



Don't Let Franco Nevada Corp.'s (TSX:FNV) Price Drop Get You Down

Description

As a generally cautious investor, I have always believed that gold should play a role in a portfolio. But times have been tough over the past few years for holders of the precious metal. Even one of my best performers, **Franco Nevada** ([TSX:FNV](#))([NYSE:FNV](#)), [has fallen](#) substantially over the past few months. The terrible performance has left me shaking my head wondering if I should continue to hold the stock or throw in the towel.

The same thesis regarding gold has been in play over the better part of the past decade. Countries and individuals are in debt worldwide, resulting in a supposedly imminent fragility that will someday collapse. Nations have been pumping cash into the system, leading to a massive supply of fiat currency that could collapse. The problem is, year after year, the dialogue continues, and things keep getting better. And the doomsayers and eternal bears such as me get clobbered.

Maybe it is time to throw in the towel. But it is hard to let a company that is as good as Franco Nevada go. With so many companies taking on loads of debt, Franco Nevada maintains a debt-free balance sheet. If bad times come again, this will be one company that will thrive. After all, in times of stress, the strong companies eat and absorb the weaker ones or at least take their business.

While a [solid balance sheet](#) certainly helps companies survive bad times, having a good business model and making money is handy, too. Even with gold prices in the dumps, Franco Nevada is still doing pretty well. While Q2 2018 revenues were down slightly year over year, they were still quite strong. Net income increased almost 30% over the previous year and EBITDA increased by just under 5% — strong financial results considering the difficult gold environment.

And while owning a stockpile of gold doubloons either pays you no interest or actually costs you money to store, owning this stock provides you with steady quarterly payouts in the range of 1.5%. And considering those payments have been growing with the company every year for several years, you will most likely do a lot better owning the stock than physical gold.

Franco Nevada is enormously diversified and is becoming more so as time goes on. It has royalty streams coming from all over the world. While some of these streams come from less politically stable

regions, many, over 40%, of revenues come from Canada and the United States.

Franco Nevada has taken even further steps to diversify its revenue sources by getting royalty streams from entirely new sectors such as oil and gas. While these make up a small portion of its royalties at 14% of total revenues, they provide some alternate exposure. Over the past year, revenues from its oil and gas royalty streams have increased 136%. Higher oil prices should continue to benefit the company, which is especially important due to the decrease in the prices of precious metals.

Whenever I begin to lose hope in keeping gold as a part of my portfolio, I take a look at Franco Nevada's results. Its excellent execution, strong balance sheet, and financials keep me hanging on, even when the stock takes a dive. I probably won't keep too many gold bars kicking around, but it will pay to continue to hold and probably add more Franco Nevada on the dip.

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Author

krisknutson

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