



## 1 of My Favourite TSX Stocks to Buy in Volatile Markets

### Description

While markets have been flying high, gold miner stocks have taken a brutal beating since last year. And importantly, the upturn still does not look convincing to take a bet on the yellow metal miners. However, one **TSX** stock that has remarkably thrashed peers is **Franco-Nevada** ([TSX:FNV](#))([NYSE:FNV](#)).

### Top Canadian stock to buy for the long term

FNV stock has returned more than 20% so far this year, while the yellow metal has lost approximately 8%. In comparison, top gold miner **Barrick Gold** and peer streamer **Wheaton Precious Metals** have dropped 18% and 2% in the same period, respectively.

That's mainly because of the nature of the business. Franco-Nevada is a \$37 billion royalty and streaming company and does not involve in mining exploration or operations. Rather, it outsources these operations for an upfront fee in return for a share in the output. This lowers risk, saves on hefty costs, and in turn, brings in superior profit margins. As a result, Franco-Nevada's net profit margin averaged close to 30% in the last five years, far higher than traditional miners.

Franco-Nevada generates almost 70% of its total revenues from gold, 11% from silver, and the rest from other precious metals and energy. Even if the company is inclined toward gold, the contribution from the energy segment has notably increased recently.

### Financials and valuation

During the first half of 2021, FNV [reported](#) a net income of \$346 million against a loss of almost \$4 million in the same period in 2020. The steep earnings growth was one of the main reasons behind its outperformance this year. In April 2021, the company acquired royalty debentures of Brazilian mining company Vale for \$538 million. So, driven by these debentures and higher contributions from its streams, Franco-Nevada posted solid earnings growth this year.

Indeed, FNV stock has stood tall for the last several years. Franco-Nevada stock returned 420% in the last decade, while Barrick returned -40% and WPM returned 74%.

Apart from healthy financial growth, it has a robust balance sheet with no debt. Miners, on the other hand, generally have debt-heavy balance sheets because of their capital-intensive businesses. Franco-Nevada also pays a small dividend that yields 0.8% at the moment.

Notably, FNV stock looks stretched from the valuation standpoint after its steep rally. It is currently trading at a price-to-earnings ratio of 42x while a price-to-book value of 5 times. That's way expensive against the industry average and its historical average.

Franco-Nevada is a great business and is [a great investment](#) too. But, the stock's upside from its current levels looks capped because of the premium valuation. Peer stocks Barrick Gold and Wheaton are trading at 15 times and 31 times their respective earnings.

## Bottom line

Gold is a classic [safe-haven investment](#) and particularly plays well in low-interest environments. However, among gold stocks, streaming companies offer appealing risk-reward propositions for investors. Franco-Nevada is one of the top bets with its solid assets, earnings growth, and a healthy balance sheet.

As gold prices start heading north again, FNV's earnings growth will likely accelerate and could drive its stock even higher.

### CATEGORY

1. Dividend Stocks
2. Investing
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