TSX Mining Sector Analysis: Is Franco-Nevada (TSX:FNV) Stock Undervalued?

Description

Warren Buffett famously said that investors should buy the stocks of great companies and hold them forever. At the Motley Fool, we take Buffett's advice to heart and believe in the power of a long-term perspective when it comes to investing.

Although everyone likes to find a good undervalued stock, sometimes it is better to buy the stock of a great company at an okayish price as opposed to the stock of a mediocre company at a good discount. The stocks of businesses with sustainable, excellent performance make ideal buy-and-hold stocks.

For this reason, new Canadian investors should focus on the stocks of blue-chip companies with excellent fundamentals, understandable business models, essential products and services, a wide economic moat, solid financial ratios, and good management.

Franco-Nevada

My stock to examine this week is **Franco-Nevada** (TSX:FNV)(NYSE:FNV), a Canadian mining sector royalty and streaming company with a focus on gold, silver, and platinum.

In the mining sector, streaming companies are those that make agreements with other mining companies to acquire part or all their production, usually at a discounted price.

In return, the streaming company provides the miner with capital to finance their operations. These companies can be thought of a pseudo-venture capital firms engaged exclusively in the mining sector.

Valuation

New investors should always be aware of some basic valuation metrics, so they can understand how companies are valued and what influences their current share price.

Currently, FNV is extending gains since Monday and is currently trading at $201.8, which is near the

52-week high of $216.32. In the current fiscal quarter, FNV's 52-week low is $158.27. This is useful, as it gives investors a sense of the recent trading range.

FNV currently has a market cap of $32.18 billion with approximately 38.81 billion shares outstanding. This gives it an enterprise value of $31.83 billion with an enterprise value-to-EBITDA ratio of 33.8, similar to peers in the TSX mining sector.

For the past 12 months, the price-to-earnings ratio of FNV was 46.67, with a price-to-free cash flow ratio of 743.17, price-to-book ratio of 5.52, price-to-sales ratio of 25.2, and book value per share of approximately $30.5. These ratios point to possible overvaluation for the current share price.

FNV is currently covered by a total of 23 analysts. Of them, nine have issued a "buy" rating, two have issued a "sell" rating, and 12 have issued a "hold" rating. This is generally a considered a not-so-bullish sign, suggesting that analysts think there is less upside on the way.

FNV has a Graham number of $49.76 for the last 12 months, a measure of a stock's upper limit intrinsic value based on its earnings per share and book value per share. Generally, if the stock price is below the Graham number, it is considered to be undervalued and worth investing in. In this case, FNV looks very overvalued.

Is it a buy?

FNV looks highly overvalued right now, especially given that the stock has run up over 16% year to date. The mining sector tends to be highly cyclical. Investors looking to establish a position should be cautious, as consensus analyst ratings are a "hold" and valuation metrics show that the current share price might be too high compared to fundamentals.

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Date
2025/06/29
Date Created
2022/04/27
Author
tdong