

Royal Gold, Inc. (RGLD)

\$139.84 (As of 08/18/20)

Price Target (6-12 Months): **\$146.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/12/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM: C

Value: F

Growth: B

Momentum: C

Summary

Royal Gold reported year-over-year improvement in both adjusted earnings per share and revenues in fourth-quarter fiscal 2020. The bottom line beat the Zacks Consensus Estimate. The company will gain from the rally in gold prices this year, driven by concerns over the coronavirus pandemic. Moreover, ramping up of new projects and addition of the high-quality long-life Khoemacau development project to its stream portfolio will drive growth. The resolution of the Voisey's Bay Royalty dispute exposes the company to a world-class operating asset ensuring steady stream of royalty revenues. The company remains focused on utilizing strong cash flow for dividend payments, debt reduction and investments. However, suspension of mining operations owing to the pandemic might impact the company's results in the forthcoming quarters.

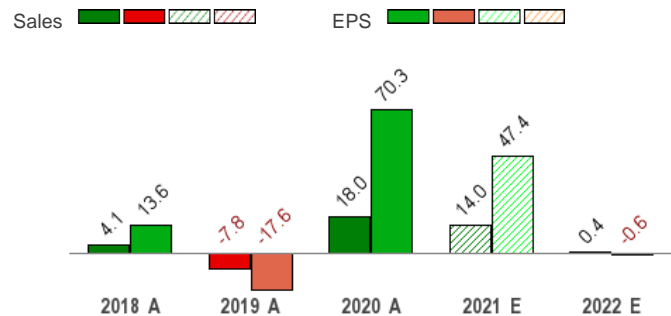
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$147.64 - \$59.78
20 Day Average Volume (sh)	450,715
Market Cap	\$9.2 B
YTD Price Change	14.4%
Beta	0.85
Dividend / Div Yld	\$1.12 / 0.8%
Industry	Mining - Gold
Zacks Industry Rank	Top 25% (64 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-1.3%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	57.3
P/E F1	38.5
PEG F1	3.9
P/S TTM	18.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					571 E
2021					569 E
2020	119 A	124 A	136 A	120 A	499 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$3.62 E
2021	\$0.92 E	\$0.90 E	\$0.85 E	\$0.81 E	\$3.64 E
2020	\$0.60 A	\$0.63 A	\$0.68 A	\$0.53 A	\$2.47 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/18/2020. The reports text is as of 08/19/2020.

Overview

Based in Denver, CO, Royal Gold, together with its subsidiaries, acquires and manages precious metals stream and royalty interests, with a primary focus on gold.

Royal Gold manages its business under two segments:

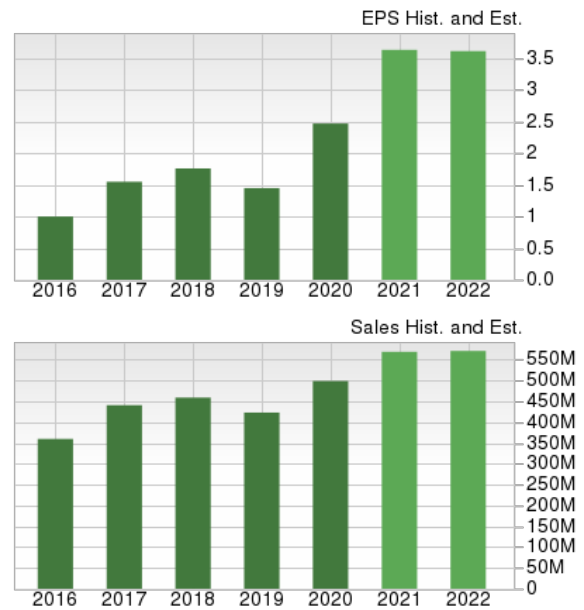
Acquisition and Management of Stream Interests — A metal stream is a purchase agreement that provides, in exchange for an upfront deposit payment, the right to purchase all or a portion of one or more metals produced from a mine, at a price determined for the life of the transaction by the purchase agreement. As of Jun 30 2020, Royal Gold owned seven stream interests, which are on six producing properties and two development stage properties. Stream interests accounted for approximately 72% of total revenues for fiscal 2020.

Acquisition and Management of Royalty Interests — Royalties are non-operating interests in mining projects which provide the right to revenues or metals produced from the project after deducting specified costs, if any. As of Jun 30, 2020, the company owned royalty interests on 35 producing properties, 14 development stage properties and 130 exploration stage properties. Royalties accounted for approximately 28% of total revenues in fiscal 2020.

In February 2019, Royal Gold entered into a silver mine life purchase agreement with Khoemacau Copper Mining Limited, subsidiary of Cupric Canyon Capital LP. The agreement highlights the purchase and sale of silver, produced from the Khoemacau Copper Project in Botswana. Khoemacau is expected to produce approximately 62,000 tons of copper and 1.9 million ounces of silver annually over a 21-year mine life.

So far Royal Gold has made a total contribution of \$146.8 million. The company has a remaining commitment of \$65.2-\$118.2 million. KCM expects the first shipment of concentrate late in the third calendar quarter of 2021.

On Jan 29, 2020, Royal Gold's subsidiary entered into an agreement for the acquisition of a net smelter return royalty of up to 1.06% on gold and up to 1.59% on copper on mining concessions located in the Coquimbo Region of Chile held by Compañía Minera Salitrales Limitada ("CMSL"), a wholly owned subsidiary of Barrick Gold Corporation.



Reasons To Buy:

- ▲ Despite the COVID-19 crisis, Royal Gold reported record revenues, operating cash flow and earnings in fiscal 2020. Revenues were \$499 million, up 18% from fiscal 2019. Gold equivalent ounces were \$320,000, down slightly from the prior year owing to impacts from COVID-19-related production disruptions. However, this volume reduction was mitigated by substantially higher realized gold price that drove revenues. Gold continues to be the most significant revenue driver and accounted for 84% of total revenues for the fiscal fourth quarter, up from 80% in the fiscal third quarter. Gold prices have surged 32% so far this year fueled by the coronavirus pandemic. Going forward, the combination of lower mined gold supply and higher demand, and geopolitical tensions are likely to drive prices north. This bodes well for Royal Gold.
- ▲ On Dec 13, 2019, Newmont which operates the Peñasquito mine, reported that the Peñasquito mine and the San Juan de Cedros community had agreed to a 30-year infrastructure solution securing sustainable water availability for the community's domestic and agricultural uses, which represents a significant milestone. The Peñasquito property will continue to be a significant revenue generator in fiscal year 2020 and beyond. After a temporary suspension due to the COVID-19 crisis, production has gone back to pre-COVID levels in June. Newmont provided full-year 2020 production guidance for Peñasquito of 510,000 ounces of gold, 28 million ounces of silver, 360 million pounds of zinc, and 190 million pounds of lead.
- ▲ Barrick Gold continues to advance feasibility study for the process plant expansion and proposed tailings storage facility for extension of the mine life at Pueblo Viejo mine. Barrick Gold estimates that process plant and tailings expansion project is likely to significantly increase throughput and allow the mine to maintain average annual gold production of approximately 800,000 ounces after calendar-year 2022, while the increase in tailings storage capacity has the potential to convert approximately 11 million ounces of mineralized material to reserves. For calendar year 2020, Barrick Gold indicated production attributable to their interest at Pueblo Viejo is expected in the range of 530,000-580,000 ounces of gold. The company's wholly-owned subsidiary, RGLD Gold AG, owns the right to purchase 35% of the payable gold and 18.75% of the payable copper produced from the Mount Milligan copper-gold mine in British Columbia, Canada. Mount Milligan is operated by an indirect subsidiary of Centerra Gold Inc. For fiscal 2020, Centerra continues to expect consolidated gold production between 140,000 ounces and 160,000 ounces and payable copper production of 80-90 million pounds from Mount Milligan. Centerra also reported that stored water inventory at Mount Milligan, which is critical to the ability to process ore through the mill on a sustainable basis, was in excess of six million cubic meters as at Jun 30, 2020.
- ▲ Royal Gold has settled its long-standing litigation with Vale on their world-class Voisey's Bay mine in Newfoundland and Labrador. The royalty on production of nickel, copper, cobalt and other minerals from the Voisey's Bay mine is directly owned by the Labrador Nickel Royalty Limited Partnership ("LNRLP"), in which the company's wholly-owned indirect subsidiary is the general partner and 90% owner. Vale will be investing \$1.7 billion to develop the underground resources which will extend the mine life from 2023 to 2034. The resolution of the dispute gives Royal Gold the exposure to a world-class operating asset that ensures its shareholders a steady stream of royalty revenue. The company expects Voisey's Bay will once again be among its top 10 revenue generators.
- ▲ Royal Gold added the high-quality long-life Khoemacau development project to its stream portfolio in February 2019. Royal Gold's silver mine life-purchase agreement with Khoemacau Copper Mining Limited (KCM), highlights the purchase and sale of silver, produced from the Khoemacau Copper Project in Botswana. Royal Gold will receive 80% of the silver production from the Khoemacau project, which may be increased to 100% at Cupric's choice. Construction continues to advance well with 54% of construction has been completed as of Jun 30, 2020. So far Royal Gold has made a total contribution of \$146.8 million. The company expects to fund approximately \$35-\$45 million during the remainder of calendar year 2020 and around \$25 million to \$78 million in calendar-year 2021 depending on whether KCM elects to increase the silver stream from 80% to 100%.
- ▲ Royal Gold remains focused on allocating its strong cash flow to dividends, debt reduction and new business. The company's long term debt has gone down at a CAGR of 29% over the past three fiscal years. In April, it withdrew \$200 million from its revolving credit facility as a precautionary measure to strengthen cash position and support continued business activities. As of Jun 30, 2020, the company had \$695 million available and \$305 million outstanding under the revolving credit facility. Working capital, combined with available capacity under the revolving credit facility, resulted in approximately \$1 billion of total liquidity as on Jun 30, 2020. During fiscal 2020, Royal Gold reduced net debt by \$115 million, paid \$71.5 million in dividends, and funded \$135.7 million in advance payments towards its silver stream at Khoemacau. The company has raised its dividend for the 19th consecutive year. The company has a low total debt-to-total capital of 11.5%, which compares favorably with the industry's 22.8%. Its times interest earned is a healthy 20.6, higher than the industry's 16.9. Royal Gold's strong balance sheet and liquidity position poise it well to navigate through the coronavirus-induced crisis while returning value to shareholders.

Royal Gold is likely to benefit from the rally in gold prices and ramping up of new projects. Focus on acquisitions, new business investments aided by a deleveraged strong balance sheet bode well.

Reasons To Sell:

- ▼ The company's revenues are derived entirely from stream and royalty interests in properties owned and operated by third parties. Royal Gold's several operating counterparties had to temporarily suspend mine operations in adherence to government mandates owing to the pandemic. Even though the mines have resumed operations lately, considering the resurgence of cases and the uncertainty of the situation, they may have to be cease operations again. Further, extension of production curtailment at mining properties is likely to have a material impact on its revenues and financials until the situation stabilizes.
- ▼ The pandemic could disrupt operators' supply or distribution chains or access to workers, which in turn could adversely impact their production or sales. In addition, development and exploration activities at some properties may be delayed or suspended. Any of these events could have a material adverse impact on Royal Gold's results of operations and financial condition in the days ahead.
- ▼ Approximately 75% of Royal Gold's revenues for fiscal year 2020 came from six properties — Mount Milligan, Andacollo, Pueblo Viejo, Wassa, Peñasquito, and Cortez. This concentration of revenues could mean that adverse developments, including any adverse decisions made by the operators, at one or more of these properties could have a more significant or longer-term impact on the company's results.
- ▼ A six-month state of emergency has been declared by the government of Botswana to help prevent the spread of COVID-19 but mining has been designated an "essential service" and general development activity at Khoemacau is continuing. However, due to the impacts experienced from travel restrictions, some activities have been slowed or rescheduled. Barring any further impact stemming from COVID-19, the first shipment of concentrate is expected to occur late in the third calendar quarter of 2021 from the prior expectation of mid-2021.
- ▼ The Preliminary Economic Assessment on the Peak Gold joint venture marks just a starting point for the company. While Royal Gold remains committed to advancing Peak Gold, it will continue to review and evaluate strategic alternatives for its ownership in Peak Gold that more closely align with its core business.

Suspension of mining operations and production curtailment owing to the coronavirus pandemic is likely to impact the company's results in the forthcoming quarters.

Last Earnings Report

Royal Gold Q4 Earnings Top, Up Y/Y on Higher Prices

Royal Gold reported adjusted earnings per share of 53 cents in fourth-quarter fiscal 2020, beating the Zacks Consensus Estimate of 50 cents. Notably, the company had reported earnings per share of 44 cents in the prior-year quarter.

Including one-time items, the company reported earnings of 75 cents compared with 40 cents in the prior year quarter.

The company generated revenues of \$120 million, up 4% year over year. While stream revenues declined 5% year over year to \$86 million, royalty revenues were up 35% to \$34 million year over year. Gains from higher average gold and silver prices, and higher royalty revenues primarily from Peñasquito and Cortez were negated by lower average copper price and reduced sales volumes from the stream segment, mainly gold stream sales volumes at Andacollo, Mount Milligan and Pueblo Viejo.

The company's cost of sales were down 13% year over year to \$21 million in the fiscal fourth quarter, primarily due to lower gold sales from Andacollo, Mount Milligan and Pueblo Viejo, partially offset by increased gold prices.

General and administrative expenses rose 3% to \$7 million from the \$6 million in the prior-year quarter. Adjusted EBITDA was \$92 million, up from the \$85 million in the year-ago period.

Financial Position

Net cash from operating activities was \$341 million in the fiscal 2020 compared with the prior-fiscal's \$253 million. The company paid out dividends worth \$71.5 million during fiscal 2020 and has increased dividend for the 19th consecutive year. Royal Gold ended fiscal 2020 with \$319 million cash in hand, up from the \$119 million at the end of fiscal 2019.

As of the end of the fiscal 2020, the company's total debt was \$300.4 million, up from the \$214.5 million at the end of fiscal 2019. As of Jun 30, 2020, Royal Gold had \$695 million available and \$305 million outstanding under the revolving credit facility.

Operational Highlight

Royal Gold reported volume of 70,100 GEOs (Gold Equivalent Ounces), down 20.7% from the year-earlier quarter. In fiscal 2020, Royal Gold reported volumes of 320,000 GEOs.

Fiscal 2020 Performance

Royal Gold reported adjusted earnings per share of \$2.47 in fiscal 2020, up 64% year over year driven by increase in revenues, lower interest expenses and discrete income tax benefits. The bottom line surpassed the Zacks Consensus Estimate of \$2.43. Including one-time items, the company reported earnings of \$3.03 compared with \$1.43 in fiscal 2019.

The company's revenues improved 18% year over year to a record \$499 million, which came in line with the Zacks Consensus Estimate. Increase in stream revenues and a higher average gold and silver prices drove revenues in the fiscal.

Quarter Ending	06/2020
Report Date	Aug 05, 2020
Sales Surprise	NA
EPS Surprise	6.00%
Quarterly EPS	0.53
Annual EPS (TTM)	2.44

Valuation

Royal Gold's shares are up 14.4% in the year-to-date period and 9.7% over the trailing 12-month period. Stocks in the Zacks Mining-Gold industry and the Zacks Basic Materials sector are up 49.9% and 2.0% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 51.5% and 14.3% respectively.

The S&P 500 index has gained 5.2% in the year-to-date and 17.1% in the past year.

The stock is currently trading at 38.50X forward 12-month earnings, which compares with 20.95X for the Zacks sub-industry, 14.94X for the Zacks sector and 22.91X for the S&P 500 index.

Over the past five years, the stock has traded as high as 68.49X and as low as 21.21X, with a 5-year median of 44.36X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$146 price target reflects 40.89X forward 12-month earnings per share.

The table below shows summary valuation data for RGLD:

Valuation Multiples - RGLD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	38.5	20.95	14.94	22.91
	5-Year High	68.49	80.97	21.05	22.91
	5-Year Low	21.21	16.76	9.84	15.25
	5-Year Median	44.36	25.76	13.50	17.58
EV/EBITDA TTM	Current	27.03	23.91	11.07	12.78
	5-Year High	28.23	29.85	18.59	12.85
	5-Year Low	7.74	5.41	6.55	8.25
	5-Year Median	18.06	7.59	10.47	10.91
P/B TTM	Current	3.98	1.88	2.56	4.55
	5-Year High	4.19	2.42	3.07	4.56
	5-Year Low	0.7	0.74	1.23	2.83
	5-Year Median	2.41	1.55	2.21	3.75

As of 08/18/2020

Industry Analysis Zacks Industry Rank: Top 25% (64 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Barrick Gold Corporation (GOLD)	Outperform	1
Alamos Gold Inc. (AGI)	Neutral	3
B2Gold Corp (BTG)	Neutral	3
Eldorado Gold Corporation (EGO)	Neutral	2
Golden Star Resources, Ltd (GSS)	Neutral	2
New Gold Inc. (NGD)	Neutral	3
Osisko Gold Royalties Ltd (OR)	Neutral	3
Pretium Resources, Inc. (PVG)	Neutral	2

Industry Comparison Industry: Mining - Gold				Industry Peers		
	RGLD	X Industry	S&P 500	EGO	OR	PVG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	2
VGM Score	C	-	-	A	F	C
Market Cap	9.17 B	653.93 M	23.71 B	2.06 B	1.95 B	2.29 B
# of Analysts	2	2	14	4	6	2
Dividend Yield	0.80%	0.00%	1.63%	0.00%	1.24%	0.00%
Value Score	F	-	-	A	D	C
Cash/Price	0.04	0.05	0.07	0.23	0.09	0.06
EV/EBITDA	24.15	-2.35	13.45	6.40	-13.45	12.69
PEG Ratio	3.85	2.16	3.01	2.55	1.76	NA
Price/Book (P/B)	3.98	2.36	3.18	0.57	1.68	2.28
Price/Cash Flow (P/CF)	27.06	13.75	12.70	12.14	27.25	12.44
P/E (F1)	38.52	26.75	21.98	12.77	54.70	18.68
Price/Sales (P/S)	18.39	4.71	2.46	2.50	10.28	4.07
Earnings Yield	2.60%	2.83%	4.33%	7.85%	1.87%	5.35%
Debt/Equity	0.13	0.01	0.76	0.11	0.23	0.38
Cash Flow (\$/share)	5.17	0.17	6.94	0.98	0.43	0.99
Growth Score	B	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	19.06%	18.40%	10.44%	4.62%	-12.39%	84.86%
Proj. EPS Growth (F1/F0)	47.17%	65.22%	-5.97%	2,218.75%	2.38%	20.00%
Curr. Cash Flow Growth	23.91%	10.14%	5.22%	108.64%	4.68%	10.14%
Hist. Cash Flow Growth (3-5 yrs)	14.49%	4.97%	8.52%	-12.62%	NA	83.12%
Current Ratio	8.31	3.19	1.33	1.88	3.19	1.26
Debt/Capital	11.54%	1.47%	44.50%	9.85%	18.83%	27.66%
Net Margin	39.96%	14.81%	10.13%	16.51%	-80.56%	11.55%
Return on Equity	7.05%	0.47%	14.59%	2.42%	2.71%	14.77%
Sales/Assets	0.19	0.27	0.51	0.18	0.13	0.35
Proj. Sales Growth (F1/F0)	14.07%	16.56%	-1.54%	56.27%	-50.86%	26.58%
Momentum Score	C	-	-	D	B	F
Daily Price Chg	1.74%	-0.79%	-0.41%	-0.34%	0.51%	-0.96%
1 Week Price Chg	-5.63%	-4.19%	1.09%	-8.35%	-5.03%	-4.92%
4 Week Price Chg	5.56%	7.19%	3.41%	-0.08%	3.16%	29.38%
12 Week Price Chg	5.57%	38.98%	9.80%	39.46%	20.99%	47.49%
52 Week Price Chg	9.66%	42.56%	3.43%	35.16%	-5.54%	-1.67%
20 Day Average Volume	450,715	842,452	1,894,669	3,029,036	986,194	3,055,903
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.31%	5.31%	1.86%	19.52%	2.38%	-2.46%
(F1) EPS Est 12 week change	4.86%	10.00%	2.86%	21.08%	0.00%	2.72%
(Q1) EPS Est Mthly Chg	1.67%	0.00%	0.80%	4.84%	10.29%	-40.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	B
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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