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Gold Royalty Corp. (GROY)
Rating: Buy

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Initial Royalty Payment From Borden Lake as Other Assets Continue Nearing Production and Cash Flow; Reit. Buy; PT Higher

Stock Data		07/06/2022	
Price		\$2.16	
Exchange		NYSE American	
Price Target		\$8.50	
52-Week High		\$5.65	
52-Week Low		\$2.15	
Enterprise Value (M)		\$260	
Market Cap (M)		\$290	
Shares Outstanding (M)		134.4	
3 Month Avg Volume		593,770	
Short Interest (M)		0.67	
Balance Sheet Metrics			
Cash (M)		\$29.9	
Total Debt (M)		\$0.0	
Total Cash/Share		\$0.22	
EPS (\$) Diluted			
Full Year - Sep	2021E	2022E	2023E
FY	(0.45)A	(0.04)	0.02
Revenue (M)			
Full Year - Sep	2021E	2022E	2023E
FY	\$0.2	\$4.5	\$10.6



Initial royalty payments received. On July 5, Gold Royalty Corp. (GRC) announced that it had begun to receive payments related to its Borden Lake net smelter return royalty. We stress that GRC's royalty interest on the project pertains to a five-kilometer area and that mining within this area at Borden has begun since then. At this time, GRC has received about \$1.4M in royalty back payments, and this payout therefore introduces an additional cash-flowing asset into the company's portfolio.

Path to meaningful near-term cash flow through additional producing royalties. At this time, we expect robust near-term cash flow growth as two of GRC's largest royalty streams on the Canadian Malartic and the Côté Gold project are expected to reach commercial production in 2023 and 2H23, respectively. Further, GRC's management team has already provided guidance of approximately \$5.0M in total revenue during 2022, while we reiterate that the firm boasts a favorable growth profile which is forecasted at a 60% compound annual growth rate through 2024. To date, the company owns an interest in 195 total royalties, while over 170 of those royalty acquisitions have been completed in the last 12 months. In short, it is our view that GRC's growth story remains especially compelling in a high inflationary environment which is further aided by the company's low-cost royalty model and potentially strong near-term cash flow generation.

Ample liquidity to fund future growth. As of quarter end, GRC maintained \$29.9M in cash and marketable securities amid zero debt. We stress that available liquidity (net of accounts payable and accrued liabilities) totaled about \$25.1M (compared to \$4.0M in 4Q21). In our view, GRC's strengthened balance sheet is a testament to the company's value-enhanced acquisition approach and access to favorable low-cost capital as the company looks to continue executing its growth strategy moving forward.

We reiterate our Buy rating on shares of GROY as we slightly raise our PT to \$8.50 from \$8.25. Our increased PT is a result of incorporating the company's most recent financial results into our model. We maintain a 7.0% discount rate on the São Jorge project, which compares to a slightly more conservative 8.0% discount rate for Yellowknife due to its lack of recent development and more outdated technical report. We also utilize 7.0% discount rates for Marigold, Rawhide, Jerritt Canyon, and Isabella Pearl. At present, we value the Canadian Malartic assets at a 6.5% discount rate given their geographically favorable location. We then ascribe an *in situ* valuation for the company's other royalty assets, based on attributable gold ounces, for a total of \$200.2M. We further add an at-cost value of \$201.8M for assets received in the Ely transaction with no DCF values. We then add \$29.9M in cash and equivalents, amid no debt, before applying an unchanged 1.6x P/NAV multiple given current market premiums for royalty companies. This yields our overall valuation of \$1.29B and our rounded price target of \$8.50 per share.

Near-term catalysts. We remain most excited about anticipated production at Canadian Malartic that is expected in 2023. Further, we highlight that underground development at site continues to advance accordingly. Notably, shaft sinking is expected to begin in 4Q22, and the first underground mineralized material from Odyssey South should be processed through the existing Canadian Malartic plant in early 2023. Additionally, construction at the Côté Gold project remains well underway with production expected sometime in 2H23. We highlight that an updated mineral resource estimate on the Fenelon project is expected in 2023. We note that these results are following recent positive assay results at Fenelon's Ripley Zone amid an ongoing 115,000-meter drill program at site. Lastly, expansion of the site's 1.24M ounce resource should continue to materialize through 2022 based on positive 1Q22 exploration results at the REN project. We stress that the site's operator, Barrick Gold (GOLD; not rated), is currently undergoing studies to optimally design REN into Goldstrike's life of mine plan in the near term.

Risks. 1) Commodity prices; 2) lack of operational control; 3) financing risk.

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Distribution of Ratings Table as of July 5, 2022				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	561	88.49%	149	26.56%
Neutral	56	8.83%	13	23.21%
Sell	2	0.32%	0	0.00%
Under Review	15	2.37%	1	6.67%

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