



Worried About a Market Pullback? This Top TSX Gold Stock Is a Nice Hedge

Description

Those seeking to [find value](#) in today's market certainly have to search high and low. Indeed, valuations have climbed to what many analysts think are bubble-like levels. Accordingly, investors may be intrigued by one top TSX gold stock, which has [outperformed](#) since the beginning of the pandemic, though not in a straight line.

Indeed, **Franco-Nevada Gold** ([TSX:FNV](#)) ([NYSE:FNV](#)) has been one gold stock I've been watching for some time. This is the result of a business model I think is both unique and exciting in a rather homogenous gold sector. Franco-Nevada provides investors with a high-margin business model that's not capital intensive and easier to grow over time. Accordingly, this company's valuation multiple has remained elevated relative to its peers.

In this article, I'm going to discuss why I think Franco-Nevada is one gold stock that deserves its high valuation. Additionally, I'm going to discuss why I think this stock is an excellent portfolio hedge today.

A gold stock with an impressive business model

Unlike traditional gold miners, Franco-Nevada is a royalties/streaming play. The company is engaged in the upfront financing of mine development. Other miners looking for equity financing for deals sell royalties to companies like Franco-Nevada in exchange for financing. This model has proved to be extremely lucrative for royalty players like Franco-Nevada over the long term. And given where the price of gold is trading at today, gold miners don't necessarily mind paying the royalty, as their margins have also expanded significantly.

Accordingly, this type of environment is a win-win for royalties players and gold miners. Gold miners are looking to ramp up production by any means possible to fund production growth. When gold prices are elevated, as they are now, companies may be more open to exploring quicker and easier financing deals, giving up a larger piece of the pie than they normally would in low gold price environments. For investors in Franco Nevada, this is a very good thing.

Indeed, Franco Nevada is a gold stock that has built a rather impressive portfolio of royalties. The

company holds 406 royalties across a variety of commodities sectors (not just gold). Accordingly, I view Franco-Nevada as a more diversified way to play broader commodity strength. This year, this stock has been a winner for obvious reasons.

Of course, whether or not commodity price strength continues remains to be seen. However, Franco-Nevada's long-term CAGR of nearly 18% over the past decade speaks for itself. This is a company that has a proven growth model, and has done well, even in times of difficulty in the commodities sector.

Bottom line

I think Franco-Nevada's business model is one of the most defensive of any gold stock on the market today. Indeed, this company's strong and stable cash flow streams, high margins, and low operational risk are preferable in many ways to owning traditional miners. These fundamental metrics aren't likely to change.

Those who believe commodity price strength is likely to continue can't go wrong owning Franco-Nevada. This is a gold stock that isn't a gold stock — for investors seeking sector-specific exposure with less risk, that's a great thing.

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