



## Freehold Royalties Ltd.: A Defensive Play on Rising Oil Prices

### Description

While we have seen an environment that is becoming more and more uncertain with regard to the reliability of oil production in the Middle East, and that has caused investors to bid up the price of oil in recent weeks, there are some of us that are not completely sold on the idea of higher oil prices. For those of us, I submit **Freehold Royalties Ltd.** ([TSX:FRU](#)): a defensive way to benefit from this rally in oil prices, and one that has a dividend yield of 4.25%.

### What makes it a defensive play?

The fact that Freehold's production is royalty focused (82% of production) means that this is a lower-risk business model, as the company doesn't pay any of the costs associated with this production. The company reduces its dividend in difficult times and increases it again when cash flows are stronger with the goal of keeping its payout ratio in the 60-80% range. After a period of decreasing its dividend last year, the company increased it in the latest quarter, the fourth quarter of 2016. The monthly dividend was increased \$0.01 per share to \$0.05 per share.

In the fourth quarter of 2016, Freehold reported record year-over-year production growth of 6% and funds from operations that were flat relative to last year at \$0.26 per share.

### Opportunistic acquirer

Being an acquirer in a market downturn sets Freehold up to emerge from the downturn even stronger and to create shareholder value by buying at attractive valuations.

Freehold announced over \$400 million in transactions in 2015, including the acquisition of Anderson Energy, which added 350 barrels of oil equivalent per day of low-decline working interest production. The **Penn West** asset acquisition, a \$321 million royalty acquisition, added 1,400 barrels of oil equivalent per day of royalty production with \$29 million in 2015 annualized cash flow at US \$60/bbl. And in 2016 came the **Husky Energy** \$165 million royalty acquisition, which saw Freehold add approximately 1,700 barrels of oil equivalent per day of stable production.

## **Diversified production**

Freehold's royalty production is from over 30,000 wells and from over 200 operators. And the top payor represents less than 10% of total royalty revenue.

And the company has a track record of having and accumulating royalty production that is from quality assets and has attractive returns, an acceptable risk profile, and a long economic life.

## **Strong balance sheet**

Freehold currently has a net-debt-to-cash flow ratio of a below one times and a debt-to-total-capitalization ratio of 8.7%. Further, the company has cash of \$892 million.

As oil prices rise, we can expect continued increases in the dividend.

## **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

## **TICKERS GLOBAL**

1. TSX:FRU (Freehold Royalties Ltd.)

## **PARTNER-FEEDS**

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