Franco-Nevada Corp. (FNV)

Updated March 9th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$115	**5 Year CAGR Estimate:**	6.9%	**Market Cap:**	$22 B
Fair Value Price:	$124	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date[1]:**	03/13/2024
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.6%	**Dividend Payment Date[2]:**	03/28/2024
Dividend Yield:	1.3%	**5 Year Price Target**	$151	**Years Of Dividend Growth:**	17
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 it does not operate mines or conduct exploration. This lean business model allows for the $22 billion market cap company to employ only 45 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 17 consecutive years.

On January 30th, 2024, Franco-Nevada declared a $0.36 quarterly dividend, which marked a 5.9% dividend increase.

On March 5th, 2024, Franco-Nevada reported fourth quarter 2023 results. Gold Equivalent Ounces (GEOs) sold (including Energy) decreased 17% compared to fourth quarter 2022. Revenue also declined by 5% year-over-year to $303 million. Adjusted net income, however, increased 5% to $173 million, resulting in adjusted net income per share of $0.90.

Franco-Nevada took a $1.2 billion impairment loss on Cobre Panama in 2023 due to the production halt since November 2023 as a result of a mining moratorium. This is significant because Cobre Panama represented 20% of 2023 revenue. However, Panama elections are set to occur in May 2024, and a new president may change the story.

The company's 2024 guidance expects 480,000 to 540,000 total GEOs sales (which excludes Cobre Panama).

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Adj. NIPS	$0.91	$0.57	$0.94	$1.08	$1.17	$1.82	$2.71	$3.52	$3.64	$3.56	***$3.11***	***$3.78***
DPS	$0.78	$0.83	$0.87	$0.91	$0.95	$0.99	$1.03	$1.16	$1.28	$1.36	***$1.44***	***$2.12***
Shares[3]	156.5	158.0	178.5	185.9	186.7	189.4	191.0	191.5	191.9	192.3	***193.0***	***200.0***

Franco-Nevada measures its 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 its immediate growth outlook. GEOs sold are expected to increase over the next five years. The existing portfolio is

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

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expected to produce roughly 540,000 to 600,000 GEOs in 2028 (a significant decline from previous estimates of 760,000 – 820,000 GEOs in 2027 due to the suspension of Cobre Panama). This outlook assumes increased attributable sales from Vale's Northern and Southeastern systems, increased output from Guadalupe-Palmarejo and Antamina, production growth from the continued development of the company's U.S. Energy assets, and the commencement of production at Valentine Gold, Stibnite Gold, Eskay Creek, Castle Mountain Phase 2, and Copper World. We expect the company's adjusted net income per share to increase by 4.0% annually through 2029. In the past nine and five years, FNV grew adjusted net income per share at a 16.4% and 24.9% CAGR, respectively.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/ANI	55.3	85.1	69.4	67.6	60.2	46.6	50.0	39.1	37.7	38.8	***37.0***	***40.0***
Avg. Yld.	1.5%	1.7%	1.3%	1.2%	1.3%	1.1%	0.8%	0.8%	0.9%	1.0%	***1.3%***	***1.4%***

Franco-Nevada has traded at a price-to-adjusted-net-income ratio of 55.0 on average in the past ten years, and 42.4 in the past five years. While shares trade at 37.0 times estimated 2024 adjusted net income, we believe fair value can be as high as 40.0 times, which implies the possibility for a valuation tailwind. The dividend yield is expected to remain around 1.0% to 1.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

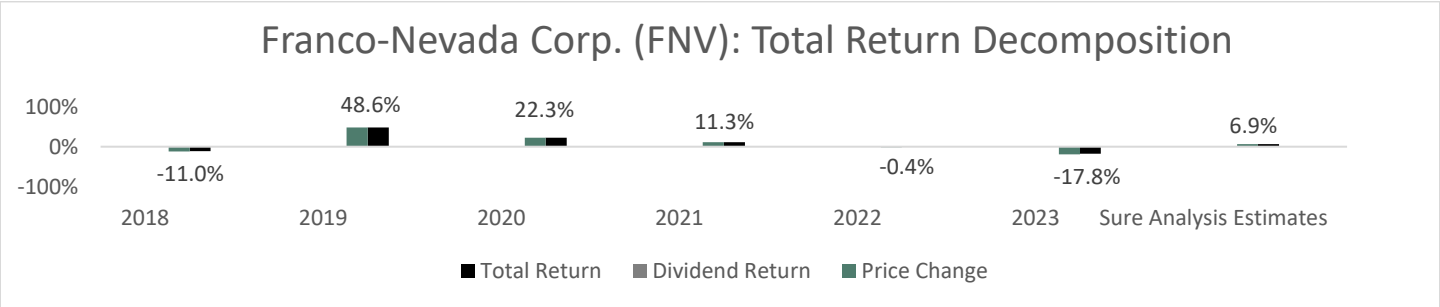
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	86%	146%	93%	84%	81%	54%	38%	33%	35%	38%	***46%***	***56%***

The business model Franco-Nevada has embraced is a competitive advantage, as it has 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 83% for 2023. Even more, the corporation has no debt, and has $2.4 billion in available capital at December 31st, 2023. 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). Franco-Nevada as we know it was born during the great recession, and adjusted net income fell 60% between 2008-2009, 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 17 consecutive dividend raises since the corporation IPOd, and we see this continuing. According to our estimates, the company today boasts some margin of safety trading at 92% of our fair value estimate. Given 6.9% in expected annualized total returns, FNV maintains its hold rating, and we 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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