



TFSA 101: This Gold Royalty Stock Can Turn \$10,000 Into \$38,000 in Just 8 Years

Description

I'll cut to the chase — **Franco-Nevada** ([TSX:FNV](#))([NYSE:FNV](#)) is a gold investment that works. I'm not the one saying that; the company makes that claim every chance it gets in any investor materials I've read. That piqued my curiosity because gold investments typically don't work so well for investors.

The extraction of gold is filled with regulatory and geopolitical hurdles and challenges. Most gold mines are in far-flung jurisdictions with varying degrees of "rule of law," and sometimes a change in government can spell disaster for gold companies because the new government in a far-flung country could slap on a 100% mining tax or something else that can be hugely detrimental to the company.

In that sense, to find a company with good metals exposure with a balanced risk level and a stable and growing stock price is definitely finding the one needle in a huge haystack.

So, what exactly does the company do that is different from others? Well, Franco-Nevada is the leading gold-focused royalty and streaming company, with a large and well-diversified portfolio of cash flow-producing assets across a spectrum of other metals and energy in addition to gold.

What is most important is that it is a royalty company as opposed to a mining company, and therein lies the beauty of the business model. The company does not take any direct mining risk. Rather, think of a royalty company as a financier of mines who takes payment in gold, silver, and other metals. This model provides investors with exposure to gold prices while limiting exposure to many of the risks of an extraction company with mining operations.

Shareholder return is a sight for sore eyes

I can't recall the last time I saw a shareholder return chart in the metals or commodities space that made my heart flutter. But there is no denying that Franco-Nevada has been an excellent investment for shareholders since its IPO in December 2007. From 2008 to 2019, the company has delivered a cumulative shareholder return of 500%, which amounts to an annual return of 18%.

At an 18% annual return, a \$10,000 investment in the company would turn into \$38,000 in just eight short years and a monster \$52,000 in just 10 years. Not only is that an amazing annual return, but the company has also managed to achieve that high return with relatively low stock price volatility.

To top it all off, the company has worked hard to create a [rock-solid balance sheet](#) and uses its free cash flow to expand its portfolio and pay dividends. That's right; the company is actually free cash flow (FCF) positive, and my regular readers know that I really salivate over companies that can report a positive and growing FCF.

Franco-Nevada has pristine cash metrics with net cash from operating activities growing from \$249 million for the first half of 2018 to \$263 million for the first half of this year. This year-on-year growth of 6% may not feel like much, but to grow cash flow is really hard for companies, and to reliably grow cash flow by even a couple of percentage points is a monumental task for a company operating in the volatile metals industry.

Foolish bottom line

The stock price had a very strong summer run-up, going from \$100 in May to \$130 by the end of August for a crazy 30% gain in just three months. Since then, the stock price has taken a little bit of a breather and has stayed in the \$120-\$130 zone for the last couple of months.

My sense is that the stock may continue to be range bound until the end of the year, so smart investors would do well to try to accumulate shares if there is a pullback in the stock below \$120. But be warned; [this type of solid investment](#) rarely goes on sale, so when it does, be ready to pounce and enjoy long-term, stable returns!

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. Business Insider
2. Msn
3. Newscred
4. Sharewise

5. Yahoo CA

Category

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

Date

2025/08/25

Date Created

2019/11/09

Author

rahimbhayani

default watermark

default watermark