

Royal Gold

Q4'23 earnings beat, Q1'24 guidance light. Mt. Milligan stream gets a new look.

Maintain Rating: UNDERPERFORM | PO: 120.00 USD | Price: 107.59 USD

Full-year 2024 GEO volume guidance expected in April

Royal Gold (RGLD) reported Q4'23 earnings that beat on higher revenue. Meanwhile, Q1'24 gold equivalent ounce (GEO) stream volume guidance of 47-52k was below forecast (BofAe at 60k; Andacollo a likely delta). Earlier, RGLD announced finalization of an additional stream agreement on its flagship Mt. Milligan asset with mutual benefit for it and the operator. Acknowledging the on-balance positive updates, we point to recent challenges at some key assets and slower long-term growth vs. peers and maintain our Underperform rating. Full-year 2024 GEO volume guidance is expected in April.

Earnings beat driven by better than expected sales

RGLD reported Q4'23 adjusted EBITDA of 122 million (mn), above BofAe at \$109mn, Bloomberg at \$108mn and Visible Alpha at \$113mn. Similarly, adjusted EPS of \$0.95 beat BofAe at \$0.81, Bloomberg at \$0.76 and VA at \$0.80. Driving the earnings beat was revenue at \$153mn that beat BofAe, Bloomberg, and VA by 7%, 6%, and 5%. Revenue from Mt. Milligan, Cortez, and Andacollo were all better than BofAe while Pueblo Viejo missed. Penasquito delivered \$4mn of revenue vs. BofAe at nil. (See exhibit 1, page 2).

2024 GEO volumes below guidance as indicated prior

For full-year 2023, RGLD reported GEO volumes of 312k GEOs, below the original guidance range of 320k-345k GEOs. Drivers of the GEO guidance miss was mainly lower than expected grades at Cortez and a slower ramp-up at Pueblo Viejo. With Q3'23 results RGLD indicated 2023 GEO volumes would be marginally below guidance.

RGLD/CG find mutual benefit at Mt. Milligan

This morning, RGLD and Centerra Gold (CG), the operator of the Mt. Milligan mine on which RGLD has a significant gold/copper stream, announced an additional agreement that effectively extends the mine life by two years to 2035. Net of 2023 mining depletion, this drives a 7% year-on-year (yoy) increase in contained gold reserves at Mt. Milligan to 2.8 million ounces and a 6.5% yoy increase in contained copper reserves to 961 million pounds. While this reduces the profit margin on the stream for RGLD from about 2030 onward, RGLD receives in exchange, \$24.5mn cash, 55,000 ounces of future gold deliveries and 10% the mine's free cash flow from about 2030 onward.

Net debt and liquidity position improved

As at 31-Dec-23, RGLD held net debt of \$146mn (\$250mn debt, \$104mn cash); vs. net debt of \$222mn as at 30-Sep-23 (\$325mn debt, \$103mn cash). The improvement was driven by Q4'23 operating cash flow of \$101mn that beat BofAe at \$94mn, and VA at \$94mn. RGLD repaid \$75mn on its revolving credit facility (RCF) and total liquidity (as at 31-Dec-23) now stands at \$854mn (cash of \$104mn plus RCF availability of \$750mn) vs. \$778mn last quarter. The focus for the call is expected to be deal pipeline, Mt. Milligan.

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Stock Data

Price	107.59 USD
Price Objective	120.00 USD
Date Established	18-Oct-2023
Investment Opinion	B-3-7
52-Week Range	101.82 USD - 147.82 USD
Mrkt Val (mn) / Shares Out (mn)	7,068 USD / 65.7
Free Float	99.7%
Average Daily Value (mn)	33.52 USD
BofA Ticker / Exchange	RGLD / NAS
Bloomberg / Reuters	RGLD US / RGLD.OQ
ROE (2023E)	8.0%
Net Dbt to Eqty (Dec-2022A)	16.4%
ESGMeter™	Medium

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Q4'23 results overview

Exhibit 1: Q4'23 results summary vs. BofAe, consensus and prior quarters

Earnings were better than forecast driven higher sales

US\$ mn, unless noted otherwise	Q4'23A	YoY	Q4'22A	QoQ	Q3'23A	BofA Estimate	Δ%	Bloomberg Consensus	Δ%	VA Consensus	Δ%
Q4 2023 Results											
Sales	152.7	-6%	163.0	10%	138.6	142.9	7%	144.5	6%	146.1	5%
Deprecation (\$mn)	40.1	-18%	49.2	0%	40.1	39.9	1%	NA	nm	NA	nm
Adjusted EBITDA (US\$m)	122.0	-5%	128.4	13%	108.3	108.8	12%	108.0	13%	112.7	8%
Adjusted EPS (US\$/sh)	0.95	4%	0.91	25%	0.76	0.81	18%	0.76	25%	0.80	19%
Cash flow from operations (US\$m)	105.1	-5%	110.4	12%	94.1	94.1	12%	NA	nm	93.7	12%
Net debt (US\$m)	145.8	-70%	481.4	-34%	222.1	249.4	-42%	459.5	-68%	NA	nm
GEO sales	77,100	-18%	94,300	7%	71,900	75,502	2%	NA	nm	NA	nm
	Q4'23A	YoY	Q4'22A	QoQ	Q3'23A	Q3'23A	Δ%	Bloomberg Consensus	Δ%	VA Consensus	Δ%
Revenue breakdown											
Total streams	96.7	-10%	107.1	-2%	99.0	97.2	0%	103.1	-6%	101.7	-5%
Total royalties	54.4	1%	54.1	37%	39.6	45.7	19%	51.1	6%	42.6	28%
Canada	3.1	-46%	5.8	nm	3.1	7.1	-56%	NA	nm	NA	nm
United States	38.6	33%	29.0	37%	28.2	29.7	30%	NA	nm	NA	nm
Latin America	7.5	-50%	14.9	109%	3.6	3.8	97%	NA	nm	NA	nm
Africa	0.0	nm	0.0	nm	0.0	0.7	NA	NA	nm	NA	nm
Australia	5.1	28%	4.0	9%	4.7	4.4	17%	NA	nm	NA	nm
Europe	0.0	nm	0.3	nm	0.0	0.0	nm	NA	nm	NA	nm
Total revenue	152.7	-5%	161.1	10%	138.6	142.9	7%	144.5	6%	146.1	5%
Revenue breakdown (asset)											
Mt. Milligan (Canada stream)	36.429	-28%	50.9	8%	33.9	34.1	7%	33.5	9%	37.2	-2%
Pueblo Viejo (Dominican Republic stream)	13.661	-37%	21.6	-18%	16.7	24.4	-44%	21.5	-36%	18.3	-25%
Cortez (United States royalty)	29.773	62%	18.4	32%	22.6	20.3	46%	23.2	28%	19.7	51%
Penasquito (Mexico royalty)	4.234	-63%	11.4	0.0	0.0	0.0	5.7	nm	nm	3.3	nm
Rainy River (Canada stream)	10.127	19%	8.5	16%	8.7	10.0	2%	NA	nm	9.9	3%
Wassa (Ghana stream)	8.238	-1%	8.3	-1%	8.3	7.2	14%	8.6	-4%	8.6	-4%
Andacollo (Chile stream)	13.519	74%	7.8	-8%	14.6	8.6	57%	13.6	-1%	12.5	8%
Khoemacau (Botswana stream)	7.521	22%	6.1	-17%	9.0	9.4	-20%	8.7	-14%	9.2	-19%
Robinson (United states royalty)	3.619	8%	3.4	171%	1.3	1.0	257%	NA	nm	NA	nm
Canadian Malartic (Canadian royalty)	0.129	-87%	1.0	-57%	0.3	3.4	-96%	NA	nm	NA	nm
Other Mines	25.4	0%	25.5	10%	23.1	29.8	-15%	37.9	-33%	27.3	-7%
Total revenue	152.7	-6%	163.0	10%	138.6	142.9	7%	152.7	0%	146.1	5%

Source: BofA Global Research estimates, Company Reports, Visible Alpha, Bloomberg

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Price objective basis & risk

Royal Gold (RGLD)

Our price objective for Royal Gold is \$120 per share, which is based on the stock trading at 2.00 times our adjusted net asset value (NAV), valuing net cash cost 1:1. Our net asset value (NAV) is based on a 5% discount rate. Historically, North American precious metal stocks have traded between 1 and 3 times NAV, with unhedged, growth-oriented producers occupying the upper end of the range. Given Royal Gold's status as a royalty company as opposed to an operator, our target valuation multiple reflects its good cash flow-generating ability.

Upside risks to our PO are substantially higher commodity prices, higher-than-expected output at the royalty assets, and/or higher reserves at the royalty assets. Downside risks are a weaker gold price, problems at the operations, and no exploration success.

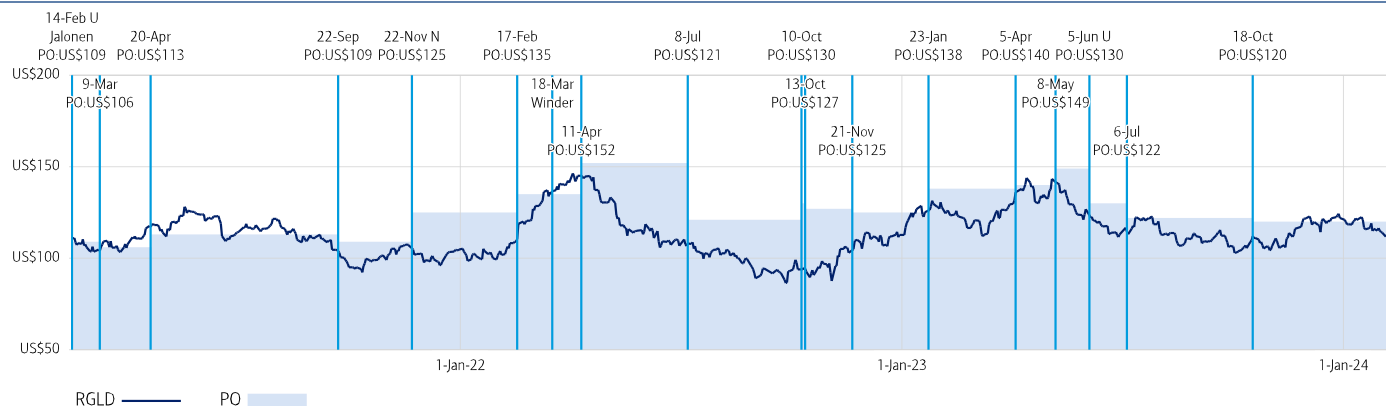
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Royal Gold Inc (RGLD) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	58	53.70%	Buy	26	44.83%
Hold	24	22.22%	Hold	10	41.67%
Sell	26	24.07%	Sell	13	50.00%

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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