Franco Nevada Corp.: The Only Dividend-Growth Gold Company

Description

Gold's meteoric rise in 2009 and its subsequent fall has had a devastating effect on the sector's once reliable dividend-paying companies. Since gold's fall from grace, the vast majority of dividend-paying gold stocks have either slashed, suspended, or outright cut their dividends. Only **Franco Nevada Corp.** (TSX:FNV)(NYSE:FNV) stemmed the tide and maintained its status as a Canadian dividend aristocrat. It is also only one of three mining companies to be featured on the U.S. dividend champions, contender, and challengers list.

In an industry faced with massive debt loads and significant impairment charges, this is an impressive feat. Its ability to maintain its dividend status is due in large part to its business model. As a royalty streaming company, Franco Nevada has limited exposure to the high capital and operational costs that have plagued traditional mining companies in recent years.

Franco Nevada has a nine-year dividend-growth streak and has raised its dividend in every year since its IPO in December 2007. The company's three-year and five-year dividend-growth rates are 5.3% and 11%, respectively. Last year, the company raised dividends by 4.35%, which reflects a declining dividend-growth rate. Although it is listed on the TSX, it is important for investors to note that Franco Nevada pays its dividend in U.S. funds.

Franco Nevada used to pay a monthly dividend, but it transitioned to a quarterly dividend in May 2014. The company has since followed a predictable pattern of announcing its yearly dividend raise in early May. Franco Nevada prides itself on paying out a reliable dividend, but with a declining dividend-growth rate, is its streak in jeopardy?

The company's current dividend-payout ratio as a percentage of earnings is 93.25%, whichimmediately raises some red flags. However, earnings consider several non-cash charges, which iswhy it is preferable to look at its dividend payout against cash flows. The payout as a percentage offree cash flow (FCF) tells a much different story. Dividends account for approximately 20% of FCF,which leaves ample room for the company to pay its dividend. As added benefits, Franco Nevada isdebt-free and had $253 million cash on hand as of end of the third quarter of 2017. There appears tobe very minimal risk that the company will end its dividend-growth streak.

Franco Nevada is committed to raising dividends in line with its cash flow growth. In 2017, operating cash flow grew 4%, and with its multiple royalty and streaming investments, it should be able to grow cash flows again in 2018.

No other option

There is only one dividend-growth gold play in town. There is no other option for dividend-growth investors. Franco Nevada is reliable and well positioned to raise dividends in the future. In 2017, its stock returned 31%, far outpacing the Canadian markets. If you want to diversify and include a gold company as part of a dividend-growth strategy, Franco Nevada is a good addition to your portfolio.

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