

Agnico Eagle Mines

Metals & mining
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Continuing strong

Agnico's (AEM's) Q221 adjusted EPS of US\$0.69/share was ahead of both the consensus average (US\$0.59/share) and range of expectations (US\$0.54–0.63/share). Relative to the prior-year period (which was adversely affected by the onset of the COVID-19 pandemic), the increase in adjusted EPS was a very material 275.1%. Relative to Q121, the increase was a more modest 2.7%, driven by a 3.4% increase in revenue, a 3.6% increase in costs (such that gross margins were steady at 55.8% vs 55.9%) and a 7.9pp decline in the effective tax rate (from 40.7% to 32.8%). After the acquisition of TMAC in Q121, free cash flow reverted to a US\$209.3m inflow, such that net debt declined by US\$121.1m to US\$1,406.6m (24.0% gearing; 19.3% leverage). Headline EPS of US\$0.78/share advanced 39.0% quarter-on-quarter, augmented by financial gains and the quarterly dividend was maintained at US\$0.35/share.

Cost and production outlook unchanged

Excluding the recently acquired Hope Bay mine, production at AEM amounted to 500,698oz in Q221 at a total cash cost of US\$739/oz and an all-in sustaining cost (AISC) of US\$1,021/oz. AEM has left its production and cost guidance unchanged at 2,047.5Moz at total cash costs and AISC of US\$700–750/oz and US\$950–1,000/oz, respectively, for FY21. Capex guidance also remained unchanged at US\$803m. AEM noted certain price pressures within the industry generally, but stated it expects to remain unaffected by these in FY21 owing to its hedging activities.

Exploration and development continuing apace

AEM is increasing its investment into pipeline projects, such as Odyssey, where construction is proceeding ahead of schedule. Recent drilling at Odyssey has intersected additional mineralisation beyond its previously known limits (eg 3.5g/t over 8.6m), demonstrating the excellent potential for new discoveries, while at the same time drilling in the core of East Gouldie returned 6.3g/t over 52.0m.

Valuation: Yield close to the average for its peers

Consensus forecast EPS for FY21 continues to exist within a wide range of US\$2.18–3.71/share (presumably reflecting gold price forecast variations). Having recorded adjusted EPS of 136c/share in the year to date, however, a result close to the consensus average in FY21 appears probable (all other things being equal), given that management anticipates growing gold output in H2. In the meantime, AEM's forecast yield remains close to the average of its peers.

Consensus estimates

Year end	Revenue (US\$m)	PBT (US\$m)	EPS (US\$)	DPS (US\$)	P/E (x)	Yield (%)
12/19	2,495	393	0.97	0.63	66.8	1.0
12/20	3,138	768	1.87	1.10	34.6	1.7
12/21e	3,961	1,242	2.82	1.40	23.0	2.2
12/22e	4,109	1,479	3.22	1.40	20.1	2.2

Source: Company sources, Refinitiv. Note: PBT and EPS are normalised, excluding exceptional items.

Price **US\$64.77**
Market cap **US\$15.8bn**
 C\$1.2579/US\$

Share price graph



Share details

Code AEM
 Listing TSX
 Shares in issue 244.0m

Business description

Agnico Eagle Mines 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 mining jurisdictions in Finland, Nunavut, Abitibi and Mexico.
- Management focused on costs, returns and profits rather than output growth.
- Relative weakness of the Canadian dollar vs the US dollar compared to prior periods of elevated precious metals prices.

Bear

- Exposure to harsh Canadian Arctic climate.
- AEM has no gold hedges; however, it does hedge portions of its Canadian dollar, Mexican peso, euro and diesel exposure.
- Ongoing risk of future COVID-19 related disruptions.

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