



Franco-Nevada Corporation: What to Expect on Thursday

Description

As **Franco-Nevada Corporation** ([TSX:FNV](#))([NYSE:FNV](#)) gets set to report fourth-quarter results on Thursday, the company is firing on all cylinders. We'll take a closer look at what to expect from the call.

Another landmark deal

In an interview last year, Franco-Nevada chairman Pierre Lassonde said the company typically signs deals with medium-sized companies and that that larger firms typically have other sources of funding.

But in today's commodity environment, we're seeing large firms get squeezed as well, allowing Franco to step in. A perfect example occurred last month; Franco signed a US\$500 million stream deal with troubled Anglo-Swiss giant **Glencore PLC**. The deal fits all of Franco's key criteria: it provides immediate cash flow, it's accretive, it revolves around a low-cost operation, and it comes with lots of options.

Glencore signed this deal because its debt load has gotten out of control, mainly due to the company's ill-timed takeover of Xstrata Ltd. in 2012. The company wants to reduce its net debt to US\$17-18 billion, down from over US\$25 billion today, and streaming deals like this are absolutely necessary.

Of course, this gives companies like Franco-Nevada the upper hand in negotiations. It's no wonder the company got such a good deal.

More on the way

To fund this deal Franco decided to raise US\$550 million of equity. Then the company upped the equity raise to US\$800 million. And on top of that, there was a 15% over-allotment option. By the time the dust was settled, Franco had raised US\$920 million in new equity.

This might seem a bit strange. After all, companies usually only issue equity when they need more cash. And Franco is doing very well. So why is the company issuing so much new equity?

CEO David Harquail provided some answers in an interview with *Bloomberg News*. Mr. Harquail

pointed out that there are many miners that need to raise more cash, which provides a unique opportunity for Franco to do more deals. Meanwhile, Franco only had enough available funding for another US\$500 million deal.

So Franco is searching for more deals, just like the one it got with Glencore, and Mr. Harquail may provide more colour on this search on Thursday.

CATEGORY

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