



Collect Thousands in Gold Royalties Starting January 17: Royal Gold, Inc.

Description

Imagine that outside **Goldcorp Inc's** Wharf mine in South Dakota stands a special toll booth. Every time a mining truck passes by, it must pay a fee to the toll operator. For every 50 ounces of gold carried, Goldcorp must pay US\$1,200.

What's better, this toll operator owns another "booth" at **Barrick Gold Corp's** Bald Mountain mine in Nevada... and still another one at **Rubicon Mineral Corporation's** Phoenix Gold mine in Ontario. All told, this firm owns 35 of these "toll booths" all over the world. Well, not literally; there are no actual toll booths, but it's a great metaphor for what's happening at **Royal Gold Inc.**(TSX: RGL)([NASDAQ: RGLD](#)).

The company does collect fees from these miners, most of which are passed on to investors as lucrative royalty cheques. It's no wonder billionaire investor Jim Simons backed up the truck and invested more than US\$30 million into this business. And now could be a great time to follow Mr. Simon's lead and add this cash-gushing company to your portfolio. Let me explain...

How to collect thousands in gold royalties every year

As regular Motley Fool Canada readers know, royalty metal companies are my favourite way to invest in the resource industry. It's a shame more people don't know about them. That's because royalty businesses are the safest way to make huge profits from gold mining.

Royal Gold has been one of the best performers in this group. What makes the company interesting is that it doesn't actually own or operate any mines at all. Instead, the firm buys what is called in the resource business as a "streaming agreement".

Here's how it works. Royal Gold fronts mining companies with the cash they need to build a new project. In exchange, the miner agrees to pay a predetermined fee on every ounce of gold produced.

Take a recent agreement, for example. Earlier this year, Royal Gold paid Rubicon Minerals US\$75 million to fund construction of the new Phoenix Gold Mine. In exchange, Rubicon agreed to deliver 6.3% of the mine's gold output to Royal until 135,000 ounces have been produced, and 3.2%

thereafter. Even better, Royal will be able to buy this gold at 25% of the spot price at the time of delivery.

In essence, every time a truck passes through, Rubicon must pay a fee to Royal — six ounces' worth for every 100 ounces of gold carried. That's over \$5,400 in profit on every single load.

This business model has a lot of advantages over an average mining company. It's not easy to find, build, and operate a mine (while still making a profit). You can watch your razor-thin profit margins vanish if a producer runs into labour strikes, overzealous regulators, or an expensive engineering problem.

In contrast, Royal Gold's costs are fixed. The company can earn thick, juicy margins without taking all of that risk. That's why the stock has advanced 1,500% over the past decade, handily beating your regular old mining business.

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Source: Yahoo! Finance

Better yet, Royal Gold's income could grow in the years ahead. Tolls are simply a percentage of a mine's output. That means an increase in gold prices automatically translates into an increase in profits. And if the company's partners find more gold in the acreage surrounding their mines, Royal Gold can often charge tolls on those ounces, too.

Collect your first royalty cheque by January 17

Royal Gold passes on most of its income to investors in the form of consistent, oversized royalty cheques. Last quarter, it paid a dividend of \$0.25 per share, which comes out to an annualized yield of 1.3%. The rest of the company's profits are reinvested to earn even more royalties.

Best of all, the next round of distributions are scheduled to be mailed out in a few weeks. If you become a shareholder by December 31, you will be able to collect your first royalty cheque on January 17. Then, you will be eligible to earn royalty cheques every quarter after that.

CATEGORY

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1. NASDAQ:RGLD (Royal Gold, Inc.)

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