



## 3 Takeaways From Freehold Royalties Ltd.'s Update

### Description

We have had an update from **Freehold Royalties Ltd.'s** ([TSX: FRU](#)) management, who presented at a CIBC conference this week. Here are a few points that are worth mentioning.

#### A dividend cut may be coming if oil stays low

Management is adamant about not paying the dividend with debt. And while the company has flexibility to do so in the short term, it has no intention to do so in the medium to long term. And really, this is a good thing. It is prudent and shows that the management team are good stewards of capital.

The company is meeting in March to evaluate the situation and decide on the best course of action given the commodity-price environment at that time. Investors should be aware that a dividend cut may come at that time. In my view, the stock is pricing in action to this effect, and again, any cut can be viewed as a good long-term decision.

#### Opportunity for acquisitions

Given that Freehold has a strong balance sheet, the company is in a good position to continue to acquire. This is a positive because in a commodity-based industry, it is typically the companies that are able to acquire during a downturn that create shareholder value as market values are obviously depressed.

Freehold currently has a net-debt-to-cash flow ratio of a mere 1.4 times and a debt-to-total-capitalization ratio of a mere 13%. Further, the company has over \$100 million of credit capacity for any future acquisitions.

However, investors should be aware of the fact that management intends to pay for any larger acquisitions by issuing equity. Again, this speaks to management's goal of keeping debt at more modest levels.

#### Stable, low-risk play on oil

In 2015, 86% of operating income was derived from royalties that offer higher-netback, lower-risk

barrels. Essentially, Freehold's royalty model means it is lower risk with low cash costs, low operating expenditures, and a low debt burden.

Capital expenditures are a mere 17% of cash flow, and with quality, long-life assets that have a low decline rate and over eight years of identified prospects, investors can rest assured that the risk side of the risk/reward equation is in check.

### **Final thoughts**

At this time, management is forecasting that 2016 production will be 9,800 barrels of oil per day, a decline from the 10,600 boe/d achieved in 2015 but up from 2014 levels. This forecast may also change when management has its meeting in March to assess conditions in the marketplace, so we should stay tuned.

Freehold's current dividend yield is 8.71%.

### **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

### **TICKERS GLOBAL**

1. TSX:FRU (Freehold Royalties Ltd.)

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