

Canadian Equity Research
30 September 2019

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BUY
unchanged
PRICE TARGET C\$18.50
unchanged
Price (30-Sep) C\$12.31 ; US\$9.69
Ticker OR-TSX; OKSKF-OTC

52-Week Range (C\$): 0.00 - 17.39
Avg Daily Vol (M) : 0.6
Market Cap (C\$M): 1,851
Shares Out. (M) : 150.4
Dividend /Shr (C\$): 0.20
Dividend Yield (%) : 1.6
Enterprise Value (C\$M): 2,067
Cash (C\$M): 136.2
Long-Term Debt (C\$M): 326.1
Net Debt/EBITDA : 1.78
P/NAV (x) (C\$): 0.91
Total NAV 5 (C\$): 1,911.3

FYE Dec	2018A	2019E	2020E
Gold Production (000oz)	80	86	93
Total Cash Cost Co-Prod.(Gold) (US\$ /oz)	943	879	830
EPS Adj&Dil (C\$)	0.20	0.34	0.34
P/E (x)	62.5	36.0	36.4
CFPS (C\$)	0.54	0.70	0.79↑
Previous	-	-	0.78
P/CFPS (x)	22.7	17.6	15.7
P/Book (x)	1.0	1.2	1.2
ROIC (%)	(4)	2	4



Source: FactSet

Priced as of close of business 30 September 2019

Company Update

A look at potential upside from Cariboo

We reiterate our BUY recommendation and C\$18.50 target price on Osisko Gold Royalties (OR-TSX) following its announcement last week to acquire Barkerville Gold Mines (BGM-TSX) and setup up a new private equity division, Northern Spirit Discovery Group, which focuses on privatizing and surfacing value in resource development projects. For our initial take and details on the transaction, see our note: [Osisko Gold Royalties expands accelerator model to take Barkerville private](#). As we show in this note, we estimate >20% NAV longer-term upside to OR assuming the successful execution of the Barkerville PEA but, that said, we expect most investors to remain cautious until Cariboo is further de-risked, additional partners are brought onboard, and/or market conditions for junior development projects improve.

Increased risk profile - As we've noted, we see the acquisition of Barkerville as increasing OR's risk profile. Up until now, OR's accelerator model has been aimed at supporting its accelerator companies with technical support, and partial equity and royalty financing. Taking Barkerville fully private puts the cost and risks of permitting, financing and development into OR's hands, which are costs and risks that OR's royalty peers largely avoid. We note that the company intends to bring in other partners to share the risks, and we believe OR is unlikely to carry Cariboo through to production on its own.

OR share sell-off overdone - OR's shares are down 24% since the transaction was announced (vs. OR royalty peers down ~4%). Despite the increased risks, the selloff more than fully discounts the value of Barkerville which we believe is overdone. Backing out the value of its equity investment portfolio and the pre-announcement value of Barkerville, we estimate that OR's royalty portfolio is now trading at 1.04x NAV (Figure 2), a significant discount to the royalty average of 1.56x NAV and well below the senior royalty/streaming companies at 1.6-2.2x.

So why do the transaction?

- Management has noted that the BGM acquisition was made in recognition of the valuation trough in the junior equity market. Osisko aims to exploit current (depressed) market conditions and lack of equity financing by leveraging its technical skill set and balance sheet to advance the Cariboo project while also carving out a specialized niche that the other royalty players avoid.
- In Figure 4, we estimate the potential upside to OR assuming successful execution on the Cariboo PEA. In our analysis, we assume OR owns 100% of Cariboo but as we've noted, we expect the company to bring in additional partners. Once in production, we estimate that Cariboo could be worth C\$0.8 to \$1.0 billion (at 0.75-1.0x NAV) after incurring acquisition and capital costs of ~C\$650 million. We estimate a 6% NSR to OR would be worth ~C\$175 million (C\$150 million after-tax) on a cost base of ~\$90 million. Overall, we estimate potential NAV accretion of 23% by YE22.

Valuation: Our C\$18.50 target price is predicated on a weighted 50/50 split of a 1.4x multiple applied to our forward-curve derived operating NAV5% less net debt and other corporate adjustments, and a 21.0x multiple applied to 2020E EBITDA. Our 1.4x NAV multiple is based on a weighted average of 0.9x on the Cariboo project NPV7% and 1.6x on OR's royalty/streaming portfolio.

A look at Cariboo upside

In Figure 4, we take a look at the potential upside to OR if it is able to successfully execute on the Cariboo PEA. We show the potential upside assuming OR owns 100% of Cariboo although we do expect them to bring in partners. Management estimates that ~C\$50 million is needed to advance the project to a construction decision and ~C\$300 million is needed in development capital. We assume OR funds the project by exercising its 1% NSR option for C\$13 million plus an additional 1% for C\$20 million and the remainder funded 50/50 from debt and equity.

We estimate Barkerville was trading at 0.5x NPV7% amid a financing and permitting overhang with a market cap of ~C\$260 million. Assuming successful permitting and development, we believe Cariboo could potentially be worth C\$0.8-\$1.1 billion in 2-3 years once the capital is sunk and in production at 0.75x-1.0x NPV5% based on the Cariboo PEA and our forward-curve derived price deck (LT gold price of US\$1,530/oz).

Moving Cariboo forward accelerates OR's royalty and the potential to increase it. OR currently has a 4% NSR on the project with an option to increase it to 5% for C\$13 million. We estimate every additional 1% is worth ~C\$20-25 million and adds US\$15/oz to the project AISC. With a 5% NSR, we estimate the Cariboo AISC at ~\$810/oz.

Overall, assuming successful execution of the PEA (on a 100% basis) we estimate the transaction could be potentially 23% accretive to OR's NAV assuming no additional exploration upside at Cariboo (Figure 4). We also estimate that a 6% NSR (current 4% NSR +1% option + additional 1%) would be worth ~C\$175 million and generate \$20-25 million in royalty revenue to OR per year.

Figure 1: Estimated Cariboo NPV and AISC and royalty value at various NSR rates

	NSR Rate		
	5%	6%	7%
Cariboo AISC (US\$/oz)	810	825	840
Cariboo NPV5% at YE22 (C\$m)	1,085	1,064	1,042
Royalty NPV5% at YE22* (C\$m)	146	175	204

* pre-tax

Source: Company Reports, Canaccord Genuity estimates

Figure 2: OR net asset value and current implied valuation

	NAV		Current		
	C\$m	C\$/share	Implied Valuation	CG Target Valuation	
Royalty portfolio	\$1,559	\$10.04	\$1,619	\$2,521	<ul style="list-style-type: none"> • Our NAV is C\$13.63/share which includes an NPV7% of C\$524 million for the Cariboo project based on the recent PEA and our forward curve derived price deck (LT gold price of US\$1530/oz) • OR is currently trading at C\$12.31/share with a market cap of C\$1.91 billion • Assuming the pre-announcement value of Barkerville, the implied P/NAV multiple on OR's royalty assets is 1.04 • Royalty peers are trading at 1.6x on average with senior royalty/streaming companies at 1.7-2.2x. Our C\$18.50 target price is based on 1.6x multiple on OR's royalty assets, in line with the group average.
Barkerville royalty ¹	100	0.64	100	159	
Barkerville project ²	524	3.37	259	259	
Equity investments	167	1.08	167	167	
Net assets	2,350	\$15.13	2,145	3,106	
G&A	(123)	(0.79)	(123)	(123)	
Working capital	216	1.39	216	216	
Debt	(326)	(2.10)	(326)	(326)	
Total	2,117	\$13.63	1,912	2,873	
C\$/sh	\$13.63		\$12.31	\$18.50	
P/NAV (on royalty assets)			1.04x	1.62x	

¹ We apply a 25% discount to the 5% NSR Barkerville royalty given its early stage of development (we assume OR exercises its 1% option)

² Our Barkerville project net asset value is based on a PEA DCF at a 7% discount rate; Barkerville valuation (C\$259 million) based on market value prior to OR transaction announcement

Source: Company Reports, Canaccord Genuity estimates

Figure 3: OR net asset value and potential value at various P/NAV multiples

	NAV		Valuation based on royalty multiple			
	C\$m	C\$/share	1.25x	1.50x	1.75x	2.00x
Royalty portfolio	\$1,559	\$10.04	\$1,949	\$2,339	\$2,729	\$3,118
Barkerville royalty ¹	100	0.64	93	112	131	149
Barkerville project ²	524	3.37	259	259	259	259
Equity investments	167	1.08	167	167	167	167
Net assets	2,350	\$15.13	2,468	2,877	3,285	3,694
G&A	(123)	(0.79)	(123)	(123)	(123)	(123)
Working capital	216	1.39	216	216	216	216
Debt	(326)	(2.10)	(326)	(326)	(326)	(326)
Total	2,117	\$13.63	2,235	2,644	3,052	3,461
C\$/sh	\$13.63		\$14.39	\$17.03	\$19.66	\$22.29
P/NAV (on royalty assets)			1.25x	1.50x	1.75x	2.00x

¹ We apply a 25% discount to the 5% NSR Barkerville royalty given its early stage of development (we assume OR exercises its 1% option)

² Our Barkerville project net asset value is based on a PEA DCF at a 7% discount rate; Barkerville valuation (C\$259 million) based on market value prior to OR transaction announcement

Source: Company Reports, Canaccord Genuity estimates

Figure 4: Potential OR NAV accretion by bringing Cariboo into production at various P/NAV multiples

Estimated value at YE22	NAV		Valuation based on royalty multiple			
	C\$m	C\$/share	1.25x	1.50x	1.75x	2.00x
Royalty portfolio	\$1,486	\$9.57	1,857	2,228	2,600	2,971
Barkerville royalty ¹	\$175	\$1.13	219	263	306	350
Barkerville project ²	\$1,064	\$6.85	931	931	931	931
Investments	\$167	\$1.08	167	167	167	167
Net assets	\$2,891	\$18.62	3,174	3,589	4,004	4,419
G&A	(123)	(\$0.79)	(123)	(123)	(123)	(123)
Working capital	324	\$2.09	\$324	\$324	\$324	\$324
Debt	(\$479)	(\$3.08)	(\$479)	(\$479)	(\$479)	(\$479)
Total	\$2,614	\$16.84	\$2,897	\$3,312	\$3,727	\$4,142
C\$/sh	\$16.84		\$18.65	\$21.33	\$24.00	\$26.67

- At YE22, based on successful execution of the Cariboo PEA, we estimate a NPV5% of Cariboo of ~C\$1.06 billion; assumes no additional exploration or resource conversion at Cariboo
- We assume OR exercises its option to add 1% NSR for C\$13 million plus an additional 1% royalty for \$20 million
- 50/50 equity/debt financing for remaining capex
- We assume Cariboo valuation at mid-point of 0.75-1.0x NPV5%.
- Assumes depletion of royalty portfolio with no reserve replacement

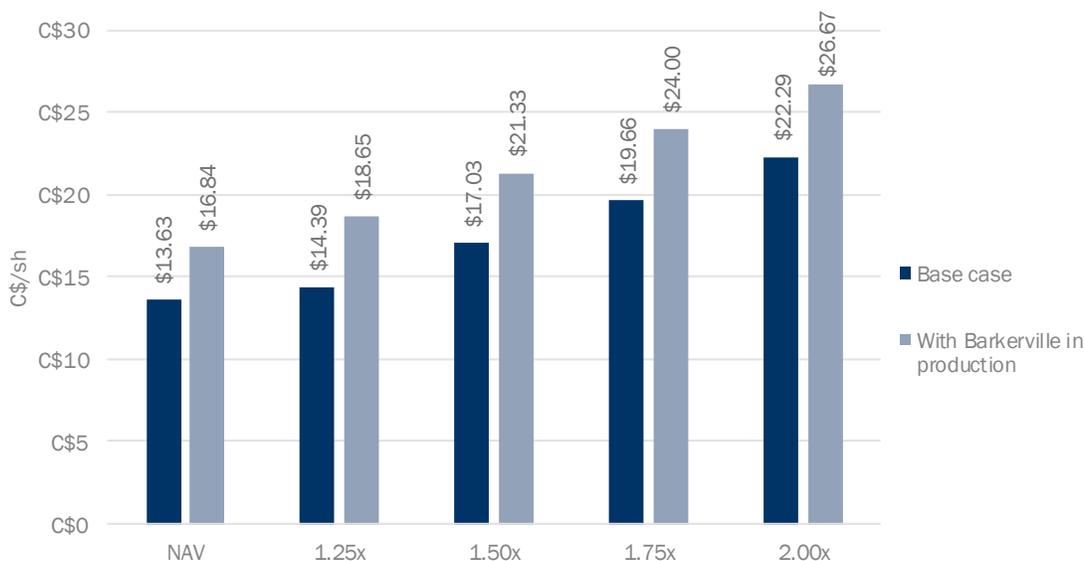
Cariboo project financing requirement		Estimated working capital	
Funding required to construction	\$50	OR forecast working capital before Carit	\$537
Estimated development capex	306	2% royalty acquisition	(33)
	<u>356</u>	Interest	(18)
		Equity funding	<u>(161)</u>
			324
Cariboo project financing		Estimated debt	
Exercise 1% royalty option plus 1%	\$33	OR forecast debt before Cariboo	\$326
Debt	161	Debt financing	<u>161</u>
Equity funding	<u>161</u>		487
	356		

¹ Assume the exercise of the 1% option plus an additional 1%; Eliminate the 25% discount once in production

² Barkerville NPV5% once in production

Source: Company Reports, Canaccord Genuity estimates

Figure 5: Potential OR NAV accretion by bringing Cariboo into production at various P/NAV multiples



Source: Company Reports, Canaccord Genuity estimates

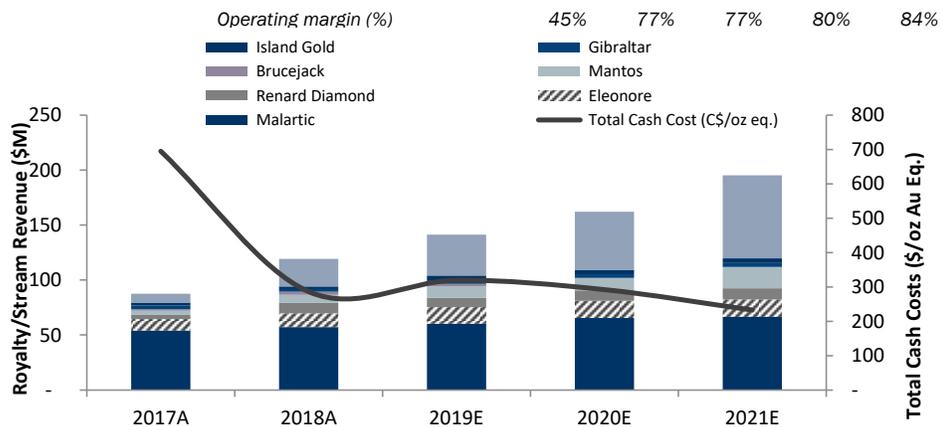
Figure 6: Estimate revisions

		New		Previous		% Change	
		2019E	2020E	2019E	2020E	2019E	2020E
Attributable GEO production	koz	86.2	93.0	85.9	93.0	0.3%	0.0%
Net Revenue	C\$M	\$141.4	\$162.2	\$140.9	\$162.2	0.3%	0.0%
Adj. EBITDA	C\$M	\$113.8	\$135.0	\$113.4	\$135.0	0.4%	0.0%
Adj. EPS	C\$/sh	\$0.34	\$0.34	\$0.34	\$0.34	0.0%	0.0%
Adj. CFPS	C\$/sh	\$0.70	\$0.79	\$0.70	\$0.79	0.0%	0.0%
NAV	C\$/sh	\$13.63		\$13.89		-1.9%	

Source: Company Reports, Canaccord Genuity estimates

Figure 7: Revenue summary

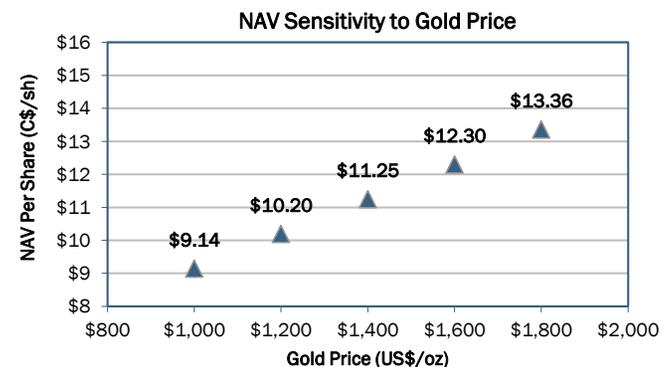
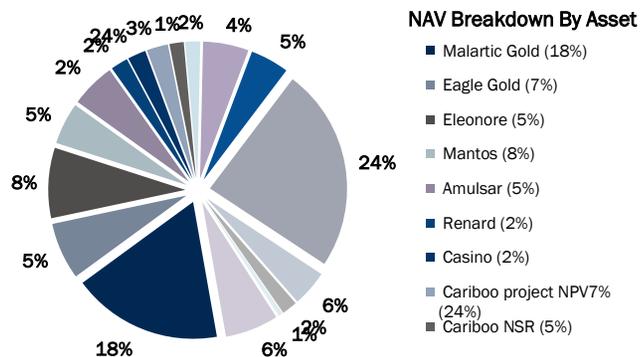
	Sales (2017e-2021e average)	2017A	2018A	2019E	2020E	2021E
Malartic	43%	\$54	\$57	\$60	\$66	\$67
Eleonore	10%	\$10	\$12	\$15	\$15	\$16
Mantos	7%	\$4	\$7	\$10	\$11	\$20
Renard Diamond	6%	\$4	\$10	\$8	\$10	\$10
Gibraltar	2%	\$3	\$2	\$3	\$3	\$3
Island Gold	3%	\$3	\$2	\$4	\$4	\$4
Brucejack	1%	\$1	\$3	\$2	\$0	\$0
Other	28%	\$8	\$25	\$37	\$53	\$76
Consolidated	Operating Revenue (\$M)	\$88	\$119	\$141	\$162	\$195
	Revenue YoY (%)	40%	36%	19%	15%	20%
	Exploration (\$M)	\$0	\$0	\$0	\$0	\$0
	G&A (\$M)	\$26	\$18	\$20	\$20	\$20
	Corp. Dev. (\$M)	\$19	\$5	\$7	\$7	\$6
	Other operating (\$M)	(\$4)	\$0	\$0	\$0	\$0
	Total costs (\$M)	\$41	\$23	\$28	\$27	\$26
Equivalent	Gold Production (koz eq.)	59	80	86	93	112
	Total Cash Cost (C\$/oz eq.)	\$695	\$286	\$319	\$292	\$232
	DD&A (\$M)	\$28	\$53	\$48	\$50	\$60
	Total Costs (C\$/oz eq.)	\$1,171	\$943	\$879	\$830	\$771



Source: Company Reports, Canaccord Genuity estimates

Figure 8: P&L and NAV summary

	2018A	2019E	2020E	+2024E	OR:TSX	C\$12.31	Basic Share Count (M)	150.4								
Gold Price	\$1,269	\$1,366	\$1,444	\$1,530	Target Price (C\$)	\$18.50	FD Share Count (M)	150.4								
Silver Price	\$15.89	\$15.33	\$15.64	\$16.76	Recommendation	BUY	Dividend per Share	\$0.20								
Copper Price	\$2.96	\$2.80	\$3.00	\$3.25	Market Cap (C\$M)	\$2,547	Dividend Yield (%)	1.6%								
Platinum	\$880	\$837	\$852	\$852	Enterprise Value (C\$M)	\$2,025	Trading Volume (M)	0.6								
Palladium	\$1,030	\$1,486	\$1,544	\$1,544												
NAV SUMMARY (5%)					PROFIT & LOSS (C\$m)	2017A	2018A	2019E	2020E	2021E	RATIOS - CG DECK	2017A	2018A	2019E	2020E	2021E
	C\$M	C\$/sh	US\$/sh	% Total	Revenue	\$213	\$490	\$475	\$394	\$698	P/E	(36.8x)	62.5x	nm	36.4x	27.3x
Malartic Gold	\$387	\$2.49	\$1.89	18%	Costs	(\$126)	(\$371)	(\$333)	(\$232)	(\$502)	P/CF	23.8x	22.7x	17.6x	15.7x	12.2x
Eagle Gold	\$147	\$0.95	\$0.72	7%	Operating Margin	\$88	\$119	\$141	\$162	\$195	EV/EBITDA	47.7x	21.7x	18.5x	15.2x	11.4x
Mantos	\$181	\$1.17	\$0.88	8%	Depreciation	(\$28)	(\$53)	(\$48)	(\$50)	(\$60)	FCF (US\$m)	\$66	\$85	\$105	\$122	\$156
Eleonore	\$108	\$0.69	\$0.53	5%	Exploration	(\$0)	(\$0)	\$0	\$0	\$0	P/NAV	0.91x				
Amulsar	\$115	\$0.74	\$0.56	5%	Net Interest	\$4	(\$8)	(\$16)	(\$13)	(\$13)	BALANCE SHEET	2017A	2018A	2019E	2020E	2021E
Renard	\$45	\$0.29	\$0.22	2%	EBT	(\$66)	(\$141)	(\$7)	\$72	\$96	Cash & Equivalents	\$351	\$174	\$136	\$189	\$314
Windfall	\$47	\$0.30	\$0.23	2%	Tax	\$23	\$35	\$11	(\$19)	(\$26)	Working Capital	\$341	\$175	\$214	\$267	\$392
Gibraltar	\$55	\$0.35	\$0.27	3%	Net Income	(\$43)	(\$106)	\$4	\$52	\$70	Total Debt	\$464	\$353	\$326	\$326	\$326
Casino	\$37	\$0.24	\$0.18	2%	Attributable EBITDA	\$42	\$96	\$114	\$135	\$169	Shareholder Equity	\$1,894	\$1,772	\$1,557	\$1,579	\$1,618
Island Gold	\$39	\$0.25	\$0.19	2%	Adjusted Net Income	(\$43)	(\$106)	\$4	\$52	\$70	Enterprise Value	\$ 2,025	\$ 2,090	\$ 2,101	\$ 2,048	\$ 1,923
Hermosa	\$117	\$0.76	\$0.57	5%	Adjusted EPS (FD)	(\$0.33)	\$0.20	\$0.34	\$0.34	\$0.45	NAV SENSITIVITY					
Cariboo NSR	\$100	\$0.64	\$0.49	5%	CASH FLOW	2017A	2018A	2019E	2020E	2021E	Gold Price (US\$/oz)	\$1,000	\$1,200	\$1,400	\$1,600	\$1,800
Cariboo project NPV7%	\$524	\$0.00	\$0.00	24%	Operating CF (before w/c)	\$66	\$85	\$105	\$122	\$156	NAV (C\$m)	\$1,359	\$1,515	\$1,672	\$1,828	\$1,985
Odyssey	\$93	\$0.60	\$0.45	4%	Operating CF (after w/c)	\$66	\$82	\$105	\$122	\$156	NAV (C\$/sh)	\$9.14	\$10.20	\$11.25	\$12.30	\$13.36
Upper Beaver	\$40	\$0.25	\$0.19	2%	Investing CF	(\$878)	(\$66)	(\$18)	(\$38)	\$0						
Hammond Reef	\$12	\$0.08	\$0.06	1%	Financing CF	\$679	(\$183)	(\$123)	(\$31)	(\$31)						
Other	\$138	\$4.26	\$3.23	6%	CFPS (FD)	\$0.52	\$0.54	\$0.70	\$0.79	\$1.01						
Total Operating NAV	\$2,183	\$14.06	\$10.66	100%												
Working Capital	\$214	\$1.38	\$1.04													
Corporate/FX	(\$123)	(\$0.79)	(\$0.60)													
Exploration Assets	\$2	\$0.01	\$0.01													
Investment Portfolio	\$167	\$1.08	\$0.82													
Liabilities	(\$326)	(\$2.10)	(\$1.59)													
Total	(\$66)	(\$0.42)	(\$0.32)													
NET ASSET VALUE	\$2,117	\$13.63	\$10.34													



Source: Company Reports, Canaccord Genuity estimates

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: September 30, 2019, 19:23 ET

Date and time of production: September 30, 2019, 19:23 ET

Target Price / Valuation Methodology:

Osisko Gold Royalties Ltd. - OR

Our target is predicated on a 50/50 blend of a 1.6x multiple applied to our operating NAVPS estimate plus net debt and other corporate adjustments, and a 21.0x multiple applied to 2020E EBITDA.

Risks to achieving Target Price / Valuation:

Osisko Gold Royalties Ltd. - OR

Potential risks to our investment thesis and target price include, but are not limited to: The typical risks associated with any mining related investment include commodity, exchange, and interest rate risk. The company's reliance on two key assets presents a degree of operational risk as well. The investment thesis is also subject to capital deployment risk and potential future royalty acquisition risk.

Distribution of Ratings:

Global Stock Ratings (as of 09/30/19)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	524	59.48%	52.10%
Hold	208	23.61%	36.06%
Sell	20	2.27%	15.00%
Speculative Buy	129	14.64%	77.52%
	881*	100.0%	

*Total includes stocks that are Under Review

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HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

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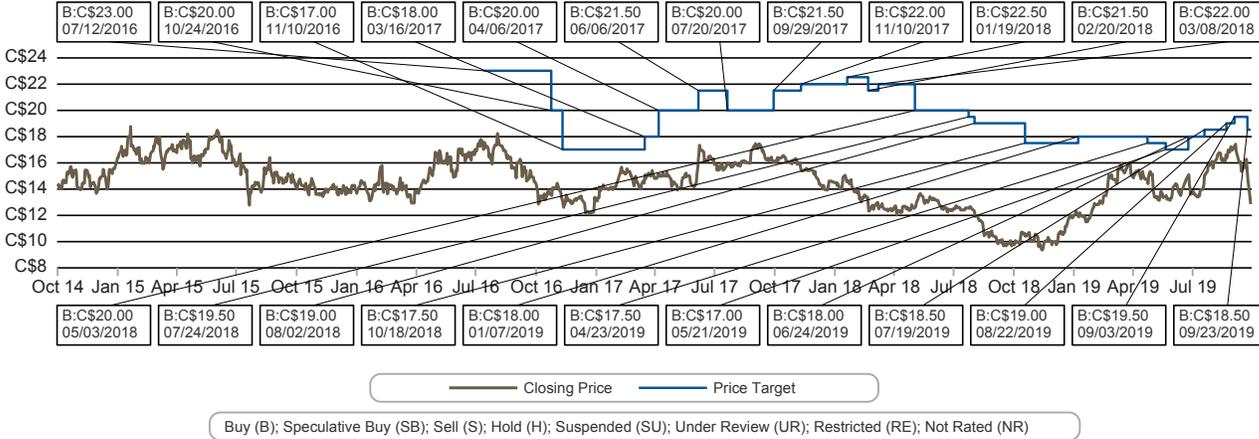
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Osisko Gold Royalties Ltd. Rating History as of 09/27/2019



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