



## Now Is the Time to Acquire This Precious Metals Streamer

### Description

Gold's latest weakness, which sees the yellow metal down by 8% over the last year, has caused the market to punish gold mining stocks and force the **VanEck Vectors Gold Miners ETF** down by a whopping 20% over that period. Some precious metals miners and streamers such as **Osisko Gold Royalties** ([TSX:OR](#))([NYSE:OR](#)) have been hit even harder. Its stock has plummeted by over 38%, as rumours swirl that the precious metals streamer is cash flow negative and facing considerable earnings pressure because of softer gold and a weak balance sheet.

While there are certainly challenges ahead for the company, it appears [attractively valued](#), creating an opportunity for risk-tolerant contrarian investors.

### Now what?

Osisko Gold Royalties is not a precious metals miner but rather a streaming and royalties company, which derives the majority of its earnings from gold that makes up 65% of its production. The company has considerable reserves totaling 36 million ounces of gold, 31 million of silver, and 20 million carats of diamonds across a globally diversified portfolio of streaming and royalty agreements.

Osisko Gold Royalties reported some solid second-quarter 2018 results, which appear to have little positive effect on its market value. This included an astonishing 89% year-over-year increase in the volume of gold equivalent ounces earned. That saw Osisko Gold Royalties generate record revenues from its streaming and royalty agreements of \$32.9 million, which was a remarkable 79% increase compared to a year earlier. Cash flow from operating activities also expanded at a solid clip, rising by 40% year over year to \$19.7 million.

Despite the notable growth in revenue and cash flow, Osisko Gold Royalties reported net income of \$500,000 for the quarter, which was 22 times less than what it had been a year earlier. The substantial drop in net income can be attributed to higher financing costs triggered by the \$1.2 billion acquisition of a portfolio of streaming and royalty agreements from Orion Mine Finance Group in mid-2017. That saw Osisko Gold Royalties report second-quarter finance costs of \$6.3 million, which were six times greater than a year earlier.

The health of Osisko Gold Royalties's balance sheet is of some concern and this is also weighing on its stock. Even though it had considerable liquidity at the end of the second quarter, including almost \$189 million in cash and cash equivalents, long-term debt of \$419 million was a worrying six times trailing 12-month cash flow. In an environment where [gold is softening](#), that figure could blow out earnings and cause cash flows to decline.

Nonetheless, Osisko Gold Royalties is focused on reducing its debt to manageable levels by bolstering its balance sheet. The streamer will receive a payment from **Pretium Resources** for US\$118.5 million because it has notified the Osisko Gold Royalties that it intends to repurchase its interest in the gold and silver stream for Pretium's Brucejack mine. That capital can be deployed to reduce debt as well as fund further accretive acquisitions.

Another concern that has fueled the market's pessimism is that Osisko Gold Royalties is free cash flow negative, although this appears overblown. If we examine Osisko Gold Royalties's second-quarter results and apply the recognized standards for calculating free cash flow, it becomes apparent that it generated free cash flow of just under \$20 million for the quarter. That leaves it well positioned to pay down debt and weather any sustained weakness in the price of gold.

### **So what?**

The sharp decline in Osisko Gold Royalties's market value — along with its high-quality diversified portfolio of precious metals streams and royalty agreements — makes it an attractive means of gaining exposure to gold. While the outlook for the yellow metal is subdued at this time, there is every sign that Osisko Gold Royalties will continue to report solid results through the remainder of 2018 and into 2019.

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### Date

2025/07/20

### Date Created

2018/10/11

### Author

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