



Gold Alert: Is Franco Nevada (TSX:FNV) a “Goldilocks” Stock to Buy and Hold?

Description

Gold is performing wonderfully as a “safe-haven” asset. While stocks continue to look uncertain, it has reached \$1,700 per ounce. Many analysts now believe it’s destined for new U.S. dollar highs. **Franco Nevada** ([TSX:FNV](#))([NYSE:FNV](#)) offers one interesting way to take advantage of this situation and perhaps hedge your TFSA with gold.

As a royalty and streaming company, Franco Nevada provides gold miners with capital to develop new projects. In return, they receive either a royalty (a percentage of the revenues) or a streaming deal (the right to buy the mined gold at a favourable price).

You can think of it as having a big, fat call option on gold. When prices rise, their margins can rapidly grow.

A “Goldilocks” business model?

Here’s what’s most astonishing about Franco Nevada.

It has a market capitalization of \$33.5 billion, yet only has 38 full-time employees. That is almost a billion dollars of market cap per employee!

It is hard to imagine how any other business model could be this efficient. Even **Amazon** has significantly less market cap per employee.

Or compare it to any large gold miner.

On a big mine, you might expect to see the monstrous \$5.5 million **Caterpillar** 797 truck. [Each tire for this vehicle costs \\$42,500!](#)

Franco Nevada deals with none of these logistical headaches. It simply assesses the opportunity and decides whether or not to invest.

Physical gold is only getting harder to find

Due to the coronavirus, a number of miners are temporarily closed.

Many of the major mines are closed also.

It's causing the premiums on physical gold to explode. Meanwhile, miners are having to cover their unavoidable overheads while revenues are slashed. Of course, this poses some risk for Franco Nevada, but I believe those risks are outweighed by the rewards.

For starters, Franco Nevada (as reported in November 2019) has 374 well-diversified assets, most of which are in safe jurisdictions across Canada, the U.S., and Latin America.

What's more, you'd expect Franco Nevada to benefit from higher prices once the mines are back online.

How risky is Franco Nevada?

I think a sensible answer is, "riskier than bullion, but less risky than miners."

If you're looking to hedge your TFSA, you might take a closer look at Franco Nevada.

Its debts are miniscule, with a debt/equity ratio of 0.02. It also has \$172.5 million of free cash flow.

In terms of its track record, Franco Nevada is a marvel. Since its inception in 2008, it has produced a better-than-average 16% annual return. Canadian IPO investors are now realizing a 9.3% dividend yield. Remember, that's including the vicious gold bear market, which began in 2011.

Unfortunately, this track record has not been overlooked by the markets. Shares are by no means cheap, and you'll pay a premium for the relative safety.

I would also expect [more upside from miners like Barrick Gold](#) — if you can stomach the risk.

On balance, if I had no gold bullion, I would probably consider putting 3-5% of my TFSA into Franco Nevada.

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