



Bet on Gold's Next Rally by Investing in Osisko Gold Royalties Ltd. (TSX:OR)

Description

Gold has pulled back sharply in recent weeks to be trading well below the psychologically important US\$1,300-an-ounce barrier to be at its lowest price since late December 2017. This has triggered a sell-off of gold stocks, with many junior gold miners having fallen sharply since gold's dramatic decline. This has caused the **VanEck Vectors Junior Gold Miner ETF** (NYSE:GDXJ) to fall by 8% for the year to date.

Other gold mining stocks have plummeted even further, including precious metals streamer **Osisko Gold Royalties Ltd.** (TSX:OR)(NYSE:OR), which has plummeted by a whopping 15%. While there are signs that gold prices will remain soft for the foreseeable future, this has created a long-term opportunity, because there are a range of emerging [positive catalysts](#) for gold.

Now what?

While the global economic outlook remains bright, generating considerable confidence among financial markets, there are an array of storm clouds gathering on the horizon. These include the danger of a trade war as Trump pushes ahead with his controversial protectionist trade policies, which include levying tariffs on up to US\$200 billion of imports from China. Then there are fears that Italy's poorly performing economy and heavily indebted banking system could fall into crisis, the contagion from which could threaten the very viability of the euro.

While higher oil has sparked a flurry of interest in energy stocks, it could trigger an economic downturn. Oil is the lifeblood of modern economic activity, powering a range of industries that are vital to global economic growth and rising global demand growth, because a stronger economy has helped to push prices higher.

Nonetheless, the fear is that demand growth will drop sharply once crude reaches US\$80 a barrel, and if higher prices remain in play for a sustained period, they could trigger a global recession. According to analysts, the danger zone is US\$80-90 a barrel, which is not much higher than Brent's market price of US\$75 per barrel.

Those threats — along with other economic and [geopolitical fissures](#) — make it imperative that

investors hedge against those risks by holding a portion of their portfolio in gold.

One of the best ways of doing so is by investing in Osisko Gold Royalties. Because it is a precious metals streamer, it is not exposed to the same risks as a gold miner, but it still provides levered exposure to the price of gold.

Osisko Gold Royalties has delivered steady growth in its gold production with the volume of ounces produced in 2017 rising by 54% year over year to 58,933 ounces. This was almost double the amount in 2015 and close to five times greater than in 2014. For 2018, the company expects production to reach up to 82,500 ounces, which is 40% greater than 2017. That will give cash flow and earnings a solid boost, despite weaker gold.

An especially appealing aspect of Osisko Gold Royalties's operations is that its stream and royalty interests are generating a cash margin of 91%, which is among the highest in the metals and mining sector. That underscores the profitability of its assets.

All of these characteristics bode well for strong earnings growth, particularly if gold rebounds in coming months. For the first quarter 2018, Osisko Gold Royalties reported record operational cash flows of \$23.3 million, which was almost double the same period in 2017.

The company also repurchased 1.6 million shares during the first quarter, which equated to just over 1% of its float at the start of the quarter, underscoring just how confident management is in Osisko Gold Royalties's future prospects.

So what?

The quality of Osisko Gold Royalties's assets and the low risks associated with precious metals streamers compared to a miner make it an attractive means of bolstering exposure to gold. While investors wait for gold to recover, they will be rewarded by Osisko Gold Royalties's sustainable dividend, which yields 1.5%. There is every sign that as earnings rise, the precious metals streamer will hike its dividend, having hiked it for the last four years.

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