Which Royalty Company Is the Best Income Stock?

Description

Royalty companies have a lot of advantages over producers, especially in the commodity sector. The first major advantage is the fact that they are not as impacted by operational risks as producers can be. They do not own land, giant stores, have large workforces, or other major costs that are attributed to most institutions. Their simple structure — receiving streams of cash from a business in exchange for cash upfront or land usage — is relatively easy to understand. They also often pay healthy dividends, which income investors can appreciate.

Purchasing streams of royalties

Some royalty companies provide alternative funding for producing companies as opposed to accessing the debt market. **Franco-Nevada** (TSX:FNV)(NYSE:FNV) and **Osisko Gold Royalties** (TSX:OR)(NYSE:OR) fulfill this role. These companies provide capital upfront to companies in exchange for future streams of income on production.

Franco Nevada provides funding to precious metals, oil, and gas companies. It is one of the largest royalty companies in the world and pays a dividend of 1.25% at the current price, a dividend that it has been growing for years. It also operates debt-free with its investment capital being primarily paid out of its free cash flow, making it an extremely stable organization.

Osisko is a somewhat newer royalty company that is focused on the precious metals space. It also pays a modest dividend of 1.5%. The company has more leverage than Franco-Nevada, although most of it is long-term debt obligations. The company is cheaper than Franco-Nevada on a price-to-book basis and trades at one times book value as opposed to Franco-Nevada's three.

The land-use model

Others own a particular asset, such as land, which companies use in exchange for production royalties. **Prairie Sky Royalty** (TSX:PSK) and **Freehold Royalties** (TSX:FRU) operate in this space. These companies have essentially no direct production risk, benefiting only from the royalties received when producers use their land.

Prairie Sky, with its $4.5 market capitalization, is the larger of the two companies. The company acquires land, which it then leases in exchange for production royalties. Prairie Sky owns approximately 7.8 million acres of land in western Canada. The company pays a dividend of approximately 4% supported by funds from operations, which grew 7% in Q3 2018 from the second quarter of the same year.

Freehold is smaller than Prairie Sky at a market capitalization of just over $1 billion, but it has the added benefit of having a dividend of around 7%. That dividend, though, is not entirely secure, as it has been cut in the past. The company owns around 6.2 million acres of land that is available for lease. In the third quarter of 2018, royalty income increased 20% over the third quarter the year before.

Which royalty company is best?

Royalty companies have the benefit of not being as exposed to operational risks as pure producers are. They still have some production risk, since they cannot receive income from a company that does not produce. The best company to choose for income might not have the largest dividend but will have steady, growing cash flow coming from a solid, diversified asset base.

A diversified debt-free royalty company like Franco-Nevada is the number one choice to add to your income portfolio. It includes streaming income from precious metals as well as oil and gas provided by a globalized asset book. While the dividend is not the largest, its long history of dividend growth and strong balance sheet make Franco-Nevada the best commodity-based royalty company to hold for the long term.

CATEGORY

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

TICKERS GLOBAL

1. NYSE:FNV (Franco-Nevada)
2. NYSE:OR (Osisko Gold Royalties)
3. TSX:FNV (Franco-Nevada)
4. TSX:FRU (Freehold Royalties Ltd.)
5. TSX:OR (Osisko Gold Royalties)
6. TSX:PSK (PrairieSky Royalty Ltd.)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

Category

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

Date
2025/07/21
Date Created
2019/02/03
Author
krisknutson