



Worried About Inflation? Top TSX Stock to Buy

Description

Franco-Nevada ([TSX:FNV](#))([NYSE:FNV](#)) operates as a company that earns [precious metals royalties](#) in the United States, Latin America, Canada, Australia, Europe, and Africa, and internationally. It operates through two operating divisions, which include the company's mining segment and energy segment.

The company manages Franco Nevada's portfolio with a focus on precious metals, such as gold, silver, and platinum group metals and energy comprising of oil, gas, and natural gas liquids. The company was founded in 2007 and is headquartered in Toronto, Canada.

The largest risk exposure for Franco-Nevada is with respect to the Canadian to United States dollar exchange rate as the company holds a significant amount of assets in Canada and report financial results in U.S. dollars. The [effect of volatility](#) in these currencies against the U.S. dollar impacts Franco-Nevada's corporate administration, business development expenses, and depletion on mineral and oil and gas interests incurred in the company's Canadian and Australian entities due to the company's respective functional currencies.

Significant free cash flow

During fiscal 2020, the Canadian dollar traded in a range of \$0.72 to \$0.82, closing the year at \$0.78, and the Australian dollar traded between \$0.72 and \$0.80, closing the year at \$0.76. The company's cash requirements during the year were easily funded by a significant amount of free cash flow generated from royalties.

The company makes significant investments with a long-term focus. Recent cash commitments have included funding of Franco-Nevada's acquisition of the U.S. oil and gas royalties in the Delaware Basin, commitments under the company's Cobre Panama stream agreement, corporate administration costs, certain costs of operations, payment of dividends, and income taxes directly related to the recognition of royalty and stream revenues.

Limited capital expenditures

As a royalty and stream company, Franco-Nevada has limited requirements for capital expenditures other than for the acquisition of additional royalties and streams and working interests' capital commitments. From Franco-Nevada's perspective, such acquisitions are entirely discretionary and are usually consummated through the use of cash, or through the issuance of common shares or other equity or debt securities, or use of the company's credit facility.

Further, Franco-Nevada has a very strong balance sheet. The company's current cash resources, available credit facility, and future cash flows are more than sufficient to cover the cost of Franco-Nevada's commitments under the various stream agreements, administrative expenses, costs of operations, and dividend payments for the foreseeable future.

Higher royalty revenues

Stronger gold and palladium prices generally result in higher royalty revenues for the company. In recent years, precious metals revenue has accounted for about 90% of total revenue compared to a higher percentage in previous years. Revenue generated from the Americas represented 80-85% of the total company's revenues. One advantage is that Franco-Nevada operates in low-risk jurisdictions.

In 2020, the company reported a higher net income. The increase in net income was driven primarily by higher revenue due to asset acquisitions completed in 2019, higher gold and palladium prices, and higher oil and gas revenues.

Overall, Franco-Nevada appears to be a great way to take advantage of higher commodity prices in the future. The stock could act as an excellent inflation hedge.

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