



# Royal Gold Inc. (RGLD)

Updated August 13<sup>th</sup>, 2021 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$115	<b>5 Year CAGR Estimate:</b>	11.6%	<b>Market Cap:</b>	\$7.6B
<b>Fair Value Price:</b>	\$146	<b>5 Year Growth Estimate:</b>	5.5%	<b>Ex-Dividend Date:</b>	10/01/2021
<b>% Fair Value:</b>	79%	<b>5 Year Valuation Multiple Estimate:</b>	4.9%	<b>Dividend Payment Date:</b>	10/16/2021
<b>Dividend Yield:</b>	1.0%	<b>5 Year Price Target</b>	\$191	<b>Years Of Dividend Growth:</b>	20
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	7.1%

## Overview & Current Events

Royal Gold Inc. is a precious metals royalty and streaming company that owns interest in some of the world's most desirable mines. The corporation's main focus is acquiring and managing precious metal stream and royalty interests. This business model provides exposure to higher metal prices and future product expansion while limiting downside by having limited exposure to operating and capital cost risks. The business model is also efficient. The \$7.6 billion market capitalization company has only 27 employees. The majority of its revenue is generated in Canada, Mexico, Chile, and the USA. In 1981, Royal Resources Corporation was an oil and gas exploration and production company. After a series of stock market downturns, the company refocused in the late 1980s and established the high-margin streaming business known today as Royal Gold. Royal Gold trades under the symbol RGLD on the NASDAQ and is headquartered in Denver, Colorado. RGLD has raised the dividend twenty consecutive times with a growth streak of 19 years.

On August 11<sup>th</sup>, RGLD released fourth quarter and full fiscal year 2021 results. RGLD achieved fourth quarter revenue of \$168 million, a record. Operating cash flow of \$121 million was a 32% increase from the prior year period. Adjusted net income grew 96% from \$0.53 per share to \$1.04 per share.

For the full fiscal year 2021, RGLD earned record revenue of \$616 million (up 23% YoY), and operating cash flow of \$407 million (up 19%). Gold made up 74% of revenue with 10% from silver. The corporation generated adjusted net income of \$3.59 for the fiscal year, a 45% year-over-year gain. In 2021, the corporation completed their 20<sup>th</sup> consecutive dividend increase by 7%. The company ended 2021 with no debt and net cash of \$222 million, for available liquidity of \$1.2 billion.

Leadership provided guidance for the first half of fiscal 2022, where they estimate total stream segment and royalty sales volume of between 175,000 and 185,000 Gold Equivalent Ounces (GEOs) and roughly \$545 of depreciation, depletion, and amortization expenses per GEO.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>Adj. NIPS</b>	\$1.61	\$1.09	\$0.96	\$0.80	\$1.00	\$1.55	\$1.76	\$1.51	\$2.47	\$3.59	<b>\$4.18</b>	<b>\$5.46</b>
<b>DPS</b>	\$0.60	\$0.80	\$0.84	\$0.88	\$0.92	\$0.96	\$1.00	\$1.06	\$1.12	\$1.20	<b>\$1.20</b>	<b>\$1.85</b>
<b>Shares<sup>1</sup></b>	57.4	63.4	65.0	65.1	65.1	65.3	65.3	65.5	65.6	65.6	<b>65.9</b>	<b>68.0</b>

Royal Gold measures their growth using adjusted net income per share, which adjusts for fair value changes in equity securities, gain or losses on sales of project interests, and discrete tax benefits. Results are somewhat choppy over the last decade but long-term, the adjusted net income trends upwards. In the last 9 years, adjusted net income per share grew 9.3% on average and in the last 5 years it grew by 29.1% on average off a low-point.

The run-up in precious metals prices naturally supports organic growth within the streams and royalty portfolio. The Khoemacau Project has begun producing copper silver concentrate, leading to increased revenue, and sustained fully ramped-up production should begin in Q1 2022. The company is very active in further making acquisitions, such as the

<sup>1</sup> In millions

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Red Chris Mine royalty and NX Gold Mine gold stream acquisitions in August. We expect that growth will come in around 5.5% on average going forward. Investing cash flow into more royalty and streams, or new mine expansions which RGLD has an interest in, would likely cause growth to come in even higher.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/ANI	47.3	51.5	69.8	70.4	62.4	50.9	47.3	69.3	47.7	32.8	27.6	35.0
Avg. Yld.	0.7%	1.4%	1.3%	1.6%	1.6%	1.2%	1.2%	1.0%	1.0%	1.0%	1.0%	1.0%

Royal Gold has traded at a price-to-adjusted-net-income of 54.9 on average in the past 9 years, and 49.6 in the past 5 years. While shares trade at 27.6 times estimated 2022 adjusted net income, we believe fair value can creep back up to hover around 35 times in the medium term, which would result in gains of 4.9% due to valuation expansion. The dividend yield is expected to remain around 1%. The dividend is well supported and poised to rise for years to come.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

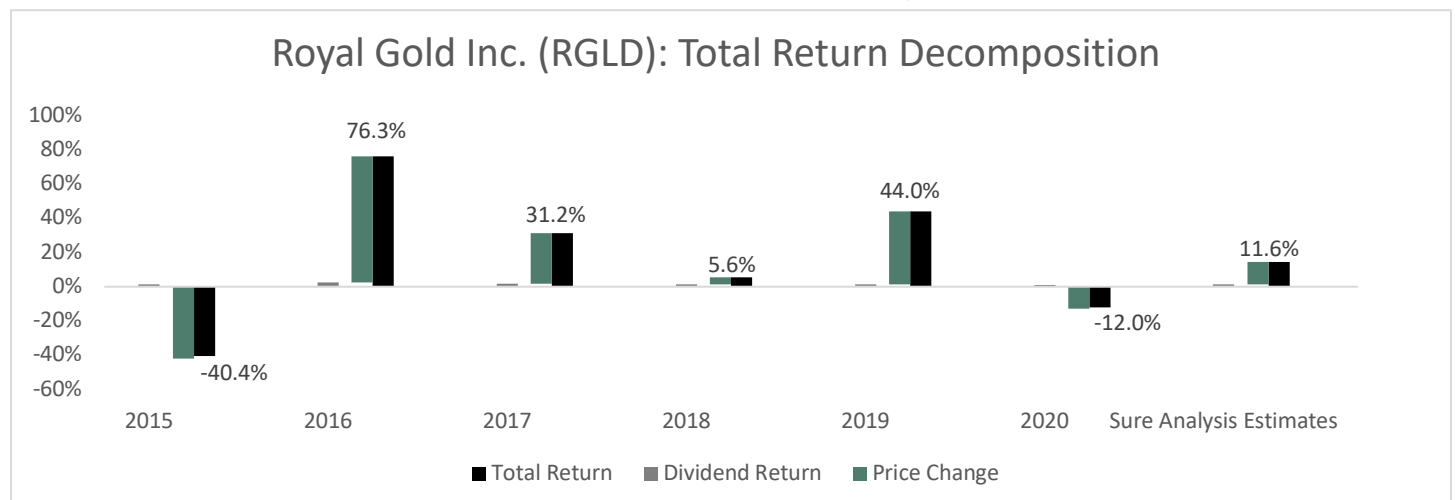
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	37%	73%	88%	110%	92%	62%	57%	70%	45%	33%	29%	34%

Royal Gold does not have any particular competitive advantage over other precious metals streaming companies, but the metals royalty and streams business model is a competitive advantage over regular mining and basic materials companies. The business model provides upside exposure to commodity markets and the commodity cycle without many of the downsides. The corporation has practically no debt, while in 2021 they generated \$407 million of operating cash flow. Royal Gold appears to be quite recession resistant as adjusted net income barely budged during the great financial crisis until it dropped in 2010 and then surpassed prior levels in one year. In many past stock market declines, the price of gold has risen as stocks are crushed which would be an advantage for RGLD if the trend reoccurs.

## Final Thoughts & Recommendation

Due to elevated adjusted net income in the forward period, the share price of Royal Gold has not quite kept up and we see shares trading at 79% fair value today. The stock sports a 1.0% yield which has grown for nineteen years straight. We estimate 5.5% earnings growth and a 7.7% gain due to multiple expansion, which results in total expected returns of 11.6%. We rate RGLD a Buy today.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	263	289	237	278	360	441	459	423	499	616
Gross Profit	179	195	130	146	144	192	209	178	236	333
Gross Margin	67.9%	67.5%	54.8%	52.4%	39.9%	43.6%	45.6%	42.2%	47.2%	54.0%
SG&A Exp.	21	24	21	25	32	33	35	30	30	28
Operating Profit	158	171	109	119	103	146	165	141	200	304
Operating Margin	92	69	63	52	-77	102	-113	94	199	303
Net Profit	35.2%	23.9%	26.4%	18.7%	-21.4%	23.0%	-24.6%	22.2%	40.0%	49.1%
Net Margin	-115	-142	67	132	-1177	63	317	252	185	239
Free Cash Flow	-43.5%	-49.0%	28.3%	47.4%	-327.1%	14.3%	69.1%	59.6%	37.0%	38.8%
Income Tax	55	64	19	10	61	26	15	17	-4	37

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2376	2905	2892	2917	3070	3094	2682	2544	2766	2652
Cash & Equivalents	375	664	660	743	117	86	89	119	319	226
Accounts Receivable	54	50	47	38	18	27	26	21	28	47
Inventories				2	9	8	9	11	12	18
Total Liabilities	513	535	519	501	784	774	541	374	464	148
Accounts Payable	3	3	4	5	4	4	9	3	2	6
Long-Term Debt	293	302	312	314	601	586	351	215	300	0
Shareholder's Equity	1838	2349	2355	2353	2229	2275	2102	2137	2272	2491
D/E Ratio	0.16	0.13	0.13	0.13	0.27	0.26	0.17	0.10	0.13	0

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.3%	2.6%	2.2%	1.8%	-2.6%	3.3%	-3.9%	3.6%	7.5%	11.2%
Return on Equity	5.6%	3.3%	2.7%	2.2%	-3.4%	4.5%	-5.2%	4.4%	9.0%	12.7%
ROIC	4.8%	2.9%	2.3%	1.9%	-2.7%	3.5%	-4.2%	3.8%	8.0%	11.9%
Shares Out.	57.4	63.4	65.0	65.1	65.1	65.3	65.3	65.5	65.6	65.6
Revenue/Share	4.58	4.56	3.65	4.27	5.53	6.75	7.03	6.46	7.60	9.38
FCF/Share	-1.99	-2.23	1.03	2.02	-18.08	0.97	4.86	3.85	2.81	3.64

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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