting the year above 11,500 boe/d. The improved economic conditions are very positive for our industry and our results showcase both the quality of our asset portfolio and highlight the strength of the royalty model.

Freehold incorporates best in class business practices relating to environmental, social, and governance matters and provides investors with an excellent opportunity to participate in the top energy plays across North America.

David M. Spyker

President and CEO

Dividend Announcement

The Board of Directors has declared a dividend of \$0.05 per share to be paid on September 15, 2021 to shareholders of record on August 31, 2021. The dividend is designated as an eligible dividend for Canadian income tax purposes.

Projected 2021 payouts are below our stated dividend policy levels, which outlines a 60%-80% payout ratio over the long-term based on forward looking funds from operations. The dividend increase announced today strikes a balance between continuing to enhance our portfolio through acquisitions and returning the value created by this work back to our shareholders at an appropriate pace.

Subsequent Events

Eagle Ford and Permian Transaction

In July 2021, Freehold closed the acquisition of certain U.S. royalty properties for US\$15.5 million (\$19.3 million). This acquisition includes exposure to the Eagle Ford, Delaware and Midland and basins, expanding Freehold's North American royalty footprint. Freehold forecasts greater than 500 gross development

locations associated with the acquired royalty acres, plus near-term development upside from approximately 15 drilled and uncompleted wells (DUCs) and 30 permits (over 90% of forecast 2022 development activity and approximately 50% of forecast 2023 development activity). The acquired royalty assets provide exposure to a strong suite of E&P producers with multiple year development plans expected on the acreage. 2022 funds from operations from the acquired royalty properties is forecast at approximately \$2.7 million with production of approximately 150 boe/d.

Midland Transaction

On August 10, 2021, Freehold entered into a definitive agreement with an affiliate of OneMap Mineral Services LLC to acquire a concentrated, high quality U.S. royalty package for US\$52.3 million (\$67.1 million) (the Midland Assets) subject to confirmatory due diligence and any potential resulting adjustments and is scheduled to close in October 2021. The Midland Assets will play a key role in strengthening the resiliency of Freehold's North American royalty portfolio, enhancing near and long-term sustainability of Freehold's dividend, through multiple years of production and funds flow growth.

- Core Midland basin royalty position anchored by a premier counterparty with multiple years of development expected to be on the Midland Assets.
- Greater than 2,300 gross future development locations with over 50% of the development locations expected to be economic at a WTI price less than US\$35/bbl and approximately 85% of development locations expected to be economic at a WTI price less than US\$45/bbl.
- 2,976 net royalty acres (166,000 gross drilling unit acres). Approximately 100% of the lands acquired are mineral title royalty acres.
- Based on current futures commodity pricing for the Midland Assets, realized pricing of greater than US\$45/boe (\$56/boe) is expected with crude oil and liquids weighting greater than 75% compares favorably to our Q2-2021 blended netback of \$40/boe.
- Production volumes are forecast to grow by approximately 25% on a compounded annual growth rate from 2021 to 2024 with approximately 50% of development in 2022 underpinned by DUCs and permits and approximately 25% in 2023.
- 2022 production and funds from operations is forecast at approximately 550 boe/d and \$9.0 million

The addition of the both U.S. royalty acquisitions is in-line with Freehold's strategy to add to our North American portfolio, further positioning our portfolio in high quality development areas with multiple years of development upside and growth.

Freehold Acquisition Summary	Production (boe/d)	2022E Funds from Operations @WTI US\$65/bbl
Transaction	2021E	C\$m
Eagle Ford & Permian	\$0.3	\$2.7
Midland	\$0.1	\$9.0
Clearwater	\$0.0	\$1.2
Total	\$0.3	\$12.9

Clearwater Transaction

In July 2021, Freehold also closed a Canadian royalty deal adding to the Company's already strong position in the Clearwater play in central Alberta. Total committed consideration associated with the transaction is up to \$7.9 million, to be paid in accordance with a drilling agreement for a 3% to 5% gross overriding royalty over 38.5 sections of land. 2022 forecast funds from operations associated with the acquired royalty assets is approximately \$1.2 million with production volumes forecast at 100 boe/d.

After closing the latest transaction, production from Freehold's royalty position in the Clearwater is expected to exit 2021 at over 350 boe/d, up from approximately 100 boe/d at year-end 2020.

Second Quarter Highlights

- Freehold's production averaged 11,137 boe/d during Q2-2021. Production volumes grew 20% over the same period last year, highlighting the impact of our year-to-date U.S. acquisition activity as well as a return of third-party drilling activity to our royalty lands.

- Production from Freehold's Canadian assets averaged 9,593 boe/d, up 4% from the same period in 2020. Gains in production were reflective of increased third-party spending on Freehold royalty lands.
- Funds from operations totaled \$40.2 million, or \$0.31 per share. This represented a 279% increase from the \$10.6 million (\$0.09 per share) generated in Q2-2020 and a 24% increase from the \$32.4 million (\$0.25 per share) in Q1-2021. The strong recovery in funds from operations compared to Q2-2020 was due to higher royalty production resulting from Freehold's recent acquisitions of U.S. royalty properties, higher third-party drilling activities, higher commodity pricing reflecting significant improvement in crude oil benchmark pricing combined with both a weighted average shift to stronger U.S. based pricing and a low-cost structure. Continued upward momentum in oil benchmarks combined with higher than expected U.S. production contributed to the increase over Q1-2021.
- Gross wells drilled on our royalty lands totaled 84 in the quarter, which was in-line with production guidance. Drilling was higher compared to 54 gross wells drilled in the same period last year as operators increased their spending on Freehold royalty lands as commodity prices displayed positive momentum combined with incremental drilling activities on our U.S. properties acquired earlier in 2021.
- Dividends declared for Q2-2021 totaled \$0.11 per share, up from \$0.045 per share in Q2-2020 and a 57% improvement from Q1-2021 levels. Freehold's payout ratio ⁽¹⁾ was 33% for the quarter, versus 92% during the same quarter in 2020.
- Q2-2021 net income totaled \$12.5 million compared with a \$5.4 million net loss recorded in Q2-2020. The higher net income reflected increased revenues due to improving oil prices and growth in production volumes.
- Closing net debt as at June 30, 2021 was \$40.8 million, a decrease of \$24.0 million from Q1-2021 and a decrease of \$55.3 million from Q2-2020.
- Cash costs ⁽¹⁾ for the quarter totaled \$4.48/boe, down from \$4.79/boe in Q2-2020. This decrease reflects reduced general and administrative and operating cost charges combined with increased production volumes.

(1) See Non-GAAP Financial Measures.

U.S. Royalty Assets Update

- Production from Freehold's U.S. royalty assets averaged 1,544 boe/d in Q2-2021, a 20% increase from 1,285 boe/d in Q1-2021 and a significant increase from 74 boe/d in Q2-2020. Growth in volumes over the same period last year reflect acquisition activity completed earlier in 2021, a return of volumes shut-in during the low commodity price period and increased third party drilling on our royalty lands.
- In the U.S., activity levels have exceeded expectations with the majority of the focus on light oil prospects targeting the Permian and Eagle Ford basins. Overall, 25 gross wells were drilled on our U.S. royalty lands over the quarter, which was an increase from the 18 gross wells drilled in Q1-2021. Currently seven rigs continuing to drill on our U.S. royalty lands.

Q2 2021 Activity Levels in-line with Forecasts

In total, 84 (2.1 net) wells were drilled on our royalty lands in Q2-2021, a 55% improvement on a gross measure versus the same period in 2020. Increased activity was driven by a broad increase in overall industry spending across both Canada and the U.S. and Freehold's U.S. acquisitions earlier in 2021. With the upward move in crude oil prices, we have seen activity increase on Freehold's royalty lands with approximately 16 rigs (nine in Canada, seven in the U.S.) running on our royalty lands currently. For the first six months of 2021, 146 (5.5 net) wells were drilled on Freehold's Canadian royalty lands, this compares to 229 (6.6 net) wells drilled during the same period last year.

In Q2-2021, approximately 40% of all locations on Freehold's Canadian assets targeted gross overriding royalty prospects with 60% focused on prospects on Freehold's mineral title lands. 24% of all locations drilled targeted prospects in Saskatchewan, 53% in Alberta and 23% in the U.S. on a gross basis. The vast majority of wells drilled (greater than 96%) focused on oil or liquids prospects. In the U.S. approximately 50% of all drilling targeted the Eagle Ford, while 25% and 20% targeted the Midland and Delaware of the Permian, respectively.

Through the first six months of the year, Freehold has seen consistent drilling activity in oil plays such as the Viking, Sparky, Clearwater and Cardium. We are also seeing a strong increase in licensing and well spuds in the Deep Basin as natural gas prices remained strong into Q2-2021. We expect this resurgence in drilling activity that started in June and has continued into Q3-2021, will result in incremental volumes being brought on later in 2021 and early 2022.

Royalty Interest Drilling

	Three Months Ended June 30				Six Months Ended June 30			
	2021		2020		2021		2020	
	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾⁽²⁾	Gross	Net ⁽¹⁾
Canada	59	2.10	54	0.40	146	5.51	229	6.63
United States	25	0.05	-	-	43	0.10	-	-
Total	84	2.10	54	0.40	189	5.61	229	6.63

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

(2) Canada drilled interest wells in Q1-2021 were restated for an unfavorable 0.53 net well adjustment

2021 Guidance

After realizing actual results for the first half of 2021 and with Freehold's most recent acquisitions, we are implementing guidance for the second half of the year. The following table summarizes our key operating assumptions for the second half of 2021 where production is expected to be weighted approximately 55% oil and NGL's and 45% natural gas:

	Guidance Date
H2 2021 Average	August 10, 2021
Average Production (boe/d) ⁽¹⁾	11,000-11,500
West Texas Intermediate crude oil (US\$/bbl)	\$65.00
Edmonton Light Sweet crude oil (Cdn\$/bbl)	\$75.00
AECO natural gas (Cdn\$/Mcf)	\$3.25
Exchange rate (US\$/Cdn\$)	\$0.78

(1) Previously Freehold provided full year 2021 guidance of 10,500-11,000 boe/d

Conference Call Details

A conference call to discuss financial and operational results for the three months ended June 30, 2021 will be held for the investment community on Wednesday August 11, 2021 beginning at 7:00 AM MDT (9:00AM EDT). To participate in the conference call, approximately 10 minutes prior to the conference call, please dial 1-888-789-9572 (toll free in North America) participant passcode is 4628069#

Forward-Looking Statements

This news release offers our assessment of Freehold's future plans and operations as of August 10, 2021 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:

- 2021 forecast production and in certain cases 2022 forecast production and funds from operations associated with our U.S. royalty asset acquisitions that closed or are expected to close in 2021;
- our production guidance for the second half of 2021 and our expectation of 2021 exit production levels;
- Freehold's expectation of future development locations associated with certain U.S. acquired royalty acres and the expectation of how many of such locations are economic at different commodity price levels;
- Freehold's expectation of the production volumes growth from 2021 through 2024 associated with the Acquired Midland Assets;
- the expectation of multiple years of development on the Acquired Midland Assets;
- the expectation that the assets acquired in the U.S. will play a key role in strengthening the resiliency of Freehold's North American royalty portfolio, enhancing near and long-term sustainability of Freehold's dividend, through multi-years of production and funds flow growth;
- 2022 forecast production and funds from operations associated with our Clearwater royalty asset acquisition;
- Our expected 2021 year-end royalty production from the Clearwater play;

- Our royalty production guidance (including expected commodity weightings) for the full year and second half of 2021.

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 failure to complete acquisitions on the timing and terms expected, the failure to satisfy conditions of closing for any acquisitions, 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, 2020 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.

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 management's discussion and analysis which is available on Freehold's profile on SEDAR at www.sedar.com.

Drilling Locations

This news release discloses anticipated future drilling or development locations associated with certain assets associated with Freehold's U.S. acquisitions, all of which are currently considered unbooked locations. Unbooked locations are generated by internal estimates of Freehold management based on prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Unbooked locations do not have attributed reserves or resources. Unbooked locations have been identified by management as an estimation of the multi-year drilling activities on the acquired assets based on evaluation of applicable geologic, seismic, engineering, historic drilling, production, commodity price assumptions and reserves information. There is no certainty that all unbooked drilling locations will be drilled and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources or production. Freehold has no control on whether any wells will be actually drilled in respect of such unbooked locations. The drilling locations on which wells are actually drilled will ultimately depend upon the capital allocation decisions of royalty payors who have working interests in respect of such drilling locations and a number of other factors including, without limitation, availability of capital, regulatory approvals, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been de-risked by drilling existing wells in relative close proximity to such unbooked drilling locations, other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

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<https://www.rohstoff-welt.de/news/391138--Freehold-Royalties-Ltd.-Announces-Second-Quarter-2021-Results-Three-Value-Enhancing-Acquisitions-and-Increa>

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