Franco-Nevada Corp. (FNV)

Updated March 11th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$157	**5 Year CAGR Estimate:**	8.5%	**Market Cap:**	$30 B
Fair Value Price:	$167	**5 Year Growth Estimate:**	6.5%	**Ex-Dividend Date[1]:**	03/16/2022
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.1%	**Dividend Payment Date[2]:**	03/31/2022
Dividend Yield:	0.8%	**5 Year Price Target**	$228	**Years Of Dividend Growth:**	15
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	6.7%

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 $30 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 15 consecutive years.

On March 9th, FNV released Q4 and FY 2021 results. Gold Equivalent Ounces (GEOs) sold in FY 2021 increased 27% compared to 2020. Revenue also rose 27% year-over-year to $1.3 billion. Adjusted net income grew 30% to $674 million and adjusted net income per share rose to $3.52 per share. Adjusted net income for Q4, however, was unchanged compared to 2021, at $0.86 per share, which indicates year-over-year results may moderate going forward.

The company provided 2022 guidance which sees a slight dip in production compared to 2021, with GEOs ranging between 680,000 to 740,000.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Adj. NIPS	$1.19	$0.94	$0.91	$0.57	$0.94	$1.08	$1.17	$1.82	$2.71	$3.52	***$3.62***	***$4.96***
DPS	$0.60	$0.72	$0.78	$0.83	$0.87	$0.91	$0.95	$0.99	$1.03	$1.16	***$1.28***	***$1.88***
Shares[3]	146.7	147.2	156.5	158.0	178.5	185.9	186.7	189.4	191.0	192.0	***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.

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 sold and energy revenue growth are expected over the next 5 years. The existing portfolio is expected to produce roughly 795,000 GEOs by 2026. It also expects additional annualized revenue of around $160 million to come from the energy assets. This outlook assumes the expansions of the Cobre Panama mill reaches

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

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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% annually through 2026. In the past nine years, FNV grew ANIPS 12.8%.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/ANI	38.8	46.1	55.3	85.1	69.4	67.6	60.2	46.6	50.0	39.1	***43.5***	***46.0***
Avg. Yld.	1.0%	1.5%	1.5%	1.7%	1.3%	1.2%	1.3%	1.1%	0.8%	0.8%	***0.8%***	***0.8%***

Franco-Nevada has traded at a Price-to-adjusted-net-income of 56 on average in the past 10 years, and 53 in the past 5 years. While shares trade at 43.5 times estimated 2022 adjusted net income, we believe fair value is closer to 46.0 times, which would result in gains of 1.1% due to valuation expansion. The dividend yield is expected to remain sub-1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

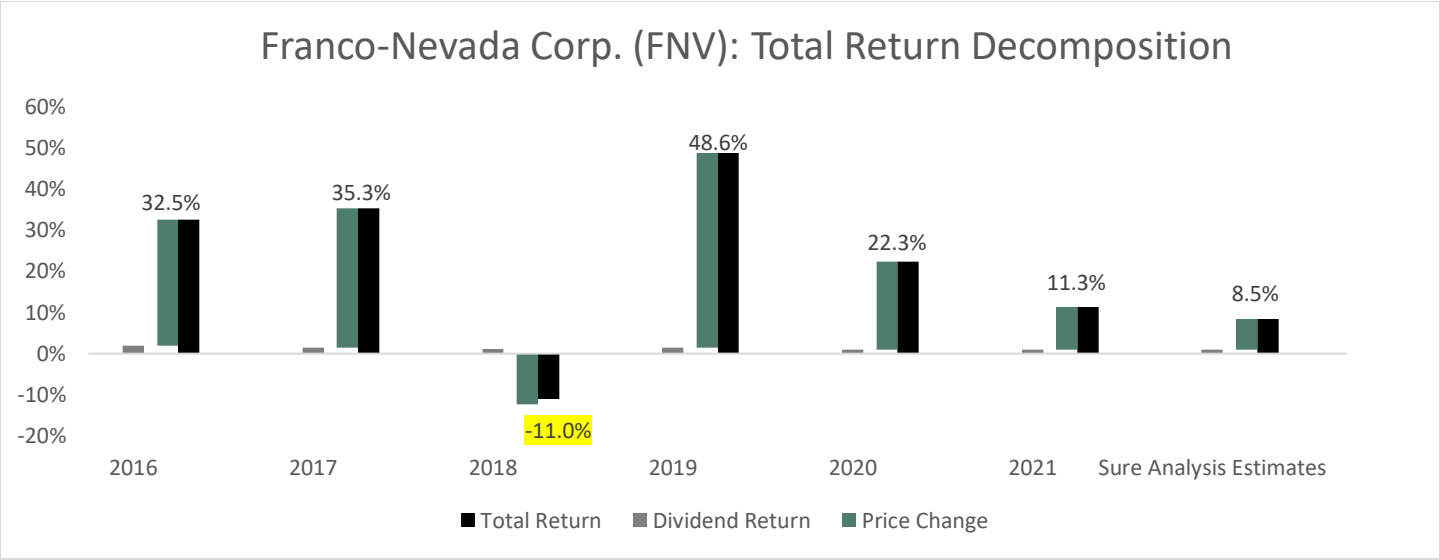
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	50%	77%	86%	146%	93%	84%	81%	54%	38%	33%	***35%***	***38%***

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 84% for 2021. Even more, the corporation has no debt, and has $1.6 billion in available capital. 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 15 consecutive dividend raises since the corporation IPOd, and we see this continuing. According to our estimates, the company today boasts a small margin of safety trading at 95% fair value. Given 8.5% in expected annualized total returns, we rate FNV a Hold today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	427	401	442	444	610	675	653	844	1,020	1,300
Gross Profit	241	211	206	134	231	260	287	436	620	822
Gross Margin	56.5%	52.7%	46.7%	30.3%	37.8%	38.5%	44.0%	51.7%	60.8%	63.2%
SG&A Exp.	17	15	16	15	21	25	23	29	29	31
Operating Profit	221	193	188	116	207	235	265	407	592	791
Operating Margin	51.8%	48.2%	42.5%	26.2%	33.8%	34.8%	40.5%	48.3%	58.0%	60.9%
Net Profit	103	12	107	25	122	195	139	344	326	734
Net Margin	24.0%	2.9%	24.1%	5.5%	20.0%	28.8%	21.3%	40.8%	32.0%	56.4%
Free Cash Flow	-203	107	-591	-706	-276	-13	-515	173	491	195
Income Tax	52	22	50	24	46	41	50	62	13	124

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,244	3,045	3,467	3,674	4,222	4,788	4,932	5,281	5,593	
Cash & Equivalents	632	770	593	149	253	511	70	132	534	
Accounts Receivable	83	78	72	65	71	66	76	98	93	
Inventories				0	3	7	0	4	1	
Total Liabilities	95	81	61	511	75	83	300	218	149	
Accounts Payable	6	6	6	6	10	6	7	7	4	
Long-Term Debt	0	0	0	457	0	0	208	80	0	0
Shareholder's Equity	3,149	2,964	3,406	3,163	4,147	4,706	4,632	5,062	5,444	
LTD/E Ratio	0.00	0.00	0.00	0.14	0.00	0.00	0.04	0.02	0.00	

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.3%	0.4%	3.3%	0.7%	3.1%	4.3%	2.9%	6.7%	6.0%	
Return on Equity	3.4%	0.4%	3.4%	0.7%	3.3%	4.4%	3.0%	7.1%	6.2%	
ROIC	3.4%	0.4%	3.4%	0.7%	3.1%	4.4%	2.9%	6.9%	6.2%	
Shares Out.	144	148	152	157	176	183	186	188	191	192
Revenue/Share	2.96	2.71	2.92	2.83	3.46	3.68	3.50	4.49	5.35	6.79
FCF/Share	-1.41	0.73	-3.90	-4.50	-1.57	-0.07	-2.76	0.92	2.58	1.02

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

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