

Agnico Eagle Mines

Imminent return to free cash-flow generation

Agnico Eagle Mines Limited (AEM or the Company) is a senior gold producer that operates in low political risk jurisdictions with a quality mineral reserve base. The Company has a track record of strong operational performance and has beaten production and cost guidance for seven consecutive years. AEM is nearing completion of a large Nunavut expansion (the Meliadine mine and Amaruq project), which is expected to drive growth in gold production from 1.75Moz in 2019 to 2.0Moz in 2020. A return to free cash flow generation is anticipated in H219 with capex expected to decline significantly as AEM moves to “harvest mode”.

Production and cost guidance maintained

AEM has reiterated its full-year production guidance of 1.75Moz, which we believe it is likely to achieve with a contribution of c 230koz from Meliadine (including c 47.3oz of pre-commercial production) and c 130koz from Amaruq. In addition, the company expects total cash costs and all-in sustaining costs (AISC) for FY19 of US\$620–670/oz and US\$875–925/oz, respectively, albeit the guidance for total capital costs has increased from c US\$660m to US\$750m, mainly as a result of lower pre-commercial production gold sales credited against capital at Meliadine, the advancement of underground development at Amaruq in the wake of positive exploration results and modifications to the Meliadine saline water treatment system (owing to the earlier than expected receipt of a discharge permit).

H219 a cash-flow inflection point for AEM

The current year marks an inflection point for Agnico, as capital expenditure falls away sharply at the same time as production increases, resulting in a return to free cash-flow generation from H219 onwards. Once production of 2.0Moz is achieved in FY20, moderate growth to an annualised production rate of 2.2–2.3Moz is expected, bringing with it the potential for increases in the dividend from the current level of c US\$0.125 per quarter. Even with an increased dividend, we would expect AEM to repay its US\$1.7bn in net debt (equating to 26.6% gearing or 36.3% leverage) at end-June 2019 by FY22.

Consensus estimates

At the current gold price, we estimate AEM will achieve the lower half of its consensus forecast EPS range for FY19 of US\$0.68–1.08/sh, with some of the operational improvements in H219 offset by higher financing and amortisation charges. All other things being equal, however, we expect it to achieve close to the consensus EPS estimate of US\$1.45/sh in FY20 (range US\$0.82–2.27/sh).

Consensus estimates

| Year end | Revenue (US\$m) | PBT (US\$m) | EPS (US\$) | DPS (US\$) | P/E (x) | Yield (%) |
|----------|-----------------|-------------|------------|------------|---------|-----------|
| 12/17 | 2,243 | 344.5 | 1.07 | 0.41 | 57.9 | 0.7 |
| 12/18 | 2,191 | 153.1 | 0.37 | 0.44 | 167.6 | 0.7 |
| 12/19e | 2,443 | 336.4 | 0.80 | 0.47 | 77.5 | 0.8 |
| 12/20e | 2,910 | 610.8 | 1.45 | 0.47 | 42.8 | 0.8 |

Source: Company sources, Refinitiv. Note: PBT and EPS normalised excluding exceptionals.

Metals & mining
6 September 2019
Price US\$62.00
Market cap US\$15bn

C\$1.3321/US\$

Share price graph



Share details

| | |
|-----------------|-----------|
| Code | AEM |
| Listing | NYSE, TSX |
| Shares in issue | 238.3m |

Business description

Agnico Eagle operates eight mines in Canada, Finland and Mexico and is among the top 15 largest gold mining companies in the world. It seeks to build a high-quality business that generates superior long-term returns for shareholders and contributes to the communities in which it operates.

Bull

- Low-risk jurisdictions in Finland, Nunavut, Abitibi and Mexico.
- Strong, in-depth management focused on costs, returns and profits rather than output growth.
- Continued weakness of the Canadian vs US dollar at a time of rising precious metals prices.

Bear

- Exposure to inclement weather conditions.
- AEM has no gold hedges; however, it does hedge portions of its CAD, MXP, EUR and diesel exposure.
- Historic volatility in accounts payable.

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