



## Is Franco-Nevada Corporation's Royalty System the Best Way to Play the Gold Sector?

### Description

Gold stocks can be a hard sell for investors. Mining is an expensive business and the price of gold has been volatile in recent years. But **Franco-Nevada Corporation's** ([TSX:FNV](#))([NYSE:FNV](#)) streaming royalty system may be a winner, with the company's recent quarterly report showing decent profits and higher revenues, as well as a bright long-term outlook.

On Wednesday Franco-Nevada reported adjusted quarterly net income of \$31.6 million, or \$0.20 per share, up from \$30.5 million, or \$0.21 per share, in the same period in the previous year. The earnings slightly missed analyst predictions, but Q4 revenues hit a record \$123 million, 23% higher than Q4 2013.

Franco-Nevada has provided a 20% annual return to shareholders over the past eight years, and that healthy dividend will be increasing 5%. Franco-Nevada's board of directors plans to formally declare the second quarter dividend of \$0.21 per share in May 2015 with payment by the end of June 2015.

"Franco-Nevada's diversified portfolio continues to perform well and business development efforts have shown good results," said company CEO David Harquail. "In 2014, we realized record revenue, despite a gold price that averaged 10% lower than in 2013. Even at today's commodity prices and substantially lower oil prices, our outlook is positive, thanks to the additional revenue and cash flows we are expecting from recent investments. Franco-Nevada is financially liquid and we see this period of lower commodity prices as an opportunity to further grow our company."

That last point is key, as Franco-Nevada has \$500 million in equity capital to finance further growth. Franco-Nevada kept an outperform rating and \$78 target price from BMO Nesbitt Burns after its earnings were in line with the broker's expectations. BMO said the gold-focused royalty and stream company offers a low-risk business model and growth potential from its current asset portfolio, in addition to a potential for future acquisitions.

For 2015, Franco-Nevada expects attributable royalty and stream production to total 335,000-355,000 gold equivalent ounces (GEOs) from its mineral assets and revenue of \$20-30 million from its oil and

gas assets. In the long term, Franco-Nevada expects its existing portfolio to generate between 385,000-415,000 GEOs by 2019 and between \$50-60 million in oil and gas revenues.

Numbers aside, let's talk a closer look at Franco-Nevada's revenue model to see why we're so positive on this stock. The company provides upfront financing for other gold miners' projects, receiving a royalty in return. The company protects itself from downside risk through guarantees placed in contracts, and captures the upside when the project goes well.

This all adds up to good news for investors looking for a long-term stock in the gold sector with low risk and stability. Franco-Nevada's shares may be a little expensive at around \$62 a share, but keep in mind the stock is up 23% over the past year. And even though Franco-Nevada is not as dependent on the price of gold as some of its competitors, bullion prices have been rising of late, recently topping \$1,200 per ounce. Higher prices will encourage miners to take more gold out of the ground, and that's good for Franco-Nevada's business.

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1. Investing
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## Date

2025/08/29

## Date Created

2015/03/27

## Author

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