Franco-Nevada Corp. (FNV)

Updated August 17th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$122	**5 Year CAGR Estimate:**	11.1%	**Market Cap:**	$23 B
Fair Value Price:	$128	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	09/12/2024
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Dividend Payment Date[1]:**	09/26/2024
Dividend Yield:	1.2%	**5 Year Price Target**	$197	**Years Of Dividend Growth:**	17
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Buy

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 $23 billion market cap company to employ only 40 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.

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. A new president of Panama was inaugurated into office on July 1st, 2024. He announced the government will conduct a strict environmental audit of the Cobre Panama mine.

On August 13th, 2024, Franco-Nevada reported second quarter 2024 results. Gold Equivalent Ounces (GEOs) sold (including Energy) decreased 35% compared to second quarter 2023, primarily due to the production half of Cobre Panama. Revenue also declined by 21% year-over-year to $260 million. Adjusted net income declined 21% to $145 million, resulting in adjusted net income per share of $0.75.

The company maintained its 2024 guidance, but now expects to land at the lower end of 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	***$3.29***	***$5.06***
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[2]	156.5	158.0	178.5	185.9	186.7	189.4	191.0	191.5	191.9	192.3	***192.0***	***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 company involved in commodities, net income has remained consistent and stable as Franco-Nevada 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. Its 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] In millions

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expected to produce roughly 540,000 to 600,000 GEOs in 2028 (a significant decline from prior 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 9.0% 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***	***39.0***
Avg. Yld.	1.5%	1.7%	1.3%	1.2%	1.3%	1.1%	0.8%	0.8%	0.9%	1.0%	***1.2%***	***1.1%***

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 39.0 times, which implies a small valuation tailwind. The dividend yield is likely to remain around 1.0% to 1.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

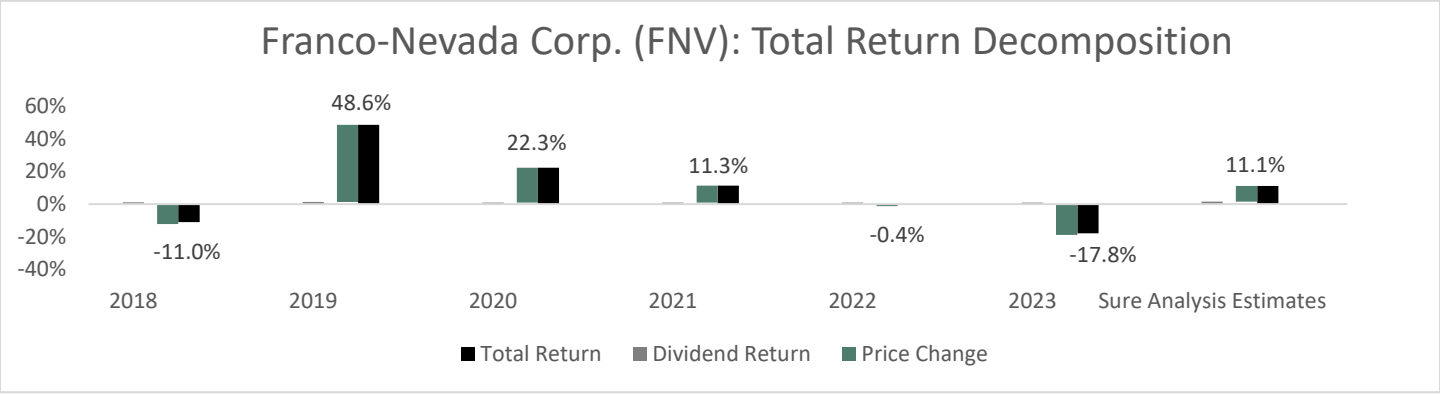
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	86%	146%	93%	84%	81%	54%	38%	33%	35%	38%	***45%***	***52%***

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 on June 30th, 2024. 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 stock today possesses very little margin of safety at 95% of our fair value estimate. Given 11.1% in expected annualized total returns, FNV earns a buy rating, and we remark that it is a high-quality business that often trades at a premium.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	442	444	610	675	653	844	1,020	1,300	1316	1219
Gross Profit	206	134	231	260	287	436	620	822	853	767
Gross Margin	46.7%	30.3%	37.8%	38.5%	44.0%	51.7%	60.8%	63.2%	64.8%	62.9%
SG&A Exp.	16	15	21	25	23	29	29	31	33	29
Operating Profit	188	116	207	235	265	407	592	791	820	738
Operating Margin	42.5%	26.2%	33.8%	34.8%	40.5%	48.3%	58.0%	60.9%	62.3%	60.5%
Net Profit	107	25	122	195	139	344	326	734	701	-466
Net Margin	24.1%	5.5%	20.0%	28.8%	21.3%	40.8%	32.0%	56.4%	53.2%	-38.2%
Free Cash Flow	-591	-706	-276	-13	-515	173	491	195	858	470
Income Tax	50	24	46	41	50	62	13	124	133	102

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,467	3,674	4,222	4,788	4,932	5,281	5,593		6627	5994
Cash & Equivalents	593	149	253	511	70	132	534		1197	1422
Accounts Receivable	72	65	71	66	76	98	93		136	111
Inventories		0	3	7	0	4	1		0	1
Total Liabilities	61	511	75	83	300	218	149		209	225
Accounts Payable	6	6	10	6	7	7	4		7	6
Long-Term Debt	0	457	0	0	208	80	0	0	0	
Shareholder's Equity	3,406	3,163	4,147	4,706	4,632	5,062	5,444		6418	5769
LTD/E Ratio	0.00	0.14	0.00	0.00	0.04	0.02	0.00		0.00	0.00

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.3%	0.7%	3.1%	4.3%	2.9%	6.7%	6.0%		10.9%	-7.4%
Return on Equity	3.4%	0.7%	3.3%	4.4%	3.0%	7.1%	6.2%		11.3%	-7.7%
ROIC	3.4%	0.7%	3.1%	4.4%	2.9%	6.9%	6.2%		11.3%	-7.7%
Shares Out.	152	157	176	183	186	188	191	192	191.9	192.3
Revenue/Share	2.92	2.83	3.46	3.68	3.50	4.49	5.35	6.79	6.9	6.3
FCF/Share	-3.90	-4.50	-1.57	-0.07	-2.76	0.92	2.58	1.02	4.5	2.4

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

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