



Is This Defensive Gold Stock Still a Great Place to Hide?

Description

Gold's reputation as a safe-haven investment has truly been shining for the last few months. For the past couple of years, many other Foolish contributors such as [Rahim Bhayani](#) and I have been touting the benefits of purchasing certain gold stocks as a way to hedge against uncertainty. Furthermore, at that time gold stocks were incredibly out of favour, as the stock market generally continued to climb, interest rates rose, and a strong U.S. dollar kept gold prices depressed.

Recently, gold stocks have bounced incredibly, with many companies experiencing gains of 50%, 60%, or even over 100% in their share price values. Normally, I would recommend getting your capital back as soon as possible, trying to lock in your gains, and then "playing with the house's money."

Unfortunately, these are not normal times.

You see, I still see these stocks as a hedge against any major economic downside, and it appears I am not alone. Something weird is happening, and it might be best to be prepared. Gold is still sitting at a pretty high level in spite of the fact that stocks are also at all-time highs and interest rates are decreasing.

As a result, I have decided to keep my gold holdings for now. I primarily focus on a few players, with **Franco Nevada Corp** ([TSX:FNV](#))([NYSE:FNV](#)) being my biggest precious metals-related holding. It is a large, relatively stable company that has at a small dividend that it pays out in U.S. dollars.

I have never been much of a risk-taker in general, so even in my gold choices, I am more likely to stick to more stable names than take a swing at a small-cap stock. Franco Nevada certainly fits the mold of stability – as far as the term stability can be applied to any commodity stock.

Franco Nevada is by far my favourite of the group, and that faith has certainly been rewarded, with the shares experiencing a 52-week gain of around 50%. Some of that gain took place in the last week, with a 3.5% gain occurring on the 12th as the company reported a new record in ounces sold of gold equivalent in the third quarter of 2019.

Earnings per share was also a record, up a staggering 86.2% year over year. Earnings per share beat estimates handily, clocking in at 54 cents a share compared to estimates of 45 cents a share. These are pretty solid growth results from what is known as a stable player in the gold space.

With a dividend of around 1%, I wouldn't count on it to fund your retirement dreams, but the yield is pretty stable and growing. Earlier this year Franco Nevada increased its dividend by 4.2%, continuing a string of hikes that goes back over a decade.

Probably my favourite aspect of the company is its commitment to maintaining a solid balance sheet with no debt. Franco Nevada funds its growth with free cash flow, which will help it weather, and even benefit from, any potential downturn.

Probably the biggest risk to the company is a retreat in gold prices. This is an expensive gold company that is priced to perfection. As fast as the share price has gone up, it could also come back down should gold sentiment fade significantly.

This is a great long-term hold

With its commitment to maintaining a strong balance sheet, its great dividend, and its primary focus on gold, Franco Nevada remains an excellent long-term hold for cautious investors. This is the ultimate defensive play, a hedge against uncertainty.

I will not sell my shares of Franco Nevada in spite of the run-up in the share price. I have been considering selling some covered calls, but I am not sure I want to risk selling shares, despite the rich premiums the stock commands.

This is a stock in which everyone should have a position, although I would add gradually, perhaps taking out a small position now and adding on weakness. Buy some Franco Nevada to play [defense](#) with your portfolio, and don't look back.

CATEGORY

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