



Is Franco-Nevada Corporation the Best Way to Gain Exposure to the Gold Industry Today?

Description

Franco-Nevada Corporation ([TSX:FNV](#))([NYSE:FNV](#)), one of the world's largest gold-focused royalty and stream companies, announced second-quarter earnings results after the market closed on August 10, and its stock responded by rising about 3% in the trading session that followed. Let's take a closer look at the results to determine if the stock could head higher from here, and if we should consider establishing positions today.

Acquisitions and increased production led to strong results

Here's a summary of Franco-Nevada's second-quarter earnings results compared with its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Q2 2015	Q2 2014
Adjusted Earnings Per Share	\$0.15	\$0.24
Revenue	\$109.4 million	\$107.7 million

Source: Franco-Nevada Corporation

Franco-Nevada's earnings per share decreased 37.5% and its revenue increased 1.6% compared with the second quarter of fiscal 2014. The company's slight decline in earnings per share can be attributed to its adjusted net income decreasing 36.4% to \$22.9 million, primarily due higher costs and expenses as a result of its acquisitions of Candelaria and Midas in 2014.

Its slight increase in revenue can be attributed to its revenue from the sale of gold increasing 33.1% to \$87.7 million, driven by its production increasing 44% to 73,419 ounces, which more than offset the negative impact of the average price of gold decreasing 7.4% to \$1,193 per ounce.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Total production of gold, platinum, palladium, and other minerals increased 28.3% to 83,040 gold equivalent ounces
2. Revenue from the sale of the platinum group of metals decreased 39.2% to \$8.7 million
3. Revenue from the sale of other minerals decreased 28.9% to \$2.7 million
4. Revenue from the sale of oil and gas decreased 56.5% to \$10.3 million
5. Adjusted earnings before interest, taxes, depreciation, and amortization decreased 5.7% to \$82.2 million
6. Net cash provided by operating activities, before changes in non-cash assets and liabilities, decreased 3.5% to \$78 million
7. Ended the quarter with \$610.8 million in cash and cash equivalents, an increase of 3.1% from the beginning of the quarter
8. Basic weighted average number of shares outstanding increased 6.4% to 156.7 million

Franco-Nevada also announced that it will be maintaining its quarterly dividend of \$0.21 per share, and the next payment will come on September 24 to shareholders of record at the close of business on September 10.

Should you buy Franco-Nevada today?

It was a great quarter overall for Franco-Nevada, so I think its stock responded correctly by rallying 3%. I also think the stock could continue higher from here, because it still trades at inexpensive forward valuations and has shown a strong dedication to maximizing shareholder value through the payment of dividends, which will continue to attract income investors.

First, Franco-Nevada's stock trades at 90.4 times fiscal 2015's estimated earnings per share of \$0.64 and 79.2 times fiscal 2016's estimated earnings per share of \$0.73, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 162.6.

Second, Franco-Nevada pays an annual dividend of \$0.84 per share, which gives its stock a yield of approximately 1.8% at today's levels. It is also important to note that the company has increased its annual dividend payment for eight consecutive years, and its strong operational performance could allow this streak to continue for the next several years.

With all of the information provided above in mind, I think Franco-Nevada is the best way to invest in the gold industry today. Foolish investors should strongly consider beginning to scale in to positions.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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