4 Reasons Why You Will Regret Not Buying Franco-Nevada Corp. Now

Description

Anyone who regularly follows my articles on Motley Fool Canada will know I have been bullish on precious metals for some time, primarily because of growing global economic uncertainty, geopolitical crises, and market volatility. Precious metals are an important safe-haven investment, which should form a portion of every investor's portfolio to act as a hedge against instability.

But while I may be bullish on gold, it is silver and platinum that have truly caught my attention, with both precious metals offering considerably more potential upside for investors than gold. But finding an appropriate investment that gives investors exposure to all three precious metals is difficult to find, until now.

Precious metals and commodities streamer **Franco-Nevada Corp.** (TSX: FNV)(NYSE: FNV) is fast shaping up as one of my preferred precious metals investments — and it appears some of the world's biggest money managers feel the same way, having placed their own bets on Franco-Nevada, with George Soros and Ray Dalio taking the plunge earlier this year and investing $4.5 million and $5.3 million, respectively.

Let's take a closer look at why Franco-Nevada is one of the best ways to play the upcoming rally in precious metals.

1. Holds a diversified portfolio of precious metals and other commodities assets

One of Franco-Nevada's key strengths is its globally diversified portfolio of precious metals and commodities assets made up of a series of royalty and streaming contracts. Gold assets contribute around 67% of its total revenues, with 13% coming from platinum group metals including palladium, 17% from oil and gas assets, and the remaining 3% from copper and nickel.

This gives investors broad-based exposure to a diversified range of commodities, which mitigates much of the risk of investing in a single defensive asset like gold.

The diversification of Franco-Nevada's asset base is superior to peer **Silver Wheaton Corp.**, with that company's assets predominantly concentrated on silver and gold — although it remains one of my preferred options for betting on the rally in silver. It has attracted attention from Wall Street, with Soros, Dalio, and John Hussman making big investments in the company.

2. Operating structure reduces risk and boosts margins

A key advantage precious metals streaming companies hold over miners is they are not required to make the significant capital expenditures required to buy and develop mining assets in order to sustain production.

They are also not compelled to maintain the same degree of expenditure on operating costs, which in mining can be tremendous as a capital-intensive industry. For the second quarter of 2014, Franco-Nevada's production costs as a percentage of revenue were 14%, whereas **Barrick Gold Corp.**'s (TSX: ABX)(NYSE: ABX) were 50%, **Goldcorp Inc.**'s (TSX: G)(NYSE: GG) 35%, and **Yamana Gold Inc.**'s (TSX: YRI)(NYSE: AUY) 56%.

This low-cost structure allows Franco-Nevada to generate a solid margin per ounce of gold sold — it reported a monster second-quarter EBITDA margin of 81%. This compares favorably with gold miners, as it is more than double Barrick's EBITDA margin of 40%, Goldcorp's 37%, and Yamana's 34%. All of this illustrates that Franco-Nevada is far more profitable than gold miners, with even a small increase in the gold price being able to significantly boost Franco-Nevada's profitability.

3. Unlike an ETF, Franco-Nevada still provides leverage exposure to gold

Despite being significantly lower risk than any of the gold miners, it still provides the same leverage exposure to gold and other precious metal prices that an investment in a gold exchange-traded fund like the **SPDR Gold Trust** (NYSEMKT: GLD) can't. This is because a gold ETF solely tracks the price of gold, whereas Franco-Nevada's share price moves at a far greater rate than the price of gold, reflecting the investments made by the company and the return it is able to generate on those investments.

As such, investors get a bigger bang for their buck than with a gold ETF, while minimizing many of the risks associated with gold miners. Furthermore, unlike a gold ETF, investors in Franco-Nevada are not required to pay an expense ratio, which no matter how small reduces investor returns over time.

4. Rewards investors with a steadily growing dividend

Franco-Nevada also continues to reward investors through the payment of a steadily growing dividend, which currently yields 1.5%. While this may not be a headline-grabbing yield, it appears sustainable with a forward payout ratio of 82%. More impressively, it has a 22% compound annual growth rate since inception.

All in all, this makes Franco-Nevada a particularly appealing investment by giving investors the same leveraged exposure to gold prices while, like an ETF, mitigating many of the risks associated with investing in gold miners.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:B (Barrick Mining)
3. NYSE:FNV (Franco-Nevada)
4. NYSEMKT:GLD (SPDR Gold Trust)
5. TSX:ABX (Barrick Mining)
6. TSX:FNV (Franco-Nevada)
7. TSX:WPM (Wheaton Precious Metals Corp.)
8. TSX:YRI (Yamana Gold)

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