

Long-Term Investors: Does Franco Nevada Corp. Represent Value at its Current Valuation?

Description

Franco Nevada Corp. ([TSX:FNV](#))([NYSE:FNV](#)) is a gold-focused royalty and streaming business with 81% of its operations centred in Canada, the U.S., and Latin America. The company focuses on growing its royalty/stream base primarily through strategic, ongoing acquisitions.

Last week, Franco Nevada released its Q1 2017 earnings, posting solid results and a dividend increase for the 10th consecutive year.

I'm going to dive into the financials for Franco Nevada and take a look at how the company's performance relates to its current valuation — one which may seem high to outside investors considering this company.

Earnings and fundamentals

Franco Nevada reported Q1 earnings per share (EPS) of \$0.25 per share, beating analyst estimates of \$0.22 per share by 13%. This is the company's fourth consecutive earnings beat in as many periods with earnings staying relatively stable over the past year. The EPS this past quarter also tops last year's Q1 results, which came in at \$0.18 per share, signaling good long-term seasonally adjusted momentum for the business.

One of the key fundamentals many investors point to with Franco Nevada is the absence of debt on the company's balance sheet. This company has been able to grow organically and through acquisitions by reinvesting its free cash flow in acquisitions over time — a much more stable growth model than some of the other highly levered royalty/stream models used by other firms.

The company has unused credit facilities totaling \$1.1 billion, enabling it to look at larger deals moving forward that may exceed the company's free cash flow, while bolstering its liquidity position in the short term.

During the past quarter, Franco Nevada entered agreements to purchase a package of royalty rights in the Midland Basin of West Texas for \$110 million, growing the company's exposure to shale oil in the U.S. and broadening the diversification of the company's revenue streams moving forward. The company also announced that its \$1 billion maximum commitment to the Cobre Panama precious metals stream continues to be chipped away at with an additional \$50.2 million invested in this project during Q1 2017.

Dividend increase

The company's dividend has, again, been increased. Franco Nevada has pointed to the strength of its royalty/stream portfolio as well as its underlying business model as the primary factors contributing to the recent 4.5% increase of its quarterly dividend distribution from \$0.23 to \$0.24.

While the dividend has now grown to more than 108% of its earnings, Franco Nevada believes that its strong balance sheet and growing earnings from some of the company's most recent acquisitions will help to keep the dividend-payout ratio elevated and sustainable moving forward.

Any time a company is able to increase its dividend 10 years in a row, investors begin to take notice. The company announced in its financial statements that "Canadian investors in Franco Nevada's IPO in December 2007 are now receiving an effective 8.3% yield on their cost base," putting the value of the dividend increases into perspective for new investors who are considering if the small dividend is worth an investment.

Bottom line

Franco Nevada is a great long-term play in the royalty/stream mining sector. The company's valuation is indicative of its operational strength; however, I would wait to see any dips on this company before considering an investment due to the cyclical nature of the business's underlying exposure to commodity prices.

Stay Foolish, my friends.

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