



Why Did This Junior Gold Stock Just Soar?

Description

Precious metals streamer **Osisko Gold Royalties Ltd.** ([TSX:OR](#))([NYSE:OR](#)) has just completed a billion-dollar transformational deal, causing its stock to soar. Its stock is on a tear, up by almost 26% for the year to date and 17% since I [last wrote](#) about the company a month ago. There are signs that it has a lot farther to climb making it an attractive play on higher precious metals prices.

Now what?

Osisko has entered an agreement to purchase 74 royalties, streams, and precious metal offtakes from U.S. private equity firm Orion Mine Finance Group for \$1.125 billion. The company will pay \$675 million in cash and \$450 million in shares to complete the deal. The transaction adds a solid portfolio of gold, silver, and diamond assets to Osisko's existing high-quality holdings. It will significantly increase Osisko's precious metals reserves and add diamonds to the asset mix, further diversifying the company's earnings.

The deal gives Osisko a solid growth pipeline. Production is forecast to be over 100,000 gold equivalent ounces by 2018 and will grow to 140,000 ounces by 2023. That substantial lift in output is expected to trigger a healthy 10% lift in annual cash flow between now and 2023.

The boost this deal will give to Osisko's operations comes on top of it reporting record production of 10,418 ounces for the first quarter 2017, giving net income a solid 10% lift compared to the same quarter in 2016.

The assets purchased from Orion isn't the only deal Osisko has completed recently.

During the first quarter, Osisko increased its shareholding in **Barkerville Gold Mines Ltd.** to 35.2% and acquired an additional 0.75% royalty on the Cariboo gold project, bringing its total royalty to 2.25%. These deals will also help to boost Osisko's earnings, especially now that gold has completed its next leg up.

More importantly, the underlying fundamentals for gold remain particularly positive.

Geopolitical instability combined with concerns over the erratic statements of the Trump administration are creating fear among investors, causing many to hedge against the growing risk this is creating by investing in gold. This is because gold is perceived to be the ultimate store of value and safe-haven investment.

As a result, the lustrous yellow metal has shot up to US\$1,293 per ounce, just short of the psychologically important US\$1,300-an-ounce barrier and its highest price since late 2016.

The recent weakness of the U.S. dollar has also contributed to firmer gold prices in recent weeks.

So what?

One key advantage that investing in Osisko has over a precious metals exchange-traded fund or physical bullion is that it pays a regular and sustainable dividend, producing income for investors. After the recent surge in its price, that dividend yields 1%, but as the recent acquisition and higher gold prices boost cash flow and earnings, Osisko is well positioned to reward investors with dividend hikes.

The latest transformational acquisition makes Osisko one of the best plays on firmer gold prices.

Not only is it a lower-risk investment than a miner because it doesn't engage in inherently risky mining activities, but it still offers the same leverage to gold and considerable potential upside as the latest deals cause earnings to grow.

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Author

mattdsmith

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