



Freehold Royalties Ltd. (FRHLF)

Updated April 3rd, 2025 by Ian Bezek

Key Metrics

| | | | | | |
|-----------------------------|--------|--|--------|----------------------------------|----------|
| Current Price: | \$8.98 | 5 Year CAGR Estimate: | 9.4% | Market Cap: | \$1.5B |
| Fair Value Price: | \$9.80 | 5 Year Growth Estimate: | 1.0% | Ex-Dividend Date: | 03/31/25 |
| % Fair Value: | 92% | 5 Year Valuation Multiple Estimate: | 1.8% | Dividend Payment Date: | 04/15/25 |
| Dividend Yield: | 8.4% | 5 Year Price Target | \$10 | Years Of Dividend Growth: | 0 |
| Dividend Risk Score: | F | Sector: | Energy | Rating: | Sell |

Overview & Current Events

Freehold Royalties is a Canadian energy company. Shares are dual-listed in Canada under the ticker “FRU” and the U.S. with the over-the-counter ticker “FRHLF”. The company’s base reporting currency is Canadian Dollars, but this report will use U.S. Dollar figures except when otherwise noted.

Freehold Royalties does not own upstream oil production facilities directly. Rather it partners with operators, providing upfront cash in return for a cut of future oil and gas production volumes. Freehold currently has about 360 royalty partners and has exposure to more than 7 million gross acres of land across the U.S. and Canada. Revenues are a nearly 50/50 split between the U.S. and Canada. The company’s top three production areas are the Midland and Eagle Ford basins in the U.S. along with Canadian heavy oil production in the province of Alberta.

On March 12th, Freehold Royalties reported its Q4 and full-year 2024 results. The company’s top-line revenues dipped slightly in Q4, falling from C\$80 million in the same quarter of 2023 to C\$77 million now. And that’s worse than it seems at first glance, as Freehold spent significant sums of capital on acquisitions in 2024 to bolster its royalty coverage. Specifically, the company’s net debt jumped from C\$101 million at the end of 2023 to C\$282 million at the end of 2024. Despite that, the company’s funds from operations slipped slightly in 2024 versus the prior year. The company made a sizable acquisition of Midland basin royalties in December and this could help bolster 2025 earnings. But that’s likely to be offset by weakness in oil prices, leading us to model roughly flat earnings per share for this year compared to 2024.

Growth on a Per-Share Basis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---------------|---------|---------|--------|--------|--------|---------|--------|--------|--------|--------|---------------|---------------|
| EPS | -\$0.04 | -\$0.08 | \$0.08 | \$0.09 | \$0.03 | -\$0.09 | \$0.41 | \$1.02 | \$0.66 | \$0.69 | \$0.70 | \$0.74 |
| DPS | \$0.66 | \$0.41 | \$0.42 | \$0.43 | \$0.48 | \$0.23 | \$0.38 | \$0.71 | \$0.81 | \$0.76 | \$0.75 | \$0.75 |
| Shares | 91 | 110 | 118 | 118 | 119 | 119 | 137 | 151 | 151 | 152 | 164 | 170 |

Freehold Royalties historically earned close to \$1/share annually in the late 2000s and early 2010s. This came during the period of elevated oil prices, with crude sitting around \$100/barrel for much of this period. Then, Freehold’s profitability collapsed in 2015 when the price of crude dropped by half. Freehold struggled to generate any meaningful profit between 2015 and 2020, though its prospects have improved recently. However, the company has remained well below 2005-2014 levels of profitability in recent years, as the company’s sizable share dilution has watered down returns.

It's important to note that royalty companies often base their payouts on cash flows, rather than accounting earnings. This makes some sense, as significant costs such as amortization of royalty streams are a non-cash expense. That said, over a full cycle, depreciation is a real concern for investors, as the royalty operator will have to buy new production assets to replace their existing streams as they mature or expire. While Freehold paid a significantly higher dividend than its earnings throughout much of the 2010s, we do not believe this practice is sustainable over the long term. Even so, the company was forced to cut its dividend in both 2016 and 2020 given tough industry conditions. The current dividend is 9 cents per month in Canadian Dollars. That works out to C\$1.08 per year, or about \$0.75 per U.S. share, subject to exchange rate volatility. We believe the current dividend can be maintained if today’s oil and gas prices hold up, but that it would be vulnerable in any significant recession or energy market downturn.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now | 2030 |
|-----------|------|------|------|------|-------|-------|------|------|------|------|-------------|-------------|
| Avg. P/E | -- | -- | 138 | 68.7 | 168.5 | -- | 24.6 | 11.4 | 15.9 | 13.9 | 12.8 | 14.0 |
| Avg. Yld. | 9.3% | 7.2% | 4.0% | 5.3% | 7.9% | 14.8% | 5.3% | 6.1% | 7.6% | 8.0% | 8.4% | 7.3% |

Freehold Royalties has traded at a wildly uneven P/E ratio over the years. The company lost money outright in 2015, 2016, and 2020 during periods of low oil prices and it traded at an elevated P/E ratio in other years. The P/E ratio has stabilized in the low-to-mid teens in recently. This seems like a reasonable trading range as long as the price of oil remains near current levels. The current 8.4% dividend yield is above average and we see it moving to 7.3% over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

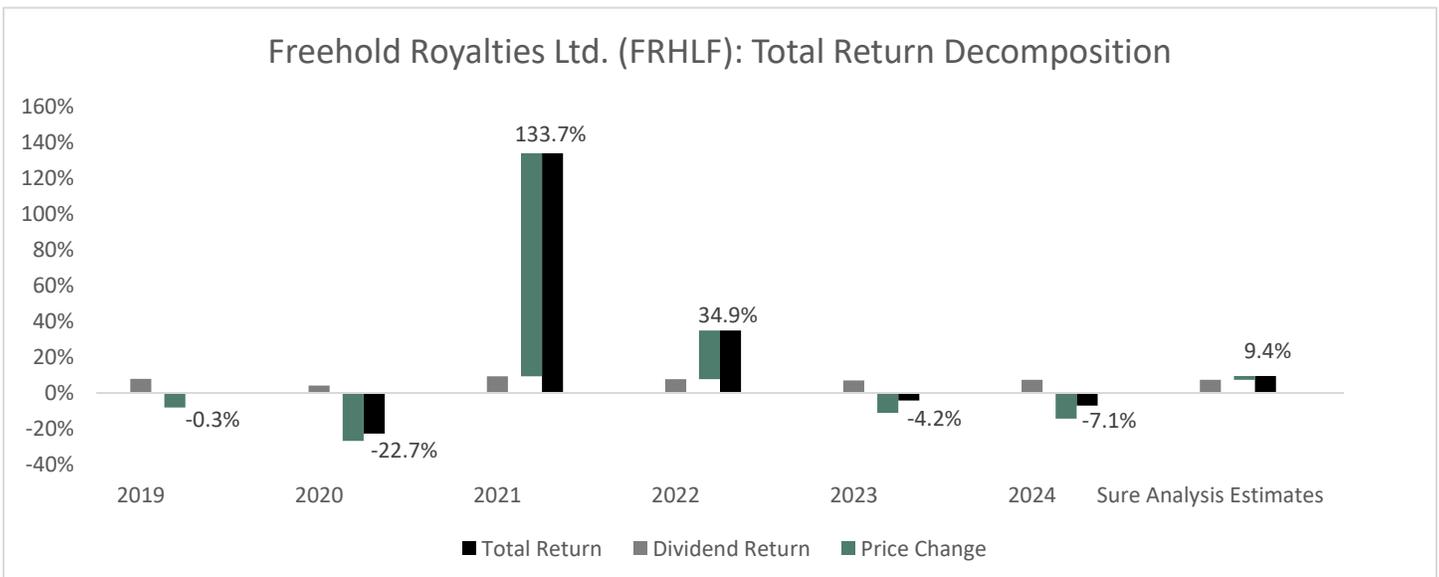
| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|--------|------|------|------|------|-------|------|------|------|------|------|-------------|-------------|
| Payout | -- | -- | 525% | 478% | 1600% | -- | 93% | 70% | 123% | 110% | 107% | 102% |

A royalty company takes somewhat less risk than a pureplay upstream oil and gas company, since its profits come from a variety of different operators, oil and gas fields, and geographical regions. And nearly half of Freehold's royalty agreements are with large-cap energy companies which should remain resilient even during an economic downturn. That said, Freehold remains highly reliant on oil prices, and those tend to be rather fickle. The company's constant wheeling and dealing in terms of issuing shares, making new royalty agreements, and adjusting its dividend both up and down have led to considerable volatility for its shareholders. The existing monthly dividend can be covered out of current cash flows for the time being, that said, the payout ratio is over 100% on an earnings basis, showing that long-term sustainability is much less certain.

Final Thoughts & Recommendation

Freehold Royalties has delivered somewhat better earnings over the past few years as the price of oil has stabilized at a higher level in the post-pandemic landscape. However, the company has a poor long-term track record and we fear that ongoing shareholder dilution will limit upside. In the near-term, U.S-Canada tariffs are a risk factor, and a potential recession would likely hammer energy prices. While the forecasted 9.4% total return going forward isn't bad, shares earn a sell rating given the lack of dividend growth and questionable sustainability of said dividend over the longer-term.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|-----------------------|-------|-------|-------|-------|-------|--------|-------|-------|-------|-------|
| Revenue | 106 | 98 | 117 | 112 | 106 | 67 | 167 | 302 | 233 | 226 |
| Gross Profit | 30 | 18 | 33 | 33 | 35 | 8 | 94 | 217 | 155 | 145 |
| Gross Margin | 27.8% | 18.8% | 28.0% | 29.4% | 32.6% | 11.7% | 56.5% | 71.7% | 66.6% | 64.3% |
| SG&A Exp. | 9 | 9 | 10 | 8 | 10 | 9 | 14 | 17 | 14 | 14 |
| Op. Income | 3 | (7) | 12 | 18 | 20 | (3) | 79 | 198 | 140 | 130 |
| Op. Margin | 2.8% | -6.6% | 10.1% | 16.1% | 19.0% | -4.7% | 47.1% | 65.6% | 60.2% | 57.7% |
| Net Profit | (3) | (8) | 9 | 11 | 4 | (10) | 57 | 161 | 98 | 109 |
| Net Margin | -3.0% | -8.6% | 8.0% | 9.7% | 3.7% | -15.5% | 34.5% | 53.2% | 41.9% | 48.3% |
| Free Cash Flow | 69 | 66 | 88 | 103 | 80 | 47 | 129 | 252 | 153 | (137) |
| Income Tax | (9) | (2) | 4 | 4 | 2 | (2) | 18 | 46 | 30 | 31 |

Balance Sheet Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|-------------------------------|------|------|------|------|------|------|------|------|------|-------|
| Total Assets | 677 | 747 | 760 | 652 | 643 | 651 | 840 | 893 | 843 | 1,033 |
| Cash & Equivalents | 1 | 1 | 0 | 1 | 1 | 1 | 2 | 0 | - | - |
| Accounts Receivable | 15 | 18 | 21 | 9 | 19 | 13 | 36 | 42 | 33 | 34 |
| Total Liabilities | 142 | 91 | 99 | 83 | 101 | 134 | 141 | 185 | 147 | 267 |
| Accounts Payable | 7 | 7 | 6 | 3 | 3 | 3 | 4 | 3 | 4 | 5 |
| Long-Term Debt | 110 | 62 | 72 | 66 | 83 | 73 | 115 | 115 | 93 | 210 |
| Shareholder's Equity | 535 | 656 | 661 | 569 | 542 | 517 | 699 | 708 | 696 | 766 |
| LTD/E Ratio | 0.20 | 0.09 | 0.11 | 0.12 | 0.15 | 0.14 | 0.16 | 0.16 | 0.13 | 0.27 |

Profitability & Per Share Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|-------------------------|-------|-------|------|------|------|-------|------|-------|-------|--------|
| Return on Assets | -0.5% | -1.2% | 1.3% | 1.5% | 0.6% | -1.6% | 7.7% | 18.6% | 11.3% | 11.6% |
| Return on Equity | -0.7% | -1.4% | 1.4% | 1.8% | 0.7% | -2.0% | 9.5% | 22.9% | 13.9% | 14.9% |
| ROIC | -0.6% | -1.2% | 1.3% | 1.6% | 0.6% | -1.7% | 8.2% | 19.7% | 12.1% | 12.4% |
| Shares Out. | 91 | 110 | 118 | 118 | 119 | 119 | 137 | 151 | 151 | 152 |
| Revenue/Share | 1.17 | 0.89 | 0.99 | 0.94 | 0.89 | 0.57 | 1.22 | 2.00 | 1.54 | 1.49 |
| FCF/Share | 0.76 | 0.60 | 0.75 | 0.87 | 0.67 | 0.40 | 0.94 | 1.67 | 1.01 | (0.90) |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

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