



## Why Was Freehold Royalties Ltd. up Over 8% on Friday?

### Description

**Freehold Royalties Ltd.** ([TSX:FRU](#)) released its third-quarter 2015 results after market close on Thursday, and this sent shares higher Friday. What was it about the results that had investors driving the shares up over 8%?

### Production is growing nicely

Average daily production for the quarter was 11,266 boe/d, an increase of 19.5% compared with the third quarter last year, and production for the first nine months increased 18.9%. Most of the production growth was due to acquisitions.

### Dividends are covered by cash flow

Freehold recently announced a cut in its monthly dividend to \$0.07 per share from \$0.09 per share. This followed the January dividend cut to \$0.09 from \$0.14 and represents a 22% cut to its dividend. The new dividend rate is much more manageable given the environment that we are in today. The company's basic payout ratio year-to-date was 89% and the all-in payout ratio, taking dividends into account, was 96%.

The dividend yield currently stands at 7.48%.

### Improved 2015 guidance

While the company revised their commodity price expectations down somewhat, production guidance for 2015 was increased to 10,600 boe/d, up from previous guidance of 10,400 boe/d.

Furthermore, the company now expects operating costs to be \$4.75/boe compared with prior forecasts of \$5.00/boe. This is due to a higher percentage of revenue coming from royalty revenue.

For 2016, the company is assuming a WTI price of \$50, and production of 9,800 boe/d. This, of course, does not include future acquisitions.

## In summary

The average realized price per boe declined 42.7% in the third quarter compared with last year and came in at \$34.11. Freehold, like all energy companies, is hurting. But for those investors who would like to get energy exposure to position their portfolios for when the sector improves, Freehold may be a good option.

Its royalty-focused production means the company has a lower-risk business model, as the company does not pay any of the costs associated with production on its royalty-based revenue. Freehold's production is currently 73% royalty production, and royalties make up 83% of operating income.

Furthermore, Freehold is an opportunistic acquirer and has been acquiring in this market downturn, which sets the company up to emerge from the downturn even stronger.

And lastly, the company has a diversified production base, with royalty production from over 30,000 wells and from over 200 operators. The top payer represents 7% of total royalty revenue.

The company's debt-to-equity ratio is 20%, so the balance sheet is respectable. These days, there are not many places we can get relatively safe exposure to the energy sector and collect a relatively safe dividend yield of 7.5%, so Freehold looks to me like a good risk/reward trade off.

## CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

## TICKERS GLOBAL

1. TSX:FRU (Freehold Royalties Ltd.)

## Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

## Date

2025/08/27

## Date Created

2015/11/16

## Author

karenjennifer

default watermark