Energy Investors: Diversify Your Portfolio With This 1 Superstar Stock

Description

The oil and gas industry is dominated by players that engage in the acquisition, development, and production of oil and gas. That is where **Freehold** (TSX:FRU) differentiates itself.

Freehold is a dividend-paying oil and gas royalty company that acquires and actively manages royalties . Its total land holdings exceed 6.8 million gross acres.

An interpretation of the numbers

For the six months ended June 30, 2019, the company reported a mediocre balance sheet with $539 million in negative retained earnings. This is down from $498 million in negative retained earnings at December 31, 2018. Total assets are down $20 million, largely driven by a $32 million decrease in petroleum and natural gas interests. Given the nature of the business, this is likely a decrease in the value of the land rights and less land right contracts signed.

The company's income statement indicates a decrease in revenues from $79 million to $71 million, driven by a decrease in royalty interest revenue of $5.5 million. The company derives the majority of its royalty revenues from oil at 79% of total royalties income. Freehold finished the period with a $3.6 million net loss, which is down from a $9.8 million gain in the prior year.

Operating cash flows are down from $64 million in 2018 to $47 million in 2019. This is largely driven by changes in non-cash working capital of $(12) million, which is down from $(3) million in 2018. Freehold received $20 million through its long-term debt facilities and total PP&E spending decreased $4 million year over year. Given the slowdown in the oil and gas industry, the decrease in PP&E is to be expected.

But wait, there's more

Looking at the company's notes to its financials indicates a couple of important items.

Firstly, the company has access to a $165 million revolving credit facility and a $15 million operating facility. As of June 30, 2019, the credit facilities had $111 million outstanding for a utilization rate of 62%. The syndicate of banks laid out financial covenants that the company must adhere to, of which it is in compliance as of June 30, 2019.

Secondly, the company is managed by CN Pension Trust Funds through its subsidiary Rife Resources Management. The company does not have any employees, as all decisions are made by its parent company. This is good news for investors, as pension funds have long investment horizons, which means that this stock is ideal for buying and holding.

Thirdly, the company received a letter of reassessment from the CRA regarding non-capital losses claimed and carried forward in fiscal 2015. The total amount is $18 million (plus interest), and the company expects to vigorously defend itself and expects that it will be successful in challenging the CRA.

Foolish takeaway

Investors looking to diversify their portfolios and purchase shares of a non-traditional oil and gas company should look into buying shares of Freehold. Despite its negative retained earnings, the company is managed by a subsidiary of CN Pension Trust Funds, which should give investors assurance of its long-term growth prospects.

The company has access to $180 million in credit facilities, which gives it enough liquidity to weather downturns and grow the company when the opportunity presents itself.

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