

# Star Royalties: Another Newcomer With Good Prospects

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## Summary

- Star Royalties prefers cash-flowing assets focused on precious and "green" metals.
- The attributable gold equivalent production should equal only 400 toz this year, but 4,500 toz next year, and 5,500 toz by 2024.
- Using a gold price of \$1,800/toz, Star Royalties trades at a forward (2022) price-to-revenues ratio of 3.86, which is significantly below the industry standards.
- I can see Star Royalties' share price doubling over the next 12 months, based on its current assets only.



Star Royalties ([OTCQX:STRFF](#)) is another of the tiny newcomers in the precious metals royalty and streaming industry. Similar to Empress Royalty ([OTCQB:EMPYF](#)) (an article can be found [here](#)), it has a market capitalization of only around \$30 million. And similar to Empress, it is focused on collaboration with the mining companies and creating new royalties. The difference is that besides precious metals, Star's portfolio includes also some "green" metals important for electric vehicles. Moreover, Star's cash-flows should increase significantly in the near future.

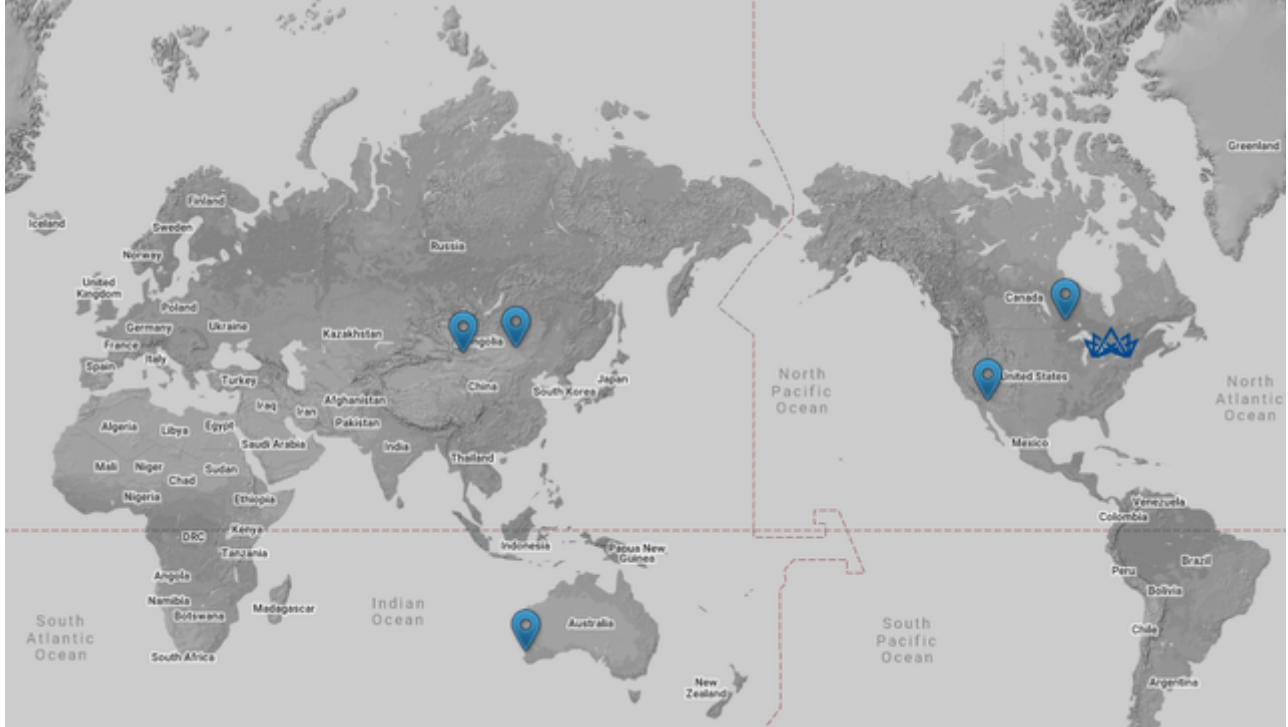


Star Royalties was established only in 2019, and it made an initial public offering on the TSX Venture Exchange on [February 19](#), 2021, when it issued 34,826,000 units (each unit consisting of 1 common share and 1 warrant with a strike price of C\$1 and expiration date of February 19, 2024) at a price of C\$0.7 per unit. On [May 28](#), Star commenced trading on OTCQX.

As mentioned above, Star wants to focus on the creation of new royalties, not on acquiring the old ones. Moreover, its priority is cash-flowing or nearly cash-flowing assets. According to the latest [corporate presentation](#), the aim of the company is to maintain a portfolio where 70% is created by cash-flowing assets, 20% by assets with expected cash-flows within two years, and only 10% by other assets, with cash-flows further in the future. Another aim is that precious metals should create 80% of the portfolio, with the remaining 20% attributable to "green metals".

## Star Royalties Today and Tomorrow

Today, Star Royalties' portfolio consists of 5 assets. A 2% Gross Revenue Royalty ("GRR") on the Australian Keysbrook mine, a 9.9% gold stream on Arizona-located Copperstone project, 1.5% GRR on Mongolian Baavha Uul project, 2% NSR royalty on Mongolian Bayan Undur project, and interest in Lac Seul First Nation Forest carbon sequestration project. Right now, only Keysbrook is in production, but Copperstone should follow soon.



Source: Star Royalties

The [Keysbrook mine](#) is located in Western Australia, 70 km to the south of Perth. It is operated by Keysbrook Leucoxene (a subsidiary of Iwatani Corporation ([OTCPK:IWTNF](#))) that mines mineral sands on the property. The final products are [leucoxene](#) (an alteration product of titanium-bearing minerals) and zircon. Star Royalties owns a 2% GRR royalty on the property. Star Royalties acquired the royalty [last October](#) for \$3 million. It expects that it should generate \$500,000-600,000 per year.

Although Keysbrook is Star's first cash-flowing asset, the [Copperstone project](#) is definitely the most important one. Copperstone is a brownfield project in western Arizona. In the past, it has produced over 500,000 toz gold. At present, it is owned by Arizona Gold ([OTCQB:AGAUF](#)) which is working on restarting the mining operations. In 2018, reserves of 175,093 toz gold, and inferred and indicated resources of 421,800 toz gold were outlined. However, an updated resource estimate is expected soon, and given the drill results obtained over the last three years, some very nice growth is expected. The [best drill results](#) include 11.7 g/t gold over 12.2 meters, 17.49 g/t gold over 10.7 meters, or 40 g/t gold over 16.8 meters. The 2018 PFS projects an annual production of 45,000 toz gold, with a mine life of 6-8 years (numbers valid for gold price of \$1,800/toz, at a gold price of \$1,500/toz, the mine life is only 4 years, at an average annual production of 40,000 toz gold). The gold production should start in late 2021 or early 2022. Star Royalties paid \$18 million to acquire a 9.9% gold stream from Copperstone. After 21,000 toz gold is delivered, the stream will be reduced to 3.3%, and after 27,200 toz gold is delivered, to 1.2%. The ongoing payments will equal 25% of the prevailing gold price. It means that over the next 5 years, Star should be receiving around 4,500 toz gold per year. At a gold price of \$1,800/toz, the stream should generate revenues of \$8.1 million and a cash flow of \$6.1 million per year on average, starting in 2022.

## Copperstone

Operator	Arizona Gold Corp (TSX: AZG)		
Location	Arizona, USA		
Stage	Construction (Restart)		
Commodity	Gold		
Stream Terms <sup>1</sup>	< 21,000 oz	21,001 – 27,200 oz	> 27,200 oz
	<b>9.9%</b> of gold produced	<b>3.3%</b> of gold produced	<b>1.2%</b> of gold produced
Mineral Reserves <sup>2</sup>	Tonnes <sup>2</sup> (kt)	Grade <sup>2</sup> (g/t Au)	Contained Metal <sup>2</sup> (koz Au)
Proven	346.7	7.30	81.4
Probable	455.3	6.40	93.7
<b>P&amp;P</b>	<b>802.0</b>	<b>6.79</b>	<b>175.1</b>
Mineral Resources <sup>2</sup>	Tonnes <sup>2</sup> (kt)	Grade <sup>2</sup> (g/t Au)	Contained Metal <sup>2</sup> (koz Au)
<b>M&amp;I<sup>3</sup></b>	<b>1,124.7</b>	<b>7.64</b>	<b>276.1</b>
Inferred <sup>4</sup>	666.0	6.80	145.7

[Baavhai Uul](#) is a lithium brine project operated by Ion Energy ([OTCQB:IONGF](#)). Star Royalties owns a 1.5% GRR royalty on the project. Unfortunately, it is only in the early exploration stages, moreover, it is located in Mongolia, which is not a very favorable jurisdiction. It won't get into production anytime soon.

[Bayan Undur](#) is another Mongolian project. It is operated by Aranjin Resources ([OTCPK:FVVSF](#)) and it is focused on gold and copper exploration. Star Royalties owns a 2% NSR royalty, unfortunately, it is only in the early exploration stages too.

[Lac Seul First Nation Forest](#) project is located in Ontario, where, on lands of Lac Seul First Nation, AurCrest Gold ([OTC:TBMIF](#)) and Bluesource Canada realize a carbon sequestration project. Star Royalties acquired a 16% Gross Revenue Royalty on AurCrest's share of the revenue from this project. Unfortunately, this asset is pretty mysterious and it is impossible to estimate its value based on the publicly available information, as none of the interested parties provides any information regarding the expected future cash flows or expected volumes of produced Carbon Offset Credits.

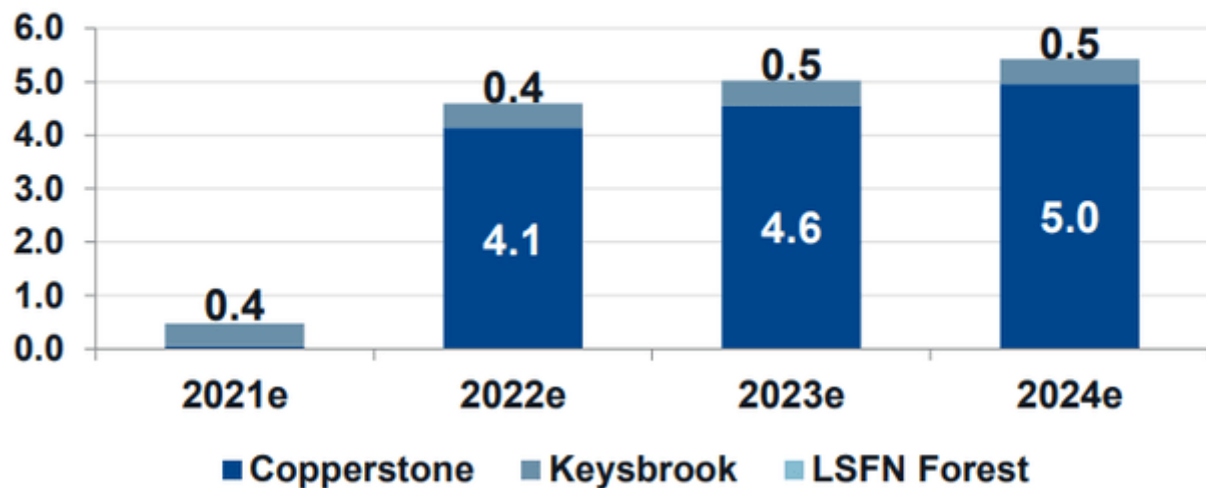
According to Star's corporate presentation, further deals could be made relatively soon, as Star Royalties is evaluating multiple investment opportunities with a combined value of over \$125 million. Out of them (based on the value), 91% are oriented on precious metals and 9% on carbon credits, 61% are located in Tier 1 and 39% in Tier 2 jurisdictions, and 68% are already in production.

## Risks and Opportunities

Star Royalties' market capitalization is \$31.3 million right now. As of the end of Q1, the company held cash of \$15.1 million, however, Star still needs to pay the third \$6 million installment to Arizona Gold. It means that the enterprise value of Star Royalties is approximately \$22 million. This is less than the NPV of the Copperstone project alone. This year, the gold equivalent sales are estimated only at 400 toz. However, as Copperstone gets into production, this volume should grow to 4.5 million toz in 2022, 5.1 million toz in 2023, and 5.5 million toz in 2024. At a gold price of \$1,800/toz, the revenues should equal \$720,000 this year, \$8.1 million in 2022, \$9.2 million in 2023, and \$9.9 million in 2024. The 2022 operating cash flow should be around \$6.1 million, growing to \$7.3 million by 2024. Of course, this doesn't take into account any further acquisitions.



## Estimated Gold Equivalent Sales (koz)<sup>2</sup>



Source: Star Royalties

It means that Star trades at a forward (2022) price-to-revenues ratio of 3.86, and a forward (2024) price-to-revenues ratio of 3.16. These are very low values, comparable to Empress Royalty, and well below the industry standards. The biggest players, like Franco-Nevada (NYSE:[FNV](#)) or Wheaton Precious Metals (NYSE:[WPM](#)) have a price-to-revenues ratio at 27 and 17 respectively, and the mid-sized players like Sandstorm Gold (NYSE:[SAND](#)) or Osisko Gold Royalties (NYSE:[OR](#)) are at 15 and 13 respectively. And some small players like Sailfish Royalty (OTCQX:[SROYF](#)), Great Bear Royalties (OTCPK:[GBRBF](#)), or Orogen Royalties (OTCQX:[OGNRF](#)) have no or almost no revenues, but they have 2-3 times higher market capitalization than Star Royalties.

However, there are also risks. Star Royalties is a new and tiny company and its share price can be pretty volatile. Another problem is that Star relies on one asset, the Copperstone stream, too much. Should something negative happen at Copperstone, Star Royalties will be impacted heavily. This is why the company needs to add more cash-flowing assets soon, in order to diversify the risk and support the share price. Another problem is that money will be needed to acquire new streams and royalties. And while the \$15 million (technically only \$9 million) cash position provides some space for new acquisitions, the pipeline includes potential investments worth \$125 million. If the management starts to be too aggressive, it may start diluting the shareholders. And at the current low market capitalization, the dilution may be very painful.

I also don't like the lack of transparency regarding Star's carbon credits business. Although the Lac Seul First Nation project may be a good project, the investors just don't have enough information to verify this assumption. The company doesn't provide sufficient information and the investors have been left in the dark when it comes to some meaningful information regarding the expected economics of the project. And the pipeline includes further carbon credit projects worth over \$12 million. Should Star Royalties acquire them without providing any relevant information, it may further complicate the attempts to evaluate the company and discourage some of the potential investors.

## Conclusion

Star Royalties is one of the smallest precious metals royalty and streaming companies and it shares numerous similarities with Empress Royalty. It wants to focus on creating new streams and royalties and it prefers cash-flowing assets. Its cash flows should grow rapidly in 2022, and it is very cheap when compared to industry standards. While its attributable gold equivalent production should equal only 400 toz this year, it should grow to 4,500 toz in 2022, and to 5,500 toz by 2024. Given that the current market capitalization is only \$31 million and enterprise value only \$22 million, I can see Star Royalties' share price doubling quite easily over the next 12 months, based on its current assets only.

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