Franco-Nevada Corp. (FNV)

Updated August 12th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$155	**5 Year CAGR Estimate:**	9.6%	**Market Cap:**	$29.6 B
Fair Value Price:	$174	**5 Year Growth Estimate:**	6.5%	**Ex-Dividend Date[1]:**	09/15/2021
% Fair Value:	89%	**5 Year Valuation Multiple Estimate:**	2.3%	**Dividend Payment Date[2]:**	09/30/2021
Dividend Yield:	0.7%	**5 Year Price Target**	$238	**Years Of Dividend Growth:**	13
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	15.4%

Overview & Current Events

Franco-Nevada Corporation (FNV) is a royalty and stream company focused on gold and other precious metals, and oil and gas. The company's cash-flow producing portfolio is actively managed and aims to maintain over 80% of revenue from precious metals. The business model is to grow and build the portfolio of royalties and streams, thus they do not operate mines or conduct exploration. This lean business model allows for the $29.6 billion market cap company to employ only 35 full-time employees. The corporation is still exposed to commodity price fluctuations in the short-term but utilizes the commodity down cycles to opportunistically make investments. The corporation was founded in 1983 as a mining royalty business. In 2002, it was acquired by Newmont Mining for $2.5 billion. On December 20, 2007, the original FNV team repurchased the royalty portfolio for $1.2 billion by launching an IPO with the newly incorporated Franco-Nevada. The corporation is headquartered in Toronto and trades on both the Toronto and New York Stock Exchanges under the ticker symbol FNV. FNV has raised its dividend for 13 consecutive years.

On August 11th, FNV released second quarter results. Gold Equivalent Ounces (GEOs) sold in the first quarter increased 60% compared to 2Q 2020. Revenue rose 78% year-over-year to $347.1 million. Adjusted net income grew 99% to $182.6 million and adjusted net income per share doubled to $0.96. The company generated $245 million in operating cash flow during the quarter.

The company acquired 57 million of Vale S.A.'s outstanding participant debentures for $538 million. Royalty payments on this investment are made semi-annually at the end of March and September. FNV estimates that the royalty payment for the last six-month period to be roughly $28 million.

Given the strong results year-to-date, leadership has increased 2021 guidance and now estimates GEO sales to be in the higher end of previously announced guidance, for an updated range of 590,000 to 615,000 GEOs. Energy revenue guidance has also increased from a prior mid-point of $125 million to an updated mid-point of $163 million, due to higher commodity prices.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Adj. NIPS	$1.08	$1.19	$0.94	$0.91	$0.57	$0.94	$1.08	$1.17	$1.82	$2.71	**$3.55**	**$4.86**
DPS	$0.44	$0.60	$0.72	$0.78	$0.83	$0.87	$0.91	$0.95	$0.99	$1.03	**$1.16**	**$1.70**
Shares[3]	138.4	146.7	147.2	156.5	158.0	178.5	185.9	186.7	189.4	191.0	**192.0**	**195.0**

Franco-Nevada measures their growth using adjusted net income per share, which adjusts for impairment charges and reversals, foreign exchange gains and losses and other income and expenses. For a commodity-involved company, net income has remained fairly consistent and stable as FNV has limited exposure to many of the risks operating companies may face. Management can focus on growth rather than operational or development issues.

[1] Estimate
[2] Estimate
[3] In millions

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The company has a long runway of growth still ahead of it. The new metals stream and natural gas royalties have immediately added to cash flow. Further portfolio additions would likely do the same, though it is not baked into their immediate growth outlook. GEOs sales growth and energy revenue growth are expected in 2021 and over the next 5 years. The existing portfolio is expected to produce roughly 645,000 GEOs by 2025. It also expects additional revenue of around $160 million to come from the energy assets. This outlook assumes the expansions of the Cobre Panama mill reaches 100 million tonnes per year during 2023, as well as new mines commencing production. We expect the company can grow adjusted net income per share by 6.5% through 2026. In the past nine years, FNV grew ANIPS 10.8%.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/ANI	34.9	38.8	46.1	55.3	85.1	69.4	67.6	60.2	46.6	50.0	**43.7**	**49.0**
Avg. Yld.	1.0%	1.0%	1.5%	1.5%	1.7%	1.3%	1.2%	1.3%	1.1%	0.8%	**0.7%**	**0.7%**

Franco-Nevada has traded at a Price-to-adjusted-net-income of 55 on average in the past 10 years, and 59 in the past 5 years. While shares trade at 43.7 times estimated 2021 adjusted net income, we believe fair value is closer to 49.0 times, which would result in gains of 2.3% due to valuation expansion. The dividend yield is expected to remain sub-1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

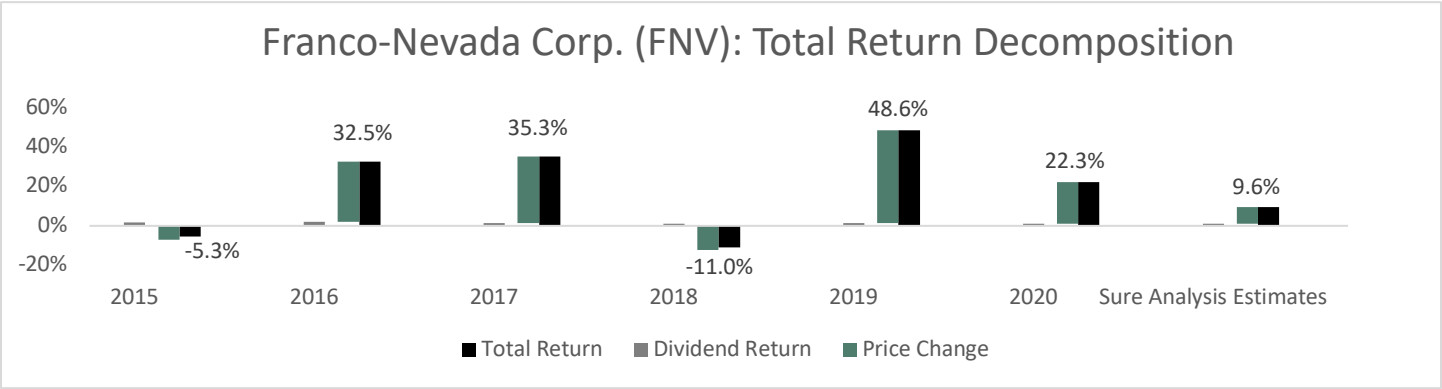
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	41%	50%	77%	86%	146%	93%	84%	81%	54%	38%	**33%**	**35%**

The business model Franco-Nevada has embraced is a competitive advantage, as they have gained upside exposure to commodity markets and the commodity cycle without many of the downsides. In addition, FNV has a strong margin compared to its peers, at 82.3% for 2020. Even more, the corporation has no debt, and has $198 million in cash and cash equivalents. The company is diversified geographically across the entire world, with the bulk of GEOs in Latin America, then Canada and America, and the rest of the world. They are also diversified in metals (gold, silver, PGM) and oil and gas (oil, gas, NGL). The Franco-Nevada as we know it was born during the great recession, and adjusted net income fell 60% between 2008-09, but then returned and surpassed prior levels within one year.

Final Thoughts & Recommendation

Franco-Nevada is a leaner and more risk-averse play on the commodity price upside than directly owning mining or energy companies. This safe approach has led to 14 consecutive dividend raises since the corporation IPOd, and we see this continuing. According to our estimates, the company today boasts a decent margin of safety trading at 89% fair value. Given 9.6% in expected total returns on top of this, we rate FNV a Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	411	427	401	442	444	610	675	653	844	1020
Gross Profit	217	241	211	206	134	231	260	287	436	620
Gross Margin	52.8%	56.5%	52.7%	46.7%	30.3%	37.8%	38.5%	44.0%	51.7%	60.8%
SG&A Exp.	18	17	15	16	15	21	25	23	29	29
Operating Profit	197	221	193	188	116	207	235	265	407	592
Operating Margin	47.8%	51.8%	48.2%	42.5%	26.2%	33.8%	34.8%	40.5%	48.3%	58.0%
Net Profit	-7	103	12	107	25	122	195	139	344	326
Net Margin	-1.7%	24.0%	2.9%	24.1%	5.5%	20.0%	28.8%	21.3%	40.8%	32.0%
Free Cash Flow	250	-203	107	-591	-706	-276	-13	-515	173	491
Income Tax	46	52	22	50	24	46	41	50	62	13

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	2901	3244	3045	3467	3674	4222	4788	4932	5281	5593
Cash & Equivalents	794	632	770	593	149	253	511	70	132	534
Accounts Receivable	79	83	78	72	65	71	66	76	98	93
Inventories					0	3	7	0	4	1
Total Liabilities	67	95	81	61	511	75	83	300	218	149
Accounts Payable	7	6	6	6	6	10	6	7	7	4
Long-Term Debt	0	0	0	0	457	0	0	208	80	0
Shareholder's Equity	2834	3149	2964	3406	3163	4147	4706	4632	5062	5444
D/E Ratio	0.00	0.00	0.00	0.00	0.14	0.00	0.00	0.04	0.02	0.00

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-0.3%	3.3%	0.4%	3.3%	0.7%	3.1%	4.3%	2.9%	6.7%	6.0%
Return on Equity	-0.3%	3.4%	0.4%	3.4%	0.7%	3.3%	4.4%	3.0%	7.1%	6.2%
ROIC	-0.3%	3.4%	0.4%	3.4%	0.7%	3.1%	4.4%	2.9%	6.9%	6.2%
Shares Out.	125	144	148	152	157	176	183	186	188	191
Revenue/Share	3.28	2.96	2.71	2.92	2.83	3.46	3.68	3.50	4.49	5.35
FCF/Share	1.99	-1.41	0.73	-3.90	-4.50	-1.57	-0.07	-2.76	0.92	2.58

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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