Dirt-Cheap Buys: A Top Canadian Royalty Stock to Buy Right Now

Description

Franco-Nevada ([TSX:FNV](TSX:FNV))(NYSE:FNV) is a leading gold-focused royalty and stream company with one of the largest and most diversified portfolio of cash flow-producing assets. The company's business model provides investors with gold price and exploration optionality while limiting exposure to many of the risks of operating companies. Franco-Nevada is debt free and uses the company's free cash flow to expand Franco-Nevada's portfolio and pay dividends.

Portfolio of royalties

The company does not operate mines, develop projects, or conduct exploration. Franco-Nevada's business model is focused on managing and growing the company's portfolio of royalties and streams. The advantages of this business model are that it provides exposure to precious metals price optionality with a perpetual discovery option over large areas of geologically prospective lands with no additional cost other than the initial investment.

In addition, Franco-Nevada's business model limits exposure to many of the risks associated with operating companies. The business is, essentially, a free cash flow business with limited cash calls and a high-margin business that can generate cash through the entire commodity cycle. The company has built a scalable and diversified business in which a large number of assets can be managed with a small stable overhead.

Growth opportunities

Franco-Nevada is a forward-looking business in which management focuses on growth opportunities rather than operational or development issues. Franco-Nevada's financial results in the short term are primarily tied to the price of commodities and the amount of production from the company's portfolio of income-producing assets. Financial results have also been supplemented by acquisitions of new producing assets.

Over the longer term, results are impacted by the availability of exploration and development capital

applied by other companies to expand or extend Franco-Nevada's producing assets or to advance Franco-Nevada's advanced and exploration assets into production. Franco-Nevada has a long-term investment outlook and recognizes the cyclical nature of the industry. The company has historically operated by maintaining a strong balance sheet so that it can make investments during commodity cycle downturns.

Reduced operational risk

An investment in Franco-Nevada's shares is expected to provide investors with yield and exposure to gold price and exploration optionality while limiting exposure to many of the risks of operating companies. Since the company's initial public offering 10 years ago, Franco-Nevada has increased the company's dividend annually and, as a result, the share price has outperformed the gold price and all relevant gold equity benchmarks.

Franco-Nevada's revenue is generated from various forms of agreements, ranging from net smelter return royalties, streams, net profits interests, net royalty interests, and other working interests. The company's most significant mineral asset under development is the Cobre Panama gold and silver stream. Under the company's agreement with **First Quantum**, which owns 90% of the project, Franco-Nevada will provide a maximum of $1 billion in deposit pro-rata on a 1:3 ratio of First Quantum's share of the capital costs.

Franco-Nevada's performance is impacted by foreign currency fluctuations of the Canadian dollar and Australian dollar relative to the United States dollar. Overall, this appears to be a great business to own over the long term.

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1. Investing
2. Metals and Mining Stocks

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