

## 3 Reasons to Buy Franco-Nevada Corporation Instead of a Large Miner

### Description

It's that time of year again, when over 1,000 companies and 25,000 attendees gather for the Prospectors & Developers Association of Canada (PDAC) convention. It's the biggest gathering in the mining industry.

Unfortunately, the mood at the conference is not very bright. Then again, why would it be? Commodity prices are down, stock prices are down, numerous companies have run into trouble, and financing has dried up.

That said, one company has been sailing along very nicely: **Franco-Nevada Corporation** ([TSX:FNV](#))([NYSE:FNV](#)). Over the past three years, its shares have increased by close to 50%, even though the gold price has fallen by about 30% over that time. By comparison, **Barrick Gold Corp.**, the world's largest gold producer, has seen its shares decline by more than 65%.

So, what's been the key to Franco-Nevada's success? Well, Chairman Pierre Lassonde spoke to *The Business News Network* about what makes the company tick, and also why the company will be well-positioned down the road. On that note, below are the top three reasons to buy Franco instead of a gold company like Barrick.

#### 1. A better business model

Let's look at how a normal mining company invests capital. After conducting a series of feasibility studies and making a budget, the company pours bucket loads of money into building a new mine. The company then must wait years before the mine starts producing. Over this time, any number of problems can occur. Costs can go up, delays can happen, the deposit can be worse than expected, and local governments can change the terms.

It's no wonder that over half of new mining projects fail to return their upfront capital, something Mr. Lassonde pointed out in his interview. It's also something that Barrick is very familiar with.

Franco-Nevada is different. It provides upfront financing for other miners' projects, in exchange for a royalty. By doing this, Franco is able to protect the downside simply by putting guarantees into its contracts. Franco also is able to capture some significant upside when things go well. For example, it paid \$2 million for a royalty agreement with Barrick, and in return, has received \$900 million (and counting). That's not a bad risk-reward ratio!

#### 2. A track record of success

There's a reason why only a handful of royalty companies exist. It is not an easy business. After all, the royalty business involves handing over (hundreds of) millions of dollars upfront to mining companies, all in the hopes of getting your money back down the road. Of course, these miners are in need of financing, and will say what's necessary to get the deal.

So, royalty companies must combine mining engineering knowledge with financial acumen, all while negotiating effectively. Arguably none are more effective than Franco. For that reason, it's been able to provide a 20% annual return to shareholders over the past eight years.

### 3. A lack of financing

Franco is arguably better positioned than ever. Mining companies, especially small ones, are having tremendous difficulty finding financing. For that reason, the money that Franco-Nevada provides is more valuable than ever.

Franco-Nevada can pick and choose, knowing that the royalty market is a buyer's market. Shareholders can thus expect some more deals on very advantageous terms, especially if the gold price recovers.

#### CATEGORY

1. Investing
2. Metals and Mining Stocks

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