



Why Now Is the Time to Add Royal Gold Inc. to Your Portfolio

Description

It has been an unpleasant year for precious metals investors, with gold down by 15% and silver plunging by a massive 28%. More worrying is that there are signs of worse to come with an ever stronger U.S. dollar and weaker oil prices boding poorly for the outlook for precious metals. This has hit gold miners hard with the **NYSE ARCA Gold Bugs Index**—a weighted index of the top gold mining stocks—down by a whopping 54% over the last year.

Clearly, the carnage won't stop there, but it has provided contrarian long-term investors willing to bet on a rebound in gold with a range of attractive investment opportunities.

One that stands out is precious metals streaming company **Royal Gold Inc.** (TSX:RGL)(NYSE:RGLD).

Now what?

Like **Silver Wheaton Corp.**, Royal Gold acquires the right to purchase or receive gold and silver from miners in exchange for providing funding to develop their assets. Royal Gold holds a geographically diverse portfolio of streaming and royalty agreements for gold, silver, and base metals spanning six continents, giving it reserves of 74 million ounces of gold and 764 million ounces of silver. This leaves it with a far more diverse asset base than Silver Wheaton and greater exposure to gold; Silver Wheaton only has gold reserves of nine million ounces.

By virtue of being a precious metals streamer, Royal Gold does not operate any mines or exploration assets, but rather provides the financing to those companies that do. This allows it to operate with significantly lower costs, though precious metals mining is a capital intensive activity. It also means that investors in Royal Gold are not exposed to the same degree of risk that they are exposed to when investing in gold and silver miners.

As a result, it is able to remain profitable even with sharply softer precious metals prices dominating the current operating environment. For the last reported quarter net income popped by a healthy 23% compared with the same quarter in the previous year, despite the average gold price being almost 6% lower.

Royal Gold also hasn't remained idle despite declining precious metal prices. It entered into a range of deals in July 2015. These included a US\$525 million gold offtake agreement for **Teck Resources Ltd.'s** Carmen de Andacollo mine and a US\$175 million contract with **New Gold Inc.** for a percentage of the gold and silver production from its Rainy River project in Ontario.

I expect Royal Gold to continue buying acquisitions because the recent weakness in gold and silver is placing pressure on the margins of miners and asset prices.

So what?

I certainly don't believe that investors should be investing a considerable portion of their portfolio in precious metals, especially with recent events indicating that many of the traditional reasons for investing in gold and silver are fading into irrelevance.

However, after its recent sell-off Royal Gold does appear attractively priced, and as a precious metals streamer it does not possess the same degree of risk as any of the gold miners. This, along with its low operating costs, makes it an attractive levered play for the anticipated rebound in gold and silver.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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Author

mattdsmith

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