1 Royalty Company for Long-Term Investors to Keep on Your Watch List

Description

Long-term investors looking for commodities or mining options on the Canadian exchanges certainly have a wide range of options to consider. Within the mining and commodities sector, however, niche options such as royalty/streaming companies provide yet another layer of complexity to the work an investor must to do consider all options available and make a decision on which companies to put in their long-term portfolio.

Here's why **Franco Nevada Corp.** (TSX:FNV)(NYSE:FNV) deserves to be on every investor's watch list, but perhaps not in every investor's portfolio.

I covered Franco Nevada in May of last year and discussed some of the reasons why it has historically been a very good long-term play. Investors who had bought Franco Nevada 10 years ago would have made a very good investment from both a dividend-growth (the current yield would be in excess of 8%) and capital appreciation (shares of Franco Nevada have increased more than six-fold over the past 10 years) standpoint.

That said, questioning if Franco Nevada is a solid long-term play requires careful analysis of where the company is in terms of its current fundamentals, and if today's price justifies future growth given the incredible run Franco Nevada shares have been on in recent years.

I am hesitant to suggest that Franco Nevada's current valuation merits any sort of consideration by value investors. Based on most fundamental metrics, shares of Franco Nevada are very expensive, and while the company does have a very solid portfolio of royalty and streaming interests, which should provide the basis for continued growth, the company's equity valuation is approaching a level I would consider to be very rich.

Based on its expectations for earnings growth, the company’s forward price-to-earnings (P/E) ratio sits at 86.6. Factoring in analysts’ five-year projected growth rate, the P/E ratio of Franco Nevada dividedby its growth rate (known as the PEG ratio) sits at more than 11. To put that number in perspective, famous value investor Peter Lynch popularized this metric, arguing that a value investment can be identified as a company with a PEG ratio of less than one.

That said, for growth investors considering the “dry powder” Franco Nevada has available to continue to make acquisitions in the royalty/streaming space, a growth argument could be made that the company’s PEG ratio does not factor in incremental cash flows, which may already be priced in by income-focused growth investors.

Bottom line

Franco Nevada is a very interesting case study in how royalty/streaming businesses can fit into one’s long-term portfolio. I would suggest that investors wait for a significant pullback before pulling the trigger, given the company’s elevated valuation relative to its projected cash flow growth.

In addition to Franco Nevada, growth investors ought to consider this other gem:

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:FNV (Franco-Nevada)
2. TSX:FNV (Franco-Nevada)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

Date
2025/09/13
Date Created
2018/01/22
Author
chrismacdonald