# Franco-Nevada Corp. (FNV)

*Updated November 15th, 2022 by Quinn Mohammed*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $140 | **5 Year CAGR Estimate:** | 2.1% | **Market Cap:** | $27 B |
| **Fair Value Price:** | $155 | **5 Year Growth Estimate:** | -1.0% | **Ex-Dividend Date[1]:** | 12/07/2022 |
| **% Fair Value:** | 90% | **5 Year Valuation Multiple Estimate:** | 2.0% | **Dividend Payment Date[2]:** | 12/22/2022 |
| **Dividend Yield:** | 0.9% | **5 Year Price Target** | $148 | **Years Of Dividend Growth:** | 15 |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | D | **Rating:** | Sell |

## 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 $27 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 November 7th, Franco-Nevada reported third quarter results. Gold Equivalent Ounces (GEOs) sold (including Energy) decreased 1% compared to third quarter 2021. Revenue declined by 4% year-over-year to $304.2 million. Adjusted net income declined similarly to $159.7 million, resulting in adjusted net income per share of $0.83.

The company reaffirmed previously 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 | ***$3.70*** | ***$3.52*** |
| **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 100 million tonnes per year during 2023, as well as new mines commencing production. We expect the company's

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

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adjusted net income per share to contract by 1% annually through 2027 off this historically high base. 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 | ***37.9*** | ***42.0*** |
| **Avg. Yld.** | 1.0% | 1.5% | 1.5% | 1.7% | 1.3% | 1.2% | 1.3% | 1.1% | 0.8% | 0.8% | ***0.9%*** | ***1.3%*** |

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 37.9 times estimated 2022 adjusted net income, we believe fair value can be as high as 42.0 times, which would result in gains of 2.0% due to valuation expansion. The dividend yield is expected to remain near 1%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

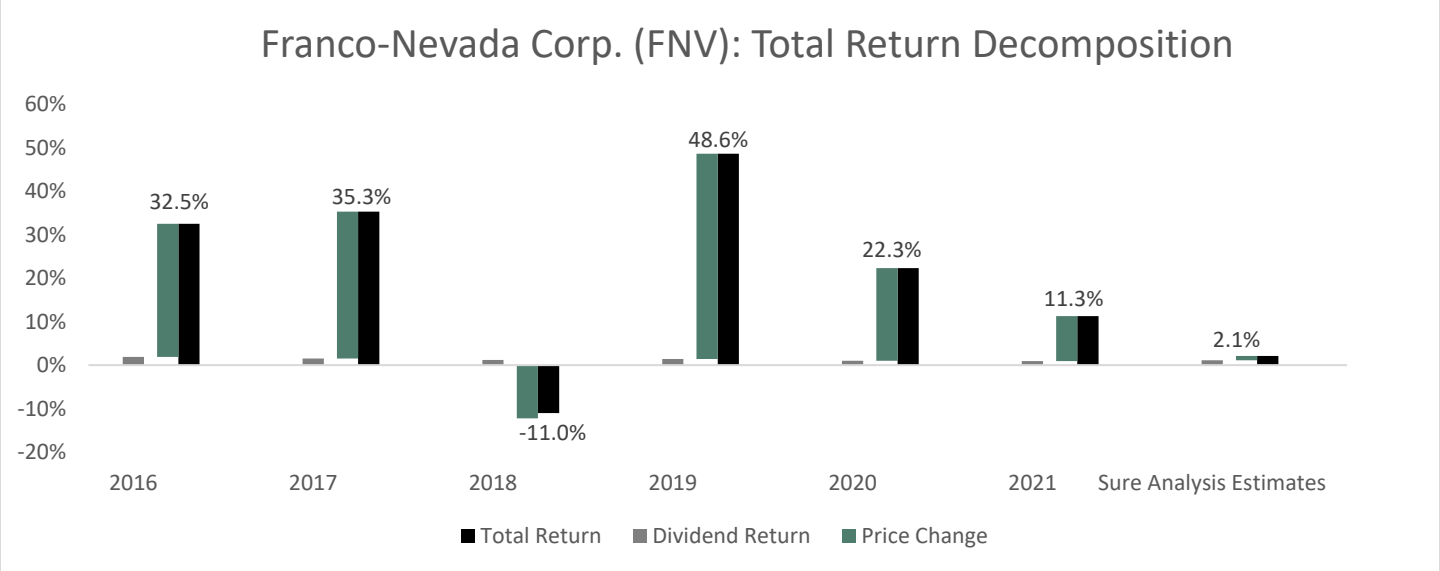
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 50% | 77% | 86% | 146% | 93% | 84% | 81% | 54% | 38% | 33% | ***35%*** | ***53%*** |

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 $2.0 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 90% fair value. Given 2.1% in expected annualized total returns, we rate FNV a sell 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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