



Why Franco Nevada Corp. Is a Great Alternative to Traditional Miners

Description

Investors that are looking to diversify their portfolios with a mining company often turn to traditional precious metals miners. This is done for good reason: gold is in high demand, is scarce, and, with just a few notable exceptions, has steadily increased in price for as long as anyone can remember.

One of those exceptions is the 2011 price retreat which saw gold prices fall from nearly US\$1,900 an ounce to sub-US\$1,100 per ounce. That multi-year drop only ended in the past year; prices finally appreciated past the US\$1,200 level and have stayed there for some time.

During that multi-year period of depressed gold prices, traditional miners were left, in many cases, with mining costs that exceeded the value of the gold itself. That forced mining companies to implement strict cost-cutting controls and seek out the most efficient and cost-effective ways to continue operations.

Precious metals streamers, such as **Franco Nevada Corp.** ([TSX:FNV](#))([NYSE:FNV](#)), were not as impacted by that drop in gold prices. Many investors view streaming companies as a less-risky alternative to traditional miners.

Here's a look at the streaming model and why Franco Nevada may be a great investment addition to your portfolio.

The simple, yet lucrative streaming model

Streamers like Franco Nevada operate under a simple premise: they provide the upfront capital needed by traditional miners to set up and begin mining operations. In exchange for that injection of capital, miners provide a fixed amount of the metal the mine produces to the streamer at a discounted cost.

That discounted cost can be quite significant: gold prices are often near the US\$400 per ounce level, and silver prices are equally as discounted to a price of nearly US\$4.50 per ounce. Streamers can sell the metals for the market rate and pocket the difference.

By adhering to this model, streamers such as Franco Nevada avoid many of the risks that traditional miners have, and because the operations of the mine are left to the mining company, the streamer can move on to the next investment opportunity.

Why Franco Nevada is the streaming company for your portfolio

Streaming companies make great investments, and Franco Nevada is a great option for just about any portfolio. The company is well diversified with an assortment of investments in mines on four different continents.

Franco Nevada continues to perform admirably. In the most recent quarterly update, the company reported a record-breaking US\$172.7 million in revenue, representing a 30.8% increase over the same period last year. Adjusted EBITDA for the quarter came in at US\$128.5 million, or US\$0.72 per share.

Impressively, at the end of the most recent quarter, Franco Nevada had US\$283 million in cash and no debt. Even better, because the company has no debt, Franco Nevada recently continued a decade-long precedent of annually increasing the quarterly dividend, which now stands at \$0.32 per share, resulting in a yield of 1.31%.

From a growth perspective, year-to-date Franco Nevada has appreciated by over 20%. In the long term, Franco Nevada has appreciated by over 120% in the past five years, making the company a great long-term option for those investors looking for growth.

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