



Now Is the Time to Buy Osisko Gold Royalties Ltd. (TSX:OR)

Description

Growing concern of a looming U.S. recession, weaker economic growth in China and a declining outlook for the European Union have all worked to bolster gold in recent months, seeing it rally to over US\$1,343 an ounce before pulling back to just under US\$1,295 per ounce. This has been a boon for gold miners, causing the VanEck Vectors Gold Miners ETF to gain 8% since the start of 2019.

Combined with growing geopolitical uncertainty, these events bode well for gold over the course of 2019, leading to some analysts to claim that the yellow metal will [reach](#) US\$1,400 or higher before the end of the year. While gold miners are one way to cash in on higher gold, precious metals streamers such as **Osisko Gold Royalties Ltd.** ([TSX:OR](#))([NYSE:OR](#)) offer a lower risk alternative.

How do precious metal streamers work?

Like gold miners, precious metals streamers provide investors with levered exposure to the yellow metal, but with far [lower risk](#) because they are not involved in hazardous capital-intensive mining activities. Instead, they essentially provide financing to miners in exchange for receiving a royalty on the precious metal produced or the right to buy gold or silver at a price far below the market value. This also allows streamers to further reduce risk because unlike miners, they aren't required to invest large amounts of capital to develop, operate and maintain a single mine.

As a result, they can significantly diversify their portfolios significantly mitigating investment risk. In the case of Osisko Gold Royalties, it has amassed a highly diversified global portfolio of over 130 royalty, offtake and streaming agreements, which are focused on the stable jurisdictions of the U.S. and Canada. Its key cornerstone and key cash flow generating assets are its contracts on the Canadian Malartic, Seabee and Eleonore mines.

Osisko Gold Royalties has a proven history of growing its production, which for 2018 was a record 80,553 gold equivalent ounces, representing a 37% increase over 2017 and more than six times greater than 2014. That production is diversified across gold, silver, diamonds and other metals, making up 69%, 17%, 11% and 3%, respectively, of the streamers total ounces earned. The company generated a record cash operating margin of 90% from its royalty and streaming agreements during

2018.

For 2019, Osisko Gold Royalties has forecast production of 85,000 to 95,000 gold equivalent ounces, which at its midpoint represents a 12% increase over 2018 with a projected cash margin of 9.9% on its royalty instruments and 65.5% for its streams. This is an operating environment in which it is anticipated that gold will firm further, with some analysts expecting the yellow metal to reach US\$1,400 or higher before the end of 2019.

That marked expansion in production along with the substantial margins generated from Osisko Gold Royalties royalty and streaming contracts will give earnings a healthy lift.

The streamer also cleared the decks during 2018 by announcing \$166 million in impairment charges for the year, which saw its annual net loss balloon out to \$106 million, or more than double the \$43 million loss reported a year earlier.

Most of the impairment related to Osisko Gold Royalties net smelter royalty (NSR) on the Éléonore mine. The property's owner **Goldcorp Inc.**, had announced a US\$1.6 billion impairment expense triggered by a decrease in mineral reserves and resources as well as the properties exploration potential. There is little likelihood that Osisko Gold Royalties will be forced to book such significant impairment expenses during 2019, further boding well for its earnings.

Stronger balance sheet

Osisko Gold Royalties also repaid its credit facility in January 2019 and extended the maturity date by one year to November 2022, which gives the streamer considerable liquidity, with \$450 million available from the facility plus the \$174 million in cash on hand as at the end of 2018.

It also reduced Osisko Gold Royalties debt to \$353 million, a manageable four-times trailing 12-months cash flow. That ratio will fall as cash flow grows at a solid clip during 2019 because of the significant increase in production and firmer gold.

Why buy Osisko Gold Royalties?

Despite gaining 29% for the year to date and gold coming off the boil in recent weeks, the outlook for Osisko Gold Royalties remains extremely positive. There is every likelihood that gold will rally again, which, combined with the streamers growing production, high margins and solid balance sheet will give its stock a healthy boost. While investors wait for this to occur, they will be rewarded by Osisko Gold Royalties regular and sustainable dividend yielding just over 1%.

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