Franco-Nevada Corp. (FNV)

Updated May 9th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$160	**5 Year CAGR Estimate:**	-0.7%	**Market Cap:**	$31 B
Fair Value Price:	$154	**5 Year Growth Estimate:**	-1.0%	**Ex-Dividend Date[1]:**	06/14/2023
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.8%	**Dividend Payment Date[2]:**	06/29/2023
Dividend Yield:	0.8%	**5 Year Price Target**	$147	**Years Of Dividend Growth:**	16
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 $31 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 16 consecutive years.

On January 17th, 2023, Franco-Nevada declared a $0.34 quarterly dividend, which marks a 6.3% increase.

On May 2nd, 2023, Franco-Nevada reported first quarter 2023 results. Gold Equivalent Ounces (GEOs) sold (including Energy) decreased 19% compared to first quarter 2022. Revenue declined by 18% year-over-year to $276.3 million. Adjusted net income was down 18% to $152.2 million, resulting in adjusted net income per share of $0.79.

The company's 2023 guidance sees a slight dip in production compared to 2022, with total GEOs ranging between 640,000 and 700,000.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Adj. NIPS	$0.94	$0.91	$0.57	$0.94	$1.08	$1.17	$1.82	$2.71	$3.52	$3.64	***$3.67***	***$3.49***
DPS	$0.72	$0.78	$0.83	$0.87	$0.91	$0.95	$0.99	$1.03	$1.16	$1.28	***$1.36***	***$2.00***
Shares[3]	147.2	156.5	158.0	178.5	185.9	186.7	189.4	191.0	191.5	191.9	***192.0***	***200.0***

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 are expected to increase over the next 5 years. The existing portfolio is expected to produce roughly 760,000 – 820,000 GEOs by 2027. This outlook assumes the expansions of the Cobre Panama mill reaches 100 million tonnes per year, increased attributable production from Vale's Northern and Southeastern systems, production growth from the continued development of the company's U.S. Energy assets, and the commencement of

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

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production at Stibnite, Copper World and Eskay Creek. We expect the company's adjusted net income per share to contract by 1% annually through 2028 off this historically high base. In the past nine years, FNV grew ANIPS 16.2%.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/ANI	46.1	55.3	85.1	69.4	67.6	60.2	46.6	50.0	39.1	37.7	***43.7***	***42.0***
Avg. Yld.	1.5%	1.5%	1.7%	1.3%	1.2%	1.3%	1.1%	0.8%	0.8%	0.9%	***0.8%***	***1.4%***

Franco-Nevada has traded at a price-to-adjusted-net-income ratio of 55.7 on average in the past 10 years, and 46.7 in the past 5 years. While shares trade at 43.7 times estimated 2023 adjusted net income, we believe fair value can be as high as 42.0 times, which would result in annualized losses of -0.8% due to valuation compression. The dividend yield is expected to remain around 1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

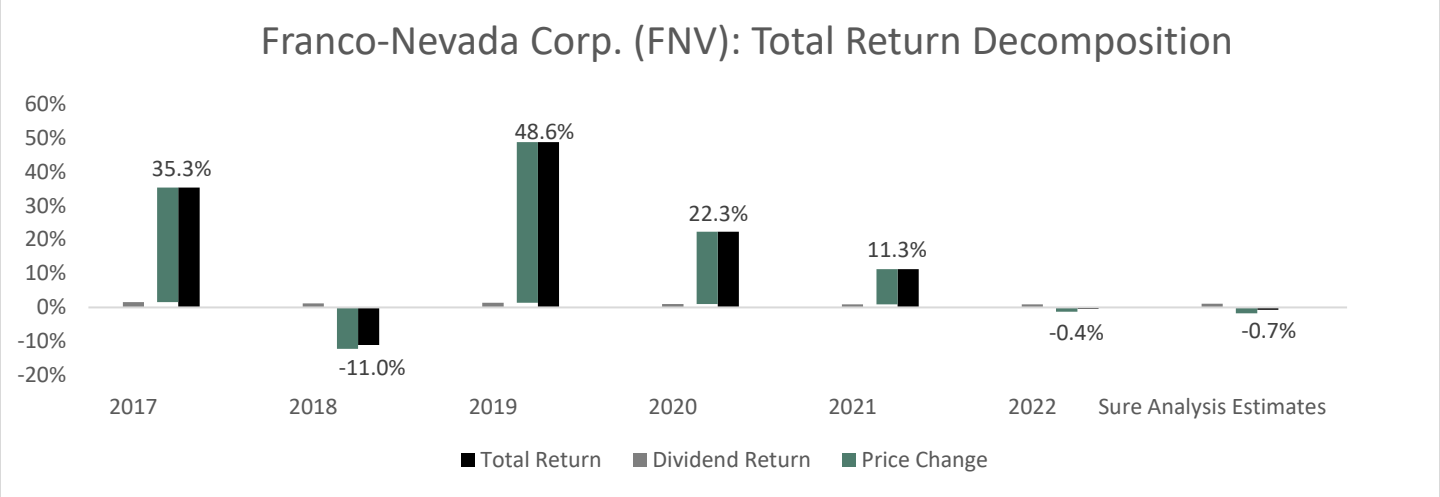
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	77%	86%	146%	93%	84%	81%	54%	38%	33%	35%	***37%***	***57%***

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 2022. Even more, the corporation has no debt, and has $2.2 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 16 consecutive dividend raises since the corporation IPOd, and we see this continuing. According to our estimates, the company today boasts no margin of safety trading at 104% fair value. Given -0.7% in expected annualized total returns, we are downgrading FNV to sell, but remark that it is a high quality business which often trades at a premium.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	401	442	444	610	675	653	844	1,020	1,300	1316
Gross Profit	211	206	134	231	260	287	436	620	822	853
Gross Margin	52.7%	46.7%	30.3%	37.8%	38.5%	44.0%	51.7%	60.8%	63.2%	64.8%
SG&A Exp.	15	16	15	21	25	23	29	29	31	33
Operating Profit	193	188	116	207	235	265	407	592	791	820
Operating Margin	48.2%	42.5%	26.2%	33.8%	34.8%	40.5%	48.3%	58.0%	60.9%	62.3%
Net Profit	12	107	25	122	195	139	344	326	734	701
Net Margin	2.9%	24.1%	5.5%	20.0%	28.8%	21.3%	40.8%	32.0%	56.4%	53.2%
Free Cash Flow	107	-591	-706	-276	-13	-515	173	491	195	858
Income Tax	22	50	24	46	41	50	62	13	124	133

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,045	3,467	3,674	4,222	4,788	4,932	5,281	5,593		6627
Cash & Equivalents	770	593	149	253	511	70	132	534		1197
Accounts Receivable	78	72	65	71	66	76	98	93		136
Inventories			0	3	7	0	4	1		0
Total Liabilities	81	61	511	75	83	300	218	149		209
Accounts Payable	6	6	6	10	6	7	7	4		7
Long-Term Debt	0	0	457	0	0	208	80	0	0	0
Shareholder's Equity	2,964	3,406	3,163	4,147	4,706	4,632	5,062	5,444		6418
LTD/E Ratio	0.00	0.00	0.14	0.00	0.00	0.04	0.02	0.00		0.00

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.4%	3.3%	0.7%	3.1%	4.3%	2.9%	6.7%	6.0%		10.9%
Return on Equity	0.4%	3.4%	0.7%	3.3%	4.4%	3.0%	7.1%	6.2%		11.3%
ROIC	0.4%	3.4%	0.7%	3.1%	4.4%	2.9%	6.9%	6.2%		11.3%
Shares Out.	148	152	157	176	183	186	188	191	192	191.9
Revenue/Share	2.71	2.92	2.83	3.46	3.68	3.50	4.49	5.35	6.79	6.9
FCF/Share	0.73	-3.90	-4.50	-1.57	-0.07	-2.76	0.92	2.58	1.02	4.5

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

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