

# Newmont Corporation

Q121 results preview

## Q121 results preview

Newmont's Q121 results are scheduled for release on 29 April. Recent highlights include the acquisition of GT Gold, the redemption of its senior 2021 notes and linking its revolving credit facility to third-party assessments of its scoring on a number of sustainability issues. At the same time, however, the gold price has continued to fall, from US\$1,811/oz at the time of our last note to US\$1,776/oz at the time of writing, while production continues to be expected to be weighted towards the second half of the year. This note adjusts our earnings forecasts for Q121 to reflect these effects, as well as introducing forecasts for Q2–Q421.

Year end	Revenue (US\$m)	PBT (US\$m)	EPS* (US\$)	DPS (US\$)	P/E (x)	Yield (%)
12/19	9,740	3,693	1.32	**1.44	49.1	2.2
12/20	11,497	3,143	2.66	1.45	24.4	2.2
12/21e	12,256	3,226	2.49	2.20	26.0	3.4
12/22e	12,329	3,651	2.90	2.20	22.3	3.4

Note: \*EPS are normalised, excluding amortisation of acquired intangibles and exceptional items. \*\*Includes US\$0.88/share special dividend.

## FY21e production weighted 47:53 H121:H221

Production in FY21 is expected to be weighted approximately 47:53 H121:H221, influenced by a rising grade profile at Boddington and Ahafo, in particular, and also (albeit to a lesser extent) Merian, Musselwhite, Porcupine and CC&V. Note that this effect is expected to be particularly pronounced in the first and last quarters of the year. Conversely, costs will be weighted towards H121. In part, this reflects lower production in H121. However, it also reflects higher sustaining capex – in particular, relating to the installation of the autonomous haulage system at Boddington – which will act to inflate all-in sustaining costs (AISC).

## Dividend forecasts unchanged

The effect of our adjustments has been to reduce our Q121 EPS forecast by 5.1%. However, we have left our dividend forecast unchanged. Under its current framework, NEM has undertaken to pay shareholders a sustainable base dividend of US\$1.00/share (or US\$0.25/share per quarter) at a gold price of US\$1,200/oz, which it augments by US\$0.60–0.90/share (or US\$0.15–0.225/share per quarter), evaluated in increments of US\$300/oz for gold prices above US\$1,200/oz, with the goal of targeting 40–60% of incremental free cash flow returned to shareholders. As such, it has some discretion in the level of the pay-out and also the extent to which it regards the gold price level of US\$1,800/oz as being sustainable.

## Valuation: US\$76.34/share

Pending Q121 results, we are leaving our blended average valuation of Newmont unchanged at US\$76.34/share based on nine valuation measures using three different methodologies (see our note [The sustainable leader](#), published on 9 February). This puts Newmont on a premium rating relative to its peers, but at a discount relative to its own historical valuation measures which, on average, imply a share price closer to US\$100/share.

## Metals & mining

19 April 2021

**Price** **US\$64.78**
**Market cap** **US\$51,843m**

Net debt (US\$m) end-December 2020 1,162

Shares in issue 800.3m

Free float 99.7%

Code NEM, NGT

Primary exchange NYSE (NEM)

Secondary exchange TSX (NGT)

## Share price performance



% 1m 3m 12m

Abs 5.8 5.7 9.2

Rel (local) 0.2 (4.8) (27.0)

52-week high/low US\$70.4 US\$54.4

## Business description

Founded in 1916, Newmont Corporation is the world's leading gold company with a world-class portfolio of assets in North and South America, Australia and Africa. It is the only gold producer in the S&P 500 Index, and is widely recognised for its ESG practices and as a leader in value creation, safety and mine execution.

## Next events

Q121 results 29 April 2021

Ahafo North decision H121

Yanacocha Sulphides decision H221

Q221 results July 2021

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## Q121 results preview

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Newmont's Q121 results are scheduled for release on Thursday 29 April. Recent highlights within the quarter include the acquisition of GT Gold as well as the redemption of Newmont's senior 2021 notes and revisions to its revolving credit facility such that its pricing is now linked to Newmont's scoring (according to third parties) on a variety of sustainability linked issues – demonstrating, among other things, Newmont's commitment to environmental, social and governance issues.

From a financial perspective, the gold price has continued to fall, from US\$1,811/oz at the time of our last note (see [The full Newmonty](#), published on 26 February 2021) to US\$1,683/oz on 8 March, before recovering to US\$1,776/oz at the time of writing – a decline of 1.9%. The prices of silver (-8.2%) and lead (-3.7%) have been similarly weak, although they have been partially offset by increases in the prices of copper (+12.0%) and zinc (+3.5%). As noted at the time of Newmont's Q420/FY20 results, both (higher) production and (lower) costs are anticipated to be weighted towards H221. That is to say, production will be higher in H221 of H121 approximately in the ratio 53:47. In part, this pattern will reflect rising grade profiles at Boddington and Ahafo, in particular (NB the H1:H2 ratio of production at Boddington will also be enhanced by productivity improvements from the autonomous haulage system ramp-up, while that at Ahafo will also be volume-driven by productivity improvements throughout the year from the change in mining method at Subika underground). However, Merian, Musselwhite, Porcupine and CC&V are all expected to exhibit rising production profiles as the year progresses as well. Note that this effect is expected to be particularly pronounced in the first and last quarters of the financial year. At the same time, costs will be weighted in the other direction – that is to say, H121 costs will be higher than H221 costs. In part, this will reflect lower production in H121. However, it will also reflect higher sustaining capital costs in H121 – in particular, relating to the autonomous haulage system being implemented at Boddington – which is likely to cause a disproportionate increase in AISC relative to Q420.

Edison's forecasts for Q121 and FY21 already anticipated a c 47:53 split in production over the course of the year. However, we have now adjusted them to reflect the lower gold price in Q121, which we also now assume will prevail over the course of the remainder of the year as well. Consequently, we have revised our forecasts downwards slightly for both Q121 and FY21 (note: our forecasts for FY22 and beyond remain unchanged except for the effect of our FY21 revisions on FY22's net interest expense and base metals prices). In general, the 1.9% decline in the assumed gold price has resulted in a 1.7% decline in our revenue forecast for FY21, a 6.1% decline in our pre-tax profit forecast and a 6.6% decline in our basic adjusted EPS forecast.

In the light of these changes (and with the usual caveats surrounding the volatility of quarterly earnings and quarterly earnings forecasts), our best estimate of Newmont's likely Q121 and FY21 results (by quarter) is as shown in Exhibit 1, below:

**Exhibit 1: Newmont quarterly income statement, Q120–Q421e cf Edison prior forecast**

US\$m (unless otherwise indicated)	Q120	Q220	Q320	Q420	FY20	Q121e (prior)	Q121e (current)	Q221e	Q321e	Q421e	FY21e
Sales	2,581	2,365	3,170	3,381	11,497	3,002	2,958	2,962	3,163	3,172	12,256
Costs and expenses											
– Costs applicable to sales	1,332	1,058	1,269	1,355	5,014	1,314	1,314	1,336	1,357	1,351	5,357
– Depreciation and amortisation	565	528	592	615	2,300	591	594	602	610	618	2,424
– Reclamation and remediation	38	40	38	250	366	54	54	54	54	54	215
– Exploration	44	26	48	69	187	63	63	63	63	63	250
– Advanced projects, research and development	27	26	39	30	122	35	35	35	35	35	140
– General and administrative	65	72	68	64	269	65	65	65	65	65	260
– Impairment of long-lived assets	0	5	24	20	49	0	0	0	0	0	0
– Care and maintenance	20	125	26	7	178	0	0	0	0	0	0
– Other expense, net	33	54	68	51	206	69	69	69	69	69	276
Total	2,124	1,934	2,172	2,461	8,691	2,190	2,193	2,223	2,252	2,255	8,923
Other income/(expenses)											
– Gain on formation of Nevada Gold Mines	0	0	0	0	0						
– Gain on asset and investment sales, net	593	(1)	1	84	677						
– Other income, net	(189)	198	(44)	3	(32)	42	42	42	42	42	168
– Interest expense, net of capitalised interest	(82)	(78)	(75)	(73)	(308)	(88)	(78)	(76)	(69)	(52)	(275)
	322	119	(118)	14	337	(46)	(36)	(34)	(27)	(10)	(107)
Income/(loss) before income and mining tax	779	550	880	934	3,143	766	730	705	885	907	3,226
Income and mining tax benefit/(expense)	23	(164)	(305)	(258)	(704)	(310)	(298)	(291)	(351)	(353)	(1,294)
Effective tax rate (%)	(3.0)	29.8	34.7	27.6	23.4	40.5	40.9	41.4	39.7	39.0	40.1
Profit after tax	802	386	575	676	2,439	455	431	413	534	553	1,931
Equity income/(loss) of affiliates	37	29	53	70	189	35	33	32	32	32	130
Net income/(loss) from continuing operations	839	415	628	746	2,628	490	465	445	566	585	2,061
Net income/(loss) from discontinued operations	(15)	(68)	228	18	163	0	0	0	0	0	0
Net income/(loss)	824	347	856	764	2,791	490	465	445	566	585	2,061
Minority interest	2	3	17	(60)	(38)	19	18	16	16	16	65
Do (%)	0.2	0.9	2.0	(7.9)	(1.4)	3.9	3.9	3.6	2.8	2.7	3.2
Net income/(loss) attributable to stockholders	822	344	839	824	2,829	471	447	429	550	570	1,996
Adjustments to net income	(496)	(83)	(142)	32	(689)	0	0	0	0	0	0
Adjusted net income	326	261	697	856	2,140	471	447	429	550	570	1,996
Net income/(loss) per common share (US\$)											
Basic											
– Continuing operations	1.037	0.513	0.761	1.01	3.32	0.587	0.557	0.537	0.687	0.712	2.493
– Discontinued operations	(0.019)	(0.085)	0.284	0.02	0.20	0.000	0.000	0.000	0.000	0.000	0.000
– Total	1.019	0.428	1.045	1.03	3.52	0.587	0.557	0.537	0.687	0.712	2.493
Diluted											
– Continuing operations	1.035	0.512	0.758	1.00	3.31	0.583	0.554	0.533	0.682	0.707	2.475
– Discontinued operations	(0.019)	(0.084)	0.283	0.02	0.20	0.000	0.000	0.000	0.000	0.000	0.000
– Total	1.016	0.427	1.041	1.02	3.51	0.583	0.554	0.533	0.682	0.707	2.475
Basic adjusted net income per share (US\$)	0.404	0.325	0.868	1.07	2.66	0.587	0.557	0.537	0.687	0.712	2.493
Diluted adjusted net income per share (US\$)	0.403	0.324	0.865	1.06	2.66	0.583	0.554	0.533	0.682	0.707	2.475
DPS (US\$/share)	0.250	0.250	0.400	0.55	1.45	0.550	0.550	0.550	0.550	0.550	2.200

Source: Newmont, Edison Investment Research

Note that, all other things being equal, Newmont's results for Q121 (when the gold price averaged US\$1,796/oz), might be expected to fall between those of Q220 (when the gold price averaged US\$1,713/oz) and Q320 (when it averaged US\$1,911/oz). Within that context, our EPS forecast of US\$0.557/share for Q121 and US\$2.493/share for FY21 compare to the market consensus, as follows:

**Exhibit 2: FY21 Basic adjusted EPS forecast, Edison cf consensus (US\$/share)**

	Q121e	Q221e	Q321e	Q421e	Sum Q1-Q421e	FY21e
Edison forecast	0.557	0.537	0.687	0.712	2.493	2.493
Consensus forecast	0.83	0.87	0.93	0.92	3.55	3.67
High	1.10	1.10	1.12	1.14	4.46	5.21
Low	0.58	0.72	0.64	0.49	2.43	2.67

Source: Edison Investment Research, Refinitiv (13 April 2021)

Although Edison's forecasts are low in the context of the range of analysts' expectations, we note that the average expected realised price of gold for Newmont in FY21 appears to be in the order of

US\$1,900/oz (cf US\$1,947/oz at the time of our last note) compared with our US\$1,776/oz (ie the current spot price) for the remainder of the year, which may go some way to explaining the difference. Otherwise, excluding external factors, we recognise two specific (upside) risks relating to Edison's estimates, being 1) the reclamation and remediation charge and 2) the tax charge.

Edison's reclamation and remediation charge estimate of US\$215m for FY21 compares with Newmont's guidance of US\$160m. In this case, Edison's estimate has been skewed upwards by the unusually large reclamation and remediation charge incurred in Q420 (see Exhibit 1). However, we will reconsider this charge after the Q121 results. In the case of the tax charge, Edison's FY21 effective tax charge estimate of 40.1% compares with Newmont guidance of 34–38%. This difference, we suspect, is a consequence of Newmont depreciating centrally held assets and being able to charge that cost against income earned from producing assets. Note that, all other things being equal, the more the gold price rises, the more Newmont's effective tax rate falls as lower tax operations contribute proportionately more to pre-tax profits.

If Newmont's reclamation and remediation charge for the full year is c US\$160m and its effective tax rate is 35.8% (ie approximately in the middle of the guidance range), then our basic adjusted EPS forecasts would increase to the following:

<b>Exhibit 3: Edison FY21 EPS forecast sensitivity (US\$/share)</b>						
	Q121e	Q221e	Q321e	Q421e	Sum Q1–Q421e	FY21e
Basic adjusted EPS	0.557	0.537	0.687	0.712	2.493	2.493
Ditto*	0.622	0.597	0.744	0.764	2.727	2.728
Increase (US\$/share)	+0.065	+0.060	+0.057	+0.052	+0.234	+0.235
Increase (%)	+11.7%	+11.2%	+8.3%	+7.3%	+9.4%	+9.4%

Source: Edison Investment Research. Note: \*Adjusted for reclamation & remediation and effective tax rate guidance.

## Dividend

While the gold price has dropped below US\$1,800/oz since the time of our last note, we have left our dividend forecast for the quarter unchanged at US\$0.55/share. Readers are reminded that, at the time of its Q320 results in October 2020, Newmont unveiled a new dividend framework whereby it formally re-based its dividend to a 'base' pay-out of US\$1.00/share (or US\$0.25/share per quarter) at a gold price of US\$1,200/oz, but also stated explicitly that it would return 40–60% of incremental attributable free cash flow that it generated above a gold price of US\$1,200/oz to shareholders. Under the new framework, Newmont will augment the 'base' pay-out in increments of US\$0.60–0.90/share per year (or US\$0.15–0.225/share per quarter), evaluated in increments of US\$300/oz for gold prices above US\$1,200/oz, with the goal of targeting 40–60% of incremental free cash flow above a gold price of US\$1,200/oz returned to shareholders. Thus a (sustainable) gold price at US\$1,800/oz should (on this basis) result in a quarterly dividend of US\$0.55/share (ie the same as the one paid in Q420), although a gold price of US\$1,776/oz could result in one of US\$0.40/share. In this context however, it is worth noting that Newmont affords itself a degree of latitude in the level of the ultimate pay-out in that, should it decide to pay out nearer 60% of incremental attributable free cash flow to shareholders that it generates above a US\$1,200/oz gold price, rather than 40%, then there is scope for the quarterly dividend to remain at the higher level, notwithstanding the gold price being temporarily fractionally below the US\$1,800/oz level, as is the case currently. In consequence, we have left our dividend forecasts for both Q121 and FY21 unchanged on the basis that we believe that the gold price being momentarily below US\$1,800/oz is unlikely to result in any readjustment in the quarterly distribution relative to its Q420 level.

**Exhibit 4: Financial summary**

Accounts: US GAAP, year end: December, US\$m	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
<b>Income statement</b>								
Total revenues	7,253	9,740	11,497	12,256	12,329	11,808	12,380	12,051
Cost of sales	(4,093)	(5,195)	(5,014)	(5,357)	(5,114)	(5,101)	(5,611)	(5,611)
Gross profit	3,160	4,545	6,483	6,898	7,216	6,707	6,769	6,439
SG&A (expenses)	(244)	(313)	(269)	(260)	(260)	(260)	(260)	(260)
R&D costs	(350)	(415)	(309)	(390)	(390)	(390)	0	0
Other income/(expense)	(406)	(253)	(831)	(323)	(323)	(323)	(215)	(214)
Exceptionals and adjustments	(424)	2,220	214	0	0	0	0	0
Depreciation and amortisation	(1,215)	(1,960)	(2,300)	(2,424)	(2,558)	(2,666)	(2,878)	(2,764)
Reported EBIT	945	3,994	3,451	3,501	3,685	3,068	3,416	3,201
Finance income/(expense)	(207)	(301)	(308)	(275)	(34)	340	7	20
Other income/(expense)	0	0	0	0	0	0	0	0
Exceptionals and adjustments	0	0	0	0	0	0	0	0
Reported PBT	738	3,693	3,143	3,226	3,651	3,408	3,423	3,221
Income tax expense (includes exceptionals)	(419)	(737)	(515)	(1,165)	(1,254)	(1,040)	(1,070)	(1,074)
Reported net income	380	2,884	2,791	2,061	2,397	2,368	2,353	2,147
Basic average number of shares, m	533	735	804	801	800	800	800	800
Basic EPS (US\$/share)	0.64	3.82	3.52	2.49	2.90	2.91	2.86	2.54
Adjusted EBITDA	2,584	3,734	5,537	5,925	6,243	5,734	6,294	5,965
Adjusted EBIT	1,369	1,774	3,237	3,501	3,685	3,068	3,416	3,201
Adjusted PBT	1,162	1,473	2,929	3,226	3,651	3,408	3,423	3,221
Adjusted EPS (US\$/share)	1.35	1.32	2.66	2.49	2.90	2.91	2.86	2.54
Adjusted diluted EPS (US\$/share)	1.34	1.32	2.66	2.47	2.87	2.89	2.84	2.53
<b>Balance sheet</b>								
Property, plant and equipment	12,258	25,276	24,281	23,758	23,600	23,234	21,856	20,292
Goodwill	58	2,674	2,771	2,771	2,771	2,771	2,771	2,771
Intangible assets	0	0	0	0	0	0	0	0
Other non-current assets	3,122	5,752	5,812	5,812	5,812	5,812	5,812	5,812
Total non-current assets	15,438	33,702	32,864	32,341	32,183	31,817	30,439	28,875
Cash and equivalents	3,397	2,243	5,540	5,648	5,959	6,653	9,224	12,138
Inventories	630	1,014	963	1,145	1,152	1,104	1,157	1,126
Trade and other receivables	254	373	449	369	372	356	373	363
Other current assets	996	2,642	1,553	1,553	1,553	1,553	1,553	1,553
Total current assets	5,277	6,272	8,505	8,716	9,036	9,665	12,307	15,181
Non-current loans and borrowings	3,608	6,734	6,045	5,495	5,003	4,589	4,589	4,589
Other non-current liabilities	3,808	8,438	8,076	8,098	8,121	8,144	8,167	8,190
Total non-current liabilities	7,416	15,172	14,121	13,593	13,124	12,733	12,756	12,779
Trade and other payables	303	539	493	483	461	460	506	506
Current loans and borrowings	653	100	657	657	657	657	657	657
Other current liabilities	831	1,746	2,219	2,219	2,219	2,219	2,219	2,219
Total current liabilities	1,787	2,385	3,369	3,359	3,337	3,336	3,382	3,382
Equity attributable to company	10,502	21,420	23,008	23,141	23,697	24,266	25,270	26,026
Non-controlling interest	1,010	997	871	964	1,061	1,148	1,338	1,869
<b>Cashflow statement</b>								
Profit for the year	380	2,884	2,791	2,061	2,397	2,368	2,353	2,147
Taxation expenses	386	832	704	1,294	1,397	1,204	1,229	1,180
Profit before tax	0	0	0	0	0	0	0	0
Net finance expenses	207	301	308	275	34	(340)	(7)	(20)
EBIT	0	0	0	0	0	0	0	0
Depreciation and amortisation	1,215	1,960	2,300	2,424	2,558	2,666	2,878	2,764
Share based payments	76	97	72	0	0	0	0	0
Other adjustments	749	(2,131)	(654)	215	215	215	215	214
Movements in working capital	(743)	(309)	295	(306)	(224)	(129)	(216)	(151)
Interest paid / received	(207)	(301)	(308)	(275)	(34)	340	7	20
Income taxes paid	(236)	(498)	(926)	(1,294)	(1,397)	(1,204)	(1,229)	(1,180)
Cash from operations (CFO)	1,827	2,866	4,882	4,395	4,946	5,121	5,229	4,975
Capex	(1,032)	(1,463)	(1,302)	(1,901)	(2,400)	(2,300)	(1,500)	(1,200)
Acquisitions & disposals net	(98)	224	1,463	0	0	0	0	0
Other investing activities	(47)	41	65	0	0	0	0	0
Cash used in investing activities (CFIA)	(1,177)	(1,226)	91	(1,901)	(2,400)	(2,300)	(1,500)	(1,200)
Net proceeds from issue of shares	(98)	(479)	(521)	(102)	0	0	0	0
Movements in debt	0	(1,186)	(175)	(550)	(492)	(414)	0	0
Dividends paid	(301)	(889)	(834)	(1,819)	(1,822)	(1,790)	(1,319)	(1,350)
Other financing activities	(56)	(223)	(150)	85	77	77	160	490
Cash from financing activities (CFF)	(455)	(2,777)	(1,680)	(2,385)	(2,236)	(2,127)	(1,158)	(860)
Currency translation differences and other	(4)	(3)	6	0	0	0	0	0
Increase/(decrease) in cash and equivalents	191	(1,140)	3,299	108	310	694	2,571	2,915
Currency translation differences and other	0	0	0	0	0	0	0	0
Cash and equivalents at end of period	3,489	2,349	5,648	5,756	6,067	6,761	9,332	12,246
Net (debt) cash	(864)	(4,591)	(1,162)	(504)	299	1,407	3,978	6,892
Movement in net (debt) cash over period	(864)	(3,727)	3,429	658	802	1,108	2,571	2,915

Source: Company sources, Edison Investment Research

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