



Should You Buy Shares of Franco Nevada?

Description

After months of frigid weather, spring has finally arrived. And all across Canada, there is a sense of hope and optimism that comes every year around this time. At last, Canadians are starting to see the light at the end of the tunnel.

The mood must be very similar at **Franco-Nevada Corp** ([TSX:FNV](#))([NYSE:FNV](#)), which just reported earnings this week. The gold royalty streaming company has suffered recently as the price of gold fell from nearly \$1900 an ounce in 2011 to as low as \$1180 an ounce last June. But a recent resurgence has taken Franco's stock price almost all the way back to its previous highs.

A strong quarter

In the fourth quarter of 2013, Franco sold nearly 70,000 Gold Equivalent Ounces, bringing the annual total to 241,000 GEOs, beating guidance of 225,000. And that number should increase in the years ahead. For 2014, the company is expecting GEOs to total 245,000-265,000 ounces, and that number should eclipse 300,000 GEOs by 2018.

Unfortunately, the company also took over \$140 million worth of impairments, enough to turn a profit into a loss for the fourth quarter. Adjusted EPS (excluding the impairments) came in at \$0.21 for the quarter, while the company reported a loss of \$0.55 per share. FNV's stock price declined yesterday on the news.

So is Franco Nevada a buy?

Franco-Nevada has been loved by investors for many years, and for good reason. The company does not actually run any mines of its own; it is essentially a cheque-casher. This means that investors do not have to worry about project delays and capex overruns like mining investors do. Franco operates in a fairly uncompetitive industry, with only a handful of major players – this helps ensure that the company can sign good royalty deals with the miners.

Franco's stock price reflects these advantages. Since the beginning of 2011, investing in a gold ETF would have returned -8%, while an investment in FNV would have returned over 60%. Franco shares

are trading near their all-time high, even though gold is back below \$1,330 per ounce.

By comparison, the same cannot be said for **Silver Wheaton** (TSX:SLW)(NYSE:SLW). The shares, which at one point in 2011 were trading at \$45, are currently in the high \$20s, having tracked a silver ETF pretty closely in recent years.

Foolish Bottom Line

It is no secret that an investment in Franco-Nevada is mostly a bet on the gold price. And for investors looking to make that bet, a simple ETF does come with much less complexity, which probably makes it the better option.

Then again, Franco has performed very well for many years and, if it continues to sign great deals, could easily outperform the gold price. But this outcome, much like the price of gold itself, is impossible to predict with certainty.

CATEGORY

1. Investing

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1. NYSE:FNV (Franco-Nevada)
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