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Franco-Nevada Corporation

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Precious metals royalty companies continue to outperform mining equities, but for how much longer?

One of the standout performers in the mining sector during the last decade or so is unquestionably Franco Nevada Corporation (TSE:FNV)(NYSE:FNV).

The royalty specialist, which floated in its current incarnation on the Canadian market in 2007, has enjoyed an almost unbroken run of share price strength, and long ago left its original listing price of C$15.20 for dust.

Back in 2007, the company's core was the US$1.2bn royalty portfolio that it had been spun out of Newmont Mining (TSE:NGT).

Since then though there have been deals galore, including the acquisition of Gold Wheaton and royalties on the giant Cobre Panama project, and the Antamina and Candelaria mines among many others.

The shares have responded accordingly, and now trade at around C$130, meaning that Franco Nevada is not far off a ten-bagger.

Ten baggers don't come along that often as any seasoned mining investor will know, but the chances of a company that has never run a line or staked a claim in its history delivering such claims are rare indeed.

Instead, this ten bagger has generated cash from day one and has, moreover, delivered its exceptional growth through what have universally been described as some of the toughest times in mining in living memory.

Compare that performance, for a moment with the major miners that are operating in a similar space, the in particular the precious metals giants, since a total of 83.8% of Franco Nevada's revenue during the April-June quarter was generated from gold, silver and platinum.

Over the same period, since 2007, when Franco Nevada listed shares in Barrick Gold (TSE:ABX) have dropped from around C$40 to the current price of C$26. Similarly, shares in Newmont Mining - now Newmont Goldcorp (TSE:NGT)(NYSE:NEM) - have dropped by 20% from US$50 to the current price of around US$40.

And shares in Gold Fields (JSE:GFI) dropped by around 10% to R9,000. The best big name performer in the gold space over that time period is Newcrest Mining Ltd (ASX:NCR), shares in which have risen by just under 25%.

Data for Fresnillo (LON:FRES) doesn't go back quite that far, but the gains booked since May 2008 amount to just under 30%.

The message is clear enough: on a ten year view, anyone interested in blue-chip investments in the precious metals space would have been a standout winner if they'd picked Franco Nevada over any other major mining company.

Price: $122.78

Market Cap: $23.01 billion

1 Year Share Price Graph

Share Information

Code:		FNV
Listing:		TSX
52 week	**High**	**Low**
	133.92	**79.2**
Sector:		**Gold & silver**
Website:		**www.franco-nevada.com**

Company Synopsis:
Franco-Nevada Corporation (TSX:FNV) is a gold focused royalty company with additional interests in platinum metals, oil & gas and other assets. The majority of revenues are generated from a diversified portfolio of royalty properties in the United States, Canada and Australia.

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But what is it about Franco Nevada?

Is it just that this company has struck the most judicious deals in town?

Not quite.

It's more about the model itself.

Because a quick glance at the performance of some of the sectors other major players in the royalty space reveals a similar, if not quite so spectacular, pattern of strength.

Thus, shares in Wheaton Precious Metals Corp (TSE:WPM) have risen by roughly 130% since that late 2007 date, shares in Sandstorm Gold Ltd (TSE:SSL)(NYSE:SAND) are up almost fivefold, and shares in Royal Gold (NASDAQ:RGLD) have more than quadrupled.

The only exception is Osisko Gold Royalties (TSE:OR), which has trod water since it was spun out of Osisko proper back in 2015. Nevertheless, you can see what was on the Osisko management's minds when they did that spin out.

And success in the royalty space doesn't just run to the big boys.

Since it was listed in 2010, shares in Metalla Royalty & Streaming Ltd (CVE:MTA), have risen in value fivefold, such that the company is now worth upwards of C$170mln. And shares in another junior Mavrix Metals Inc (TSE:MMX)(NYSE:MMX) have also done well, tripling in value since the company listed in 2010 and built up a portfolio of more than 60 royalties and streams.

So what are we to make of all this?

One obvious conclusion would be that royalty companies are simply just better investments. Certainly, there's less execution risk of the type that's bedevilled big projects like Barrick's Pascua Lama. And there's less jurisdictional risk of the type that continuously wrapped Freeport McMoRan's Grasberg mine in complexity and confusion before it was eventually legally sequestered.

On the other hand, might it be true to say now that royalty companies are overbought, and that the miners themselves are due for a run of comparable success.

After all, the great draw of the royalty companies is that mitigation of risk, and there's been so much risk around in the past ten years or so, that it's no wonder that investors looking for safe ways to gain precious metals exposure have been buying in. First off there was the global financial crisis. Then there was the spike in the gold price and its subsequent collapse, during which time global growth was anaemic at best.

And latterly there's been the trade war between the US and China. These sorts of conditions can bode very well for gold, but are far less a sure thing when it comes to equities. So the companies with the least risk with the securest income streams rise to the fore.

Now though, the global financial crisis is more than a decade old and the trade war is running its course. Gold is strong, and gold mining equities themselves have performed well. Does this mean the age when the royalty company is king is coming to an end?

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