



This Precious Metals Royalties and Streaming Company Is on a Tear

Description

Precious metals streamer **Royal Gold** (TSX:RGL)([NASDAQ:RGLD](#)) is on tear, with its share price spiking 51% for the year-to-date. Normally I would attribute this to gold's recent rally, which has seen the precious yellow metal recently hit a three-month high. But with its peers **Franco-Nevada** ([TSX:FNV](#))([NYSE:FNV](#)) and **Silver Wheaton** (TSX:SLW)(NYSE:SLW) lagging behind, there are other factors driving Royal Gold's recent rally.

Latest quarterly results failed to impress

Royal Gold's share price continued to rally despite reporting a disappointing last quarter. Revenue for the financial second quarter (calendar fourth quarter) tumbled 37% in comparison to the same period in the previous year. More surprisingly, net income for the same period tumbled a massive 61% in comparison to the same period in 2012 to U.S. \$0.16 per share, yet the rally continued.

Finally despite the significant drop in net income, Royal Gold increased its quarterly dividend payment by 5% or U.S. \$0.1 per share to U.S. \$0.21 per quarter. This gives the company a forward-looking annual dividend payment for 2014 of U.S.\$0.84 per share, which translates into a 1.2% yield.

Streaming deal at the Phoenix Gold Project is accretive

The 5% boost to the dividend payment alone is not sufficient to have triggered the surge in Royal Gold's share price even when coupled with the recent gold rally. But news of Royal Gold's recently struck streaming deal with **Rubicon Minerals** (TSX:RBX)(NYSE:RBY) has certainly added impetus for investing in the company.

The deal is accretive for the company. Royal Gold will make a total of \$75 million in payments to Rubicon in five installments over the next 12 months toward the construction of the Phoenix Gold Project. In exchange, Rubicon will deliver to Royal Gold 6.30% of any gold produced from this project until 135,000 ounces have been delivered. After which it will deliver 3.15% of any gold produced. More importantly Royal Gold's purchase price per ounce will be a quarter of the spot gold price at time of delivery.

The key highlight of the transaction for Royal Gold are that it provides a stream investment in a high-

grade deposit with an expected mine life of 13 years in a stable political jurisdiction. More importantly the project is already permitted and has substantially advanced infrastructure in place.

Diverse portfolio of assets

Like Silver Wheaton and Franco-Nevada, as a royalty and streaming company Royal Gold doesn't have to assume the majority of liabilities or risks associated with precious metals production. All of its assets essentially consist of a series of fixed term contracts to buy gold, silver and copper at pre-determined prices.

These contracts give Royal Gold and its peers greater certainty as to revenue, cash flow and profitability. They also mean that these companies operate with significantly lower overheads than a gold miner, because they only need to manage administrative costs. There is no requirement to make the massive capital investments that gold miners must make in order to remain as sustainable gold producers.

Essentially this means that royalty and streaming companies like Royal Gold, Silver Wheaton and Franco-Nevada are able to remain profitable at gold prices miners cannot. All of these factors significantly lower the degree of risk for investors seeking to invest in gold in comparison to gold miners.

Currently Royal Gold has a diversified portfolio of assets consisting of royalty interests on 36 producing properties, 21 development stage properties and 147 exploration stage properties, giving it gold reserves of 5.7 million ounces and comparing favorably with Silver Wheaton's reserves of 5.4 million ounces.

All of this highlights that Royal Gold's share price is closely tied the price of gold and the recent gold rally has certainly added considerable upward momentum to its gold price.

So what is Royal Gold worth?

In order to determine whether Royal Gold is overpriced I am using the enterprise-value to EBITDA ratio and comparing it to peers Silver Wheaton and Franco-Nevada. The table also shows each company's debt-to-EBITDA ratio, price-to-book ratio and trailing-12-month price-to-earnings ratio.

[Royal Gold Val Ratios 200214](#)

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As you can see, the strong rally in Royal Gold and Franco-Nevada's share prices have left both with

EV-to-EBITDA ratios that are marginally higher than Silver Wheaton's and significantly higher than the industry average. But Royal Gold does appear inexpensive in comparison to its peers on the basis of its price-to-book.

Foolish bottom line

In comparison to the gold miners, Royal Gold offers investors a lower risk means of gaining exposure to precious metal prices. It's easy to see why its share price has rallied so strongly for the year-to-date. Not only is the company's share price intimately connected to the gold price, but with a new accretive streaming deal coupled with a 5% dividend increase it offers a compelling investment opportunity. But its valuation does appear high in comparison to Silver Wheaton, which has similar attributes but significantly lower valuation ratios.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:RGLD (Royal Gold, Inc.)
2. NYSE:FNV (Franco-Nevada)
3. TSX:FNV (Franco-Nevada)
4. TSX:WPM (Wheaton Precious Metals Corp.)

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