



Why Has Franco-Nevada Corp. (TSX:FNV) Outperformed Wheaton Precious Metals Corp. (TSX:WPM) Lately?

Description

The stocks of **Franco-Nevada** ([TSX:FNV](#))([NYSE:FNV](#)) and **Wheaton Precious Metals** ([TSX:WPM](#))([NYSE:WPM](#)) both experienced lows on September 11. However, Franco-Nevada stock has fared much better by appreciating about 16% while Wheaton Precious Metals stock is only trading about 2% higher since then.

The two companies are in a similar line of business. Why is there a big difference in their recent price action? We shall explore the answer here.

What Franco-Nevada does

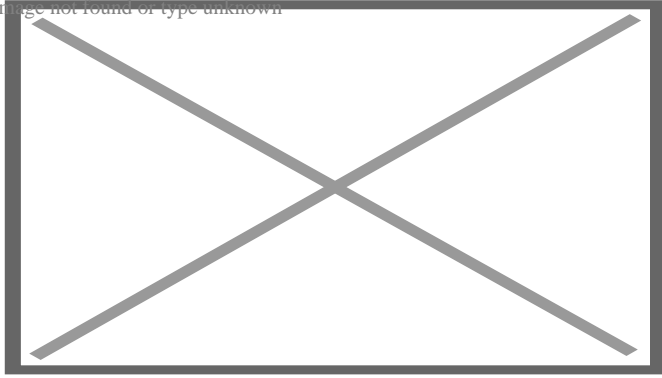
Franco-Nevada is primarily a gold royalty and streaming company with a large and diversified portfolio of assets. As explained on Franco-Nevada's website, royalties are ongoing economic interests in the production or future production from a property, while streams are metal purchase agreements that provide, in exchange for an upfront deposit, the right to purchase all or a portion of one or more metals produced from a mine at a preset price.

Franco-Nevada's diversified portfolio

As of early November, Franco-Nevada's portfolio consisted of 58 oil and gas producing assets, 44 precious metals producing assets, and seven other mining producing assets. More growth is expected with 35 projects in the advanced stage and 233 projects in the exploration stage.

In 2017, its adjusted EBITDA commodity diversification was 66% in gold, 16% in silver, 7% in platinum-group metals, 8% in oil and gas, and 3% in other minerals.

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About Wheaton Precious Metals

Wheaton Precious Metals is the world's largest pure streaming company with leverage to increases in precious metal prices as well as growth that can arise from new stream agreements.

Currently, Wheaton Precious Metals has streaming agreements with 19 operating mines. More growth can come from its nine projects that are under development. Its partners are some of the largest miners in the world, including **Barrick, Glencore, Pan American, Vale**, and others.

In 2017, Wheaton Precious Metals paid an average cost of US\$4.49 per ounce for its silver, while it sold the silver for an average price of US\$17.01 per ounce. Similarly, it paid an average cost of US\$395 per ounce for its gold, while it sold the gold for an average price of US\$1,257 per ounce. As a result, it generated about 52% of operating cash flow from silver and 48% from gold for the year.

The company estimates it'll produce about 385 thousand ounces of gold and 25 million ounces of silver per year through 2022, 27 thousand ounces of palladium per year from 2019-2022, and 2.1 million pounds of cobalt per year from 2021-2022.

High-margin businesses

Franco-Nevada and Wheaton Precious Metals are not involved with the operations and explorations of mines, which significantly reduces their investment risks compared to precious metals miners. As a result, Franco-Nevada and Wheaton Precious Metals generate high margins. Their recent net margins were 31.8% and 33.8%, respectively.

Investor takeaway

Franco-Nevada has been a more stable and [long-term outperformer](#) due to its larger and more diversified portfolio, as well as its focus on gold. Wheaton Precious Metals is also a great company, but it's weighed more heavily towards silver. And silver prices tend to be more volatile than gold prices.

Wheaton Precious Metals [will outperform](#) Franco-Nevada in the case where we experience a huge upswing in silver prices. On top of that, Wheaton Precious Metals is a better value today. So, it'd be a better buy today for patient total-returns investors. The 12-month mean target of **Thomson Reuter** analysts indicates about 65% upside potential in the near term!

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2. Investing
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