EDISON

# Newmont Corporation

## Teething trouble at Boddington irrelevant

Q321 forecast adjustments

Metals & mining

**Since August, there have been a number of developments at Newmont Corporation pertaining to its operational performance for the remainder of FY21. Chief among these was the announcement on 5 October that it had delivered the gold industry's first Autonomous Haulage System (AHS) fleet to its Boddington mine in Western Australia. Notwithstanding COVID-19, the fully autonomous haulage fleet was delivered on time and on budget and will improve both mine safety and productivity as well as its life. Newmont expects full ramp up and realisation of these benefits in the near future. However, during commissioning, the project faced a number of challenges, including unusually severe weather and heavy rainfall, shovel reliability and operational delays associated with managing bench hygiene, as a result of which it now expects to produce 140koz fewer ounces of gold than originally anticipated in FY21 (cf company-wide attributable production guidance for FY21 of 6.5Moz ±5%).**

| 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 | 43.9 | 2.5 |
| 12/20 | 11,497 | 3,143 | 2.66 | 1.45 | 21.8 | 2.5 |
| 12/21e | 11,975 | 3,281 | 2.88 | 2.20 | 20.1 | 3.8 |
| 12/22e | 12,185 | 3,537 | 2.81 | 2.20 | 20.6 | 3.8 |

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

## Lingering coronavirus disruptions

At the same time as it was commissioning the AHS at Boddington, in Q3, Newmont's other mine in Australia, Tanami, was shut for two weeks as a result of anti-coronavirus measures. In addition, Barrick has also announced preliminary production results for its operations for Q321 (including NGM and Pueblo Viejo in which Newmont also has interests). This note adjusts for all of these developments.

## Basic adjusted EPS forecast still higher than in April

As a consequence of this combination of factors, we have reduced our basic adjusted EPS forecast for FY21 by 10.3%. Nevertheless, at US$2.879/share, it remains 6.2% higher than our forecast prior to our August upgrade. Moreover, while our forecast is towards the bottom end of the range of analysts' expectations (see Exhibit 3), we note that Newmont has outperformed our expectations in each of the last three quarters since we initiated coverage of the stock (ie a 100% record).

## Valuation: 24% premium to the share price

In the light of these changes, we have reduced our valuation of Newmont by a modest 0.6% to US$71.61/share (cf US$72.05/share previously). This valuation puts Newmont on a premium rating relative to its peers. However, this may be justified by the company's size, track record and the fact that almost all of its operations are in top-tier jurisdictions. In the meantime, it remains cheap relative to historical valuation measures, which continue to imply a share price of nearly US$100/share.

**26 October 2021**

| | |
|---|---|
| **Price** | **US$57.91** |
| **Market cap** | **US$46,270m** |

| | |
|---|---|
| Net debt (US$m) at end-June 2021 | 1,574 |
| Shares in issue | 799.0m |
| Free float | 99.8% |
| Code | NEM |
| Primary exchange | NYSE |
| Secondary exchange | TSX |

### Share price performance


| % | 1m | 3m | 12m |
|---|---|---|---|
| Abs | 7.5 | (3.7) | (4.2) |
| Rel (local) | 4.9 | (6.9) | (27.3) |
| 52-week high/low | | US$74.4 | US$53.6 |

### 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

| | |
|---|---|
| Q321 results | 28 October 2021 |
| Yanacocha Sulphides decision | H221 |
| Q421/FY21 results | February 2022 |

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***Newmont Corporation Corporation is a research client of Edison Investment Research Limited.***

## Q321 forecast adjustments

Since our last note on the company (see Material outperformance begets material upgrade, published on 2 August 2021), there have been a number of developments at Newmont pertaining to its operational and financial performance for the remainder of FY21. Chief among these was Newmont's announcement on 5 October that it had delivered the gold industry's first Autonomous Haulage System (AHS) fleet at Boddington (Western Australia's largest gold mine). Notwithstanding the coronavirus pandemic, the fully autonomous haulage fleet, comprising 36 Caterpillar trucks, was delivered on time and on budget (US$150m) and will improve mine safety and productivity, while simultaneously extending its productive life. During commissioning, however, the project faced several challenges, including unusually severe weather and heavy rainfall, shovel reliability and operational delays associated with managing bench hygiene as mining moved into the deeper sections of the pit, as a result of which the mine delivered lower ex-pit tons to the plant than anticipated and therefore now expects to produce 140koz (or 16.9%) fewer ounces than originally expected in FY21 (note that, for the purposes of our financial modelling, below, we have assumed that this effect falls approximately in the ratio two-thirds/one-third for Q3:Q4).

Other developments include:

- the announcement by Barrick of its full Q221 results on 9 August (including cost details for Nevada Gold Mines); and
- preliminary gold and copper production and sales results from Barrick's operations for Q321, released on 14 October 2021. Among other things, this revealed 495koz and 485koz gold produced and sold at NGM (61.5% basis), respectively, during the quarter (cf Edison's prior forecast of 553koz produced and sold) and 127koz and 125koz gold produced and sold at Pueblo Viejo (60% basis) cf Edison's prior forecast of 118koz gold produced and sold.

Operations at Nevada Gold Mines continued to be adversely affected by the mechanical mill failure at Carlin's Goldstrike roaster in Q2 (albeit this was repaired in late Q3). In addition, we believe that a number of Newmont's mines may have continued to be adversely affected by lingering disruptions related to the coronavirus pandemic, including Tanami in Australia, which was shut for two weeks during the quarter.

As noted at the time of Newmont's Q420/FY20 results, both (higher) production and (lower) costs were expected to be weighted towards the second half (approximately in the ratio 47:53) in FY21 and this effect was anticipated to be most pronounced in the first and last quarters of the year. In part, this profile was expected to reflect rising grade profiles, in particular at Boddington and Ahafo (the latter also being as a result of volume, driven by productivity improvements throughout the year from the change in mining method at Subika underground to sub-level shrinkage). However, Merian, Musselwhite, Porcupine and CC&V were all expected to exhibit rising production profiles as well. At the same time, costs were expected be weighted in the other direction, that is H221 costs were expected to be lower than H121 costs. In part, this reflected lower production in H121. However, it also reflected higher sustaining capital costs in H121 relating to the installation of Boddington's AHS. In the light of the developments noted above, however, we believe that Boddington will have been required to mill material from lower-grade stockpiles in Q3 and, to some extent, in Q4, with the result that the overall recovery in production and the decline in costs expected in H2 will now be delayed until Q4. An updated summary of our production and cost assumptions for each of Newmont's geographic sub-divisions in the light of these developments is provided in Exhibit 1, below.

**Exhibit 1: Newmont Q321e operational results, current cf prior forecasts**

| Region | Production | | | | | Costs applicable to sales | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q121a | Q221a (koz) | Q321e (prior) | Q321e (current) | Change (%) | Q121a | Q221a (US$/oz) | Q321e (prior) | Q321e (current) | Change (%) |
| North America | 413 | 397 | 445 | 445 | u/c | 736 | 769 | 748 | 748 | u/c |
| South America | 174 | 189 | 179 | 179 | u/c | 791 | 721 | 852 | 852 | u/c |
| Australia | 269 | 299 | 377 | 237 | -62.9 | 750 | 764 | 604 | 918 | +52.0 |
| Africa | 205 | 202 | 217 | 217 | u/c | 758 | 763 | 678 | 678 | u/c |
| Nevada | 303 | 284 | 346 | 310 | -10.4 | 745 | 753 | 646 | 709 | +9.8 |
| **Sub-total** | **1,364** | **1,371** | **1,563** | **1,388** | **-11.2** | **752** | **755** | **699** | **775** | **+10.9** |
| Pueblo Viejo (40%) | 91 | 78 | 79 | 85 | +7.6 | | | | | |
| **Total (attributable) gold** | **1,455** | **1,449** | **1,642** | **1,473** | **-10.3** | | | | | |

Source: Newmont Corporation, Edison Investment Research. Note: Totals may not add up owing to rounding.

In addition, we have adjusted our forecasts for actual rather than forecast metals prices – principally, US$1,790/oz gold cf US$1,798/oz forecast previously for Q321 and US$1,791/oz cf US$1,796/oz for Q421. In the light of these changes, our updated financial forecasts for Newmont for the remainder of FY21, by quarter, are now as follows:

**Exhibit 2: Newmont quarterly income statement, Q320–Q421e versus our prior forecast**

| US$m (unless otherwise indicated) | Q320 | Q420 | FY20 | Q121 | Q221 | Q321e (prior) | Q321e (current) | Q421e (prior) | Q421e (current) | FY21e (current) | FY21e (prior) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 3,170 | 3,381 | 11,497 | 2,872 | 3,065 | 3,252 | 2,935 | 3,257 | 3,102 | 11,975 | 12,446 |
| Costs and expenses | | | | | | | | | | | |
| – Costs applicable to sales | 1,269 | 1,355 | 5,014 | 1,247 | 1,281 | 1,323 | 1,308 | 1,317 | 1,321 | 5,156 | 5,168 |
| – Depreciation and amortisation | 592 | 615 | 2,300 | 553 | 561 | 633 | 596 | 642 | 628 | 2,338 | 2,388 |
| – Reclamation and remediation | 38 | 250 | 366 | 46 | 57 | 56 | 56 | 56 | 56 | 214 | 214 |
| – Exploration | 48 | 69 | 187 | 35 | 52 | 65 | 65 | 65 | 65 | 217 | 217 |
| – Advanced projects, research and development | 39 | 30 | 122 | 31 | 37 | 37 | 37 | 37 | 37 | 141 | 141 |
| – General and administrative | 68 | 64 | 269 | 65 | 64 | 65 | 65 | 65 | 65 | 259 | 259 |
| – Impairment of long-lived assets | 24 | 20 | 49 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| – Care and maintenance | 26 | 7 | 178 | 0 | 2 | 0 | 0 | 0 | 0 | 2 | 2 |
| – Other expense, net | 68 | 51 | 206 | 39 | 50 | 0 | 0 | 0 | 0 | 89 | 89 |
| Total | 2,172 | 2,461 | 8,691 | 2,016 | 2,104 | 2,178 | 2,126 | 2,181 | 2,170 | 8,417 | 8,479 |
| Other income/(expenses) | | | | | | | | | | | |
| – Gain on formation of Nevada Gold Mines | 0 | 0 | 0 | 0 | | | | | | 0 | 0 |
| – Gain on asset and investment sales, net | 1 | 84 | 677 | 43 | 0 | | | | | 43 | 43 |
| – Other income, net | (44) | 3 | (32) | (82) | 50 | 0 | 0 | 0 | 0 | -32 | (32) |
| – Interest expense, net of capitalised interest | (75) | (73) | (308) | (74) | (68) | (77) | (77) | (59) | (69) | -288 | (278) |
| | (118) | 14 | 337 | (113) | (18) | (77) | (77) | (59) | (69) | -277 | (267) |
| Income/(loss) before income and mining tax | 880 | 934 | 3,143 | 743 | 943 | 997 | 732 | 1,017 | 863 | 3,281 | 3,701 |
| Income and mining tax benefit/(expense) | (305) | (258) | (704) | (235) | (341) | (359) | (264) | (366) | (311) | -1,150 | (1,301) |
| Effective tax rate (%) | 34.7 | 27.6 | 23.4 | 31.6 | 36.2 | 36.0 | 36.0 | 36.0 | 36.0 | 35.1 | 35.2 |
| Profit after tax | 575 | 676 | 2,439 | 508 | 602 | 638 | 469 | 651 | 552 | 2,131 | 2,399 |
| Equity income/(loss) of affiliates | 53 | 70 | 189 | 50 | 49 | 36 | 40 | 35 | 35 | 174 | 170 |
| Net income/(loss) from continuing operations | 628 | 746 | 2,628 | 558 | 651 | 674 | 509 | 686 | 588 | 2,305 | 2,569 |
| Net income/(loss) from discontinued operations | 228 | 18 | 163 | 21 | 10 | | | | | 31 | 31 |
| Net income/(loss) | 856 | 764 | 2,791 | 579 | 661 | 674 | 509 | 686 | 588 | 2,336 | 2,600 |
| Minority interest | 17 | (60) | (38) | 20 | 11 | 29 | 29 | 29 | 29 | 88 | 89 |
| Do (%) | 2.0 | (7.9) | (1.4) | 3.5 | 1.7 | 4.3 | 5.6 | 4.2 | 4.9 | 3.8 | 3.4 |
| Net income/(loss) attributable to stockholders | 839 | 824 | 2,829 | 559 | 650 | 645 | 480 | 658 | 559 | 2,248 | 2,512 |
| Adjustments to net income | (142) | 32 | (689) | 35 | 20 | 0 | 0 | 0 | 0 | 55 | 55 |
| Adjusted net income | 697 | 856 | 2,140 | 594 | 670 | 645 | 480 | 658 | 559 | 2,303 | 2,567 |
| Net income/(loss) per common share (US$) | | | | | | | | | | | |
| Basic | | | | | | | | | | | |
| – Continuing operations | 0.761 | 1.005 | 3.317 | 0.672 | 0.799 | 0.808 | 0.601 | 0.823 | 0.700 | 2.772 | 3.101 |
| – Discontinued operations | 0.284 | 0.022 | 0.203 | 0.026 | 0.012 | 0.000 | 0.000 | 0.000 | 0.000 | 0.039 | 0.039 |
| – Total | 1.045 | 1.027 | 3.520 | 0.698 | 0.811 | 0.808 | 0.601 | 0.823 | 0.700 | 2.811 | 3.140 |
| Diluted | | | | | | | | | | | |
| – Continuing operations | 0.758 | 1.002 | 3.309 | 0.671 | 0.797 | 0.802 | 0.597 | 0.817 | 0.695 | 2.752 | 3.080 |
| – Discontinued operations | 0.283 | 0.022 | 0.202 | 0.026 | 0.012 | 0.000 | 0.000 | 0.000 | 0.000 | 0.038 | 0.038 |
| – Total | 1.041 | 1.025 | 3.511 | 0.697 | 0.809 | 0.802 | 0.597 | 0.817 | 0.695 | 2.791 | 3.118 |
| Basic adjusted net income per share (US$) | 0.868 | 1.067 | 2.663 | 0.742 | 0.836 | 0.808 | 0.601 | 0.823 | 0.700 | 2.879 | 3.209 |
| Diluted adjusted net income per share (US$) | 0.865 | 1.065 | 2.656 | 0.741 | 0.834 | 0.802 | 0.597 | 0.817 | 0.695 | 2.859 | 3.186 |
| DPS (US$/share) | 0.400 | 0.550 | 1.450 | 0.550 | 0.550 | 0.550 | 0.550 | 0.550 | 0.550 | 2.200 | 2.200 |

Source: Newmont Corporation, Edison Investment Research

After our revisions for the remainder of the year, our basic adjusted EPS forecast of US$2.879/share for FY21 compares to the market consensus, as follows:

**Exhibit 3: FY21 Basic adjusted EPS forecast, Edison versus consensus (US$/share)**

| | Q121 | Q221 | Q321e | Q421e | Sum Q1–Q421e | FY21e |
|---|---|---|---|---|---|---|
| Edison forecast | 0.74 | 0.84 | 0.60 | 0.70 | 2.88 | 2.88 |
| Consensus forecast | 0.74 | 0.84 | 0.77 | 0.90 | 3.25 | 3.28 |
| High | 0.74 | 0.84 | 1.03 | 1.35 | 3.96 | 3.94 |
| Low | 0.74 | 0.84 | 0.66 | 0.68 | 2.92 | 2.88 |

Source: Edison Investment Research, Refinitiv (20 October 2021)

While these changes represent an 10.3% reduction relative to previously, at US$2.879/share, they nevertheless leave our basic adjusted EPS 6.2% higher than it was before our August upgrade, when our forecast was US$2.711/share (see Material outperformance begets material upgrade, published on 2 August 2021). An analysis of the individual component parts of the changes to our basic adjusted EPS forecasts for Q3, Q4 and FY21 is as follows:

**Exhibit 4: Components of changes to basic adjusted EPS forecasts, October cf August 2021 (US cents per share)**

| Item | Q321 forecast | Q421 forecast | FY21 forecast |
|---|---|---|---|
| **August 2021 forecast** | **80.8** | **82.3** | **320.9** |
| Barrick Q221 results | +0.9 | +1.0 | +1.9 |
| Metal prices | -1.4 | -2.7 | -4.1 |
| Boddington production | -11.7 | -7.6 | -19.3 |
| Tanami production | -4.8 | -0.3 | -5.1 |
| NGM Q321 production and sales | -4.2 | -2.7 | -6.9 |
| Pueblo Viejo Q321 production and sales | +0.5 | 0.0 | +0.5 |
| **Total change** | **-18.7** | **-12.3** | **-33.1** |
| **October 2021 forecast** | **60.1** | **70.0** | **287.9** |

Source: Edison Investment Research. Note: Numbers may not add up owing to rounding.

While Boddington represents the largest single component of our forecast changes for the year, it is continuing to ramp up its truck fleet to full productivity and to fine tune its haulage system to operate in a deep open pit mine. In this respect, the reasons for the changes may be characterised as no more than early-stage teething problems, of the type that beset many mining projects – especially in cases where the deployment of new technology is concerned. In the longer term, however, Newmont is convinced that the Boddington AHS project is a positive development in implementing more sustainable and efficient projects, encompassing the following benefits (among others):

- The use of autonomous haulage trucks improves mine safety by reducing employee exposure to potential vehicle interactions, helping to reduce fatality and reportable injury risks.
- The transition to a fully autonomous haulage fleet has extended the current mine life of Boddington by at least two years.
- With Boddington as a precedent, Newmont has the opportunity to expedite roll-out of AHS to other appropriate operations in its portfolio (eg possibly Penasquito).
- In addition, the AHS fleet provides new job opportunities for Boddington employees.
  - As a result of AHS, new roles were created, including mine control supervisor and controllers, pit builders, pit technicians, mining system field systems and technicians, and mining system engineers and planners.
  - Consequently, Newmont was able to successfully engage with all affected employees to identify their preferred development pathway, including opportunities for re-skilling, retraining or redeploying (note: in this respect, Newmont was successful in providing opportunities for all employees who wished to remain with the company; employees who did not were able to take voluntary redundancy instead).

## Dividend forecasts unchanged

At the time of its Q320 results in October 2020, Newmont unveiled a new dividend framework whereby it formally rebased its dividend to a ‘base’ payout 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’ payout in increments of US$0.60–0.90/share per year (or US$0.15–0.225/share per quarter), evaluated in gold price 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, whereas a gold price below that level 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 payout 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 dipping below the US$1,800/oz level. In consequence, we have left our dividend forecasts for Q321–Q421 and FY21 unchanged on the basis that we believe the gold price temporarily dipping below US$1,800/oz is unlikely to result in any readjustment in the quarterly distribution.

## Valuation

Our approach to the valuation of Newmont has remained unchanged since our initiation note (see The sustainable leader, published on 9 February 2021; see that note for a fuller explanation of the methodologies involved). The following is an update of our valuation in light of the changes to our Q3, Q4 and FY21 forecasts.

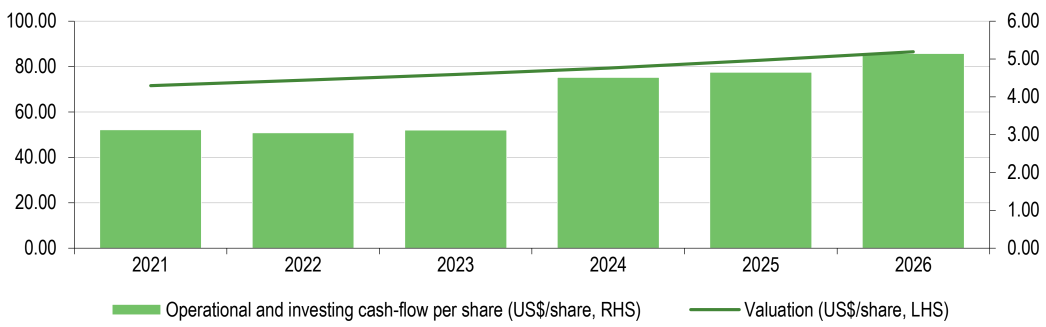
### Absolute valuation

Newmont is a multi-asset company that has shown a willingness and desire to trade assets in the past to maintain production, reduce costs and maximise shareholder returns. As a result, rather than our customary method of discounting maximum potential dividends over the life of operations back to FY21, in the case of Newmont, we have opted to discount forecast dividends back over six years from the start of FY21 and then to apply an ex-growth terminal multiple to forecast cash flows in that year (ie FY26) at the appropriate discount rate. In the normal course of events, we would exclude exploration expenditure from such a calculation on the basis that it is a discretionary investment. In the case of Newmont, however, we have included it in our estimate of future cash flows on the grounds that it may be a critical component of ongoing business performance in its ability to continually expand and extend the lives of the company's assets via exploration.

As a result of the changes made to our short-term financial forecasts for FY21, our estimate of Newmont's pre-financing cash flow in FY26 has declined by a modest 2.5% to US$5.14 per share (cf US$5.27/share previously and US$1.22/share in FY18 – note that it now reaches US$5.27/share one year later in FY27). On this basis, applying an almost unchanged (real) discount rate of 6.4% (calculated from a nominal expected equity return of 9% and long-term inflation expectations of 2.4192% as defined by US 30-year break-evens – source: Bloomberg, 26 October), our terminal valuation of the company at end-FY26 is US$80.01/share (cf US$81.10/share previously). However, note that this valuation is based on the inherently conservative assumption of zero growth in (real) cash flows beyond FY26.

In conjunction with forecast intervening dividends, this terminal value then discounts back to a net present value of US$71.57/share (cf US$73.15/share previously) at the start of FY21.

**Exhibit 5: Newmont forecast valuation and cash flow per share, FY21–26e (US$/share)**




Source: Edison Investment Research

This (absolute) analysis inherently excludes any value to Newmont from its other development assets, such as Coffee, Galore Creek, Conga, Norte Abierto and Nueva Union, which together represent combined reserves and resources of 53.93Moz attributable to Newmont. As noted previously, it is also conservative in its assumption of zero growth in (real) cash flows after FY26, whereas historically the gold price has appreciated at a rate of c 2% per year in real terms.

## Relative Newmont valuation

Newmont's valuation on a series of commonly used measures, relative to its peer group of the 10 largest publicly quoted senior gold producers, is as follows.

**Exhibit 6: Newmont valuation relative to peers**

| | | P/E | | | P/cash flow (x) | | | EV/EBITDA (x) | | | Yield (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Company** | **Ticker** | **Year 1** | **Year 2** | **Year 3** | **Year 1** | **Year 2** | **Year 3** | **Year 1** | **Year 2** | **Year 3** | **Year 1** | **Year 2** | **Year 3** |
| **Newmont (Edison)** | **NEM** | **20.1** | **20.6** | **22.4** | **10.1** | **9.6** | **9.7** | **7.9** | **7.7** | **8.5** | **3.8** | **3.8** | **3.8** |
| **Newmont (consensus)** | **NEM** | **17.7** | **16.6** | **18.4** | **9.6** | **8.9** | **9.4** | **7.4** | **7.1** | **7.6** | **3.7** | **3.8** | **3.7** |
| Barrick | ABX | 16.7 | 15.7 | 15.8 | 7.4 | 6.9 | 6.8 | 6.7 | 6.3 | 6.3 | 3.6 | 1.7 | 2.1 |
| AngloGold | ANGJ | 10.3 | 7.9 | 7.7 | 7.0 | 6.6 | 5.4 | 5.1 | 4.2 | 4.1 | 1.4 | 1.6 | 2.1 |
| Polyus | PLZL MM | 10.9 | 9.6 | 9.5 | 8.5 | 7.8 | 7.6 | 8.3 | 8.1 | 7.0 | 3.4 | 4.6 | 4.8 |
| Gold Fields | GFI | 9.8 | 9.4 | 8.0 | 6.8 | 6.4 | 5.9 | 4.4 | 4.4 | 4.0 | 3.0 | 3.1 | 3.5 |
| Kinross | K | 15.9 | 8.2 | 7.5 | 6.5 | 4.0 | 3.8 | 5.7 | 3.7 | 3.2 | 1.9 | 1.9 | 1.8 |
| Agnico-Eagle | AEM | 21.1 | 18.5 | 18.8 | 8.7 | 8.4 | 8.4 | 8.1 | 6.8 | 6.6 | 2.5 | 2.5 | 2.5 |
| Newcrest | NCM AU | 17.7 | 17.1 | 20.8 | 9.5 | 8.9 | 10.0 | 7.3 | 7.0 | 8.0 | 1.4 | 1.5 | 1.3 |
| Harmony | HARJ | 8.8 | 7.5 | 15.5 | 5.3 | 4.7 | 18.6 | 3.8 | 3.3 | 5.2 | 2.1 | 3.4 | 0.6 |
| Endeavour (consensus) | EDV | 11.4 | 10.4 | 10.9 | 5.6 | 5.2 | 5.3 | 4.9 | 4.7 | 5.2 | 2.1 | 2.4 | 2.2 |
| **Average (excl NEM)** | | **13.6** | **11.6** | **12.7** | **7.3** | **6.5** | **8.0** | **6.0** | **5.4** | **5.5** | **2.4** | **2.5** | **2.3** |

Source: Edison Investment Research, Refinitiv. Note: Consensus and peers priced on 26 October 2021.

From this table, it can be seen that, while Newmont continues to command a premium rating relative to its peer group on most valuation measures, it remains materially cheap with respect to its dividend yield. Based on consensus forecasts, we estimate that Newmont's share price would have to rise by an average of 91.3% for its dividend yield to match those of its peer group. Based on our forecasts, we estimate that its share price would have to rise 92.8%.

As before, one further observation concerning the comparability of the above measures is merited. Given its policy of proportionately consolidating its interest in Nevada Gold Mines and that it owns 100% interests in the majority of its remaining mining operations (with the exceptions of Yanacocha and Merian), estimates of cash flow in particular are also close to estimates of cash flow attributable to shareholders (Newmont estimates that 97% of free cash flow was attributable to the company in Q221). This is in contrast to a number of its peers, where earnings and cash flow from assets not 100%-owned tend to be fully consolidated and therefore may not so easily approximate cash flow attributable to shareholders, making direct comparison using these measures either difficult or, potentially, misleading.

## Blended average valuation

A summary of our updated valuation of Newmont over 29 measures of value across three different methodologies (namely absolute, historical and peer group) over the next five years is shown in Exhibit 7, below.

**Exhibit 7: Newmont valuation summary (US$/share in years shown)**

| Basis of valuation | | FY21e | FY22e | FY23e | FY24e | FY25e |
|---|---|---|---|---|---|---|
| Absolute | 6.4% real cost of equity and ex-growth terminal multiple | 71.57 | 73.96 | 76.52 | 79.23 | 82.72 |
| Historical | Share price implied by Edison EPS forecast (US$/share) | 70.17 | 68.51 | 62.90 | 53.49 | |
| Historical | Share price implied by Edison DPS forecast (US$/share) | 123.32 | 123.32 | 123.32 | 89.69 | |
| Historical | Share price implied by consensus EPS forecast (US$/share) | 79.94 | 84.81 | 76.77 | 84.57 | |
| Historical | Share price implied by consensus DPS forecast (US$/share) | 120.52 | 122.76 | 120.52 | 126.68 | |
| Peer group | Share price implied from Edison EBITDA forecast (US$/share) | 44.71 | 41.95 | | | |
| Peer group | Share price implied from consensus EBITDA forecast (US$/share) | 48.78 | 46.11 | | | |
| Peer group | Share price implied from Edison cash flow per share (US$/share) | 41.44 | 39.53 | | | |
| Peer group | Share price implied from consensus cash flow per share (US$/share) | 44.00 | 42.59 | | | |
| | **Average (US$/share)** | **71.61** | **71.51** | **92.01** | **86.73** | **82.72** |

Source: Edison Investment Research (underlying consensus data: Refinitiv, 26 October 2021).

## Exhibit 8: Financial summary

| Accounts: US GAAP, year-end: December, US$m | 2018 | 2019 | 2020 | 2021e | 2022e | 2023e | 2024e | 2025e |
|---|---|---|---|---|---|---|---|---|
| **INCOME STATEMENT** | | | | | | | | |
| Total revenues | 7,253 | 9,740 | 11,497 | 11,975 | 12,185 | 11,623 | 12,219 | 11,862 |
| Cost of sales | (4,093) | (5,195) | (5,014) | (5,156) | (5,143) | (5,155) | (5,768) | (5,768) |
| Gross profit | 3,160 | 4,545 | 6,483 | 6,818 | 7,042 | 6,467 | 6,450 | 6,094 |
| SG&A (expenses) | (244) | (313) | (269) | (259) | (260) | (260) | (260) | (260) |
| R&D costs | (350) | (415) | (309) | (358) | (406) | (406) | 0 | 0 |
| Other income/(expense) | (406) | (253) | (831) | (337) | (169) | (169) | (84) | (83) |
| Exceptionals and adjustments | (424) | 2,220 | 214 | (106) | 0 | 0 | 0 | 0 |
| Depreciation and amortisation | (1,215) | (1,960) | (2,300) | (2,338) | (2,515) | (2,613) | (3,384) | (3,583) |
| Reported EBIT | 945 | 3,994 | 3,451 | 3,569 | 3,692 | 3,019 | 2,722 | 2,167 |
| Finance income/(expense) | (207) | (301) | (308) | (288) | (155) | 82 | 4 | 16 |
| Reported PBT | 738 | 3,693 | 3,143 | 3,281 | 3,537 | 3,100 | 2,727 | 2,183 |
| Income tax expense (includes exceptionals) | (419) | (737) | (515) | (976) | (1,168) | (970) | (884) | (793) |
| Reported net income | 380 | 2,884 | 2,791 | 2,336 | 2,369 | 2,130 | 1,842 | 1,390 |
| Basic average number of shares, m | 533 | 735 | 804 | 800 | 799 | 799 | 799 | 799 |
| Basic EPS (US$) | 0.64 | 3.82 | 3.52 | 2.81 | 2.81 | 2.58 | 2.19 | 1.60 |
| Adjusted EBITDA | 2,584 | 3,734 | 5,537 | 6,013 | 6,206 | 5,632 | 6,106 | 5,750 |
| Adjusted EBIT | 1,369 | 1,774 | 3,237 | 3,675 | 3,692 | 3,019 | 2,722 | 2,167 |
| Adjusted PBT | 1,162 | 1,473 | 2,929 | 3,387 | 3,537 | 3,100 | 2,727 | 2,183 |
| Adjusted EPS (US$) | 1.35 | 1.32 | 2.66 | 2.88 | 2.81 | 2.58 | 2.19 | 1.60 |
| Adjusted diluted EPS (US$) | 1.34 | 1.32 | 2.66 | 2.86 | 2.79 | 2.56 | 2.18 | 1.58 |
| **BALANCE SHEET** | | | | | | | | |
| Property, plant and equipment | 12,258 | 25,276 | 24,281 | 24,010 | 23,896 | 23,583 | 21,699 | 19,315 |
| Goodwill | 58 | 2,674 | 2,771 | 2,771 | 2,771 | 2,771 | 2,771 | 2,771 |
| Other non-current assets | 3,122 | 5,752 | 5,812 | 5,855 | 5,855 | 5,855 | 5,855 | 5,855 |
| Total non-current assets | 15,438 | 33,702 | 32,864 | 32,636 | 32,522 | 32,209 | 30,325 | 27,941 |
| Cash and equivalents | 3,397 | 2,243 | 5,540 | 5,579 | 5,744 | 6,082 | 8,499 | 11,306 |
| Inventories | 630 | 1,014 | 963 | 1,119 | 1,139 | 1,086 | 1,142 | 1,109 |
| Trade and other receivables | 254 | 373 | 449 | 361 | 367 | 350 | 368 | 357 |
| Other current assets | 996 | 2,642 | 1,553 | 1,584 | 1,584 | 1,584 | 1,584 | 1,584 |
| Total current assets | 5,277 | 6,272 | 8,505 | 8,643 | 8,834 | 9,103 | 11,594 | 14,356 |
| 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 | 8,137 | 8,114 | 8,091 | 7,984 | 7,876 |
| Total non-current liabilities | 7,416 | 15,172 | 14,121 | 13,632 | 13,117 | 12,680 | 12,573 | 12,465 |
| Trade and other payables | 303 | 539 | 493 | 465 | 464 | 465 | 520 | 520 |
| 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 | 3,341 | 3,340 | 3,341 | 3,396 | 3,396 |
| Equity attributable to company | 10,502 | 21,420 | 23,008 | 23,347 | 23,836 | 24,140 | 24,615 | 24,612 |
| Non-controlling interest | 1,010 | 997 | 871 | 959 | 1,063 | 1,150 | 1,335 | 1,825 |
| **CASH FLOW STATEMENT** | | | | | | | | |
| Profit for the year | 380 | 2,884 | 2,791 | 2,336 | 2,369 | 2,130 | 1,842 | 1,390 |
| Taxation expenses | 386 | 832 | 704 | 1,150 | 1,296 | 1,118 | 1,032 | 886 |
| Net finance expenses | 207 | 301 | 308 | 288 | 155 | (82) | (4) | (16) |
| Depreciation and amortisation | 1,215 | 1,960 | 2,300 | 2,338 | 2,515 | 2,613 | 3,384 | 3,583 |
| Share based payments | 76 | 97 | 72 | 0 | 0 | 0 | 0 | 0 |
| Other adjustments | 749 | (2,131) | (654) | 140 | 169 | 169 | 84 | 83 |
| Movements in working capital | (743) | (309) | 295 | (249) | (220) | (122) | (210) | (147) |
| Interest paid / received | (207) | (301) | (308) | (288) | (155) | 82 | 4 | 16 |
| Income taxes paid | (236) | (498) | (926) | (1,150) | (1,296) | (1,118) | (1,032) | (886) |
| Cash from operations (CFO) | 1,827 | 2,866 | 4,882 | 4,566 | 4,833 | 4,791 | 5,100 | 4,910 |
| Capex | (1,032) | (1,463) | (1,302) | (1,740) | (2,400) | (2,300) | (1,500) | (1,200) |
| Acquisitions & disposals net | (98) | 224 | 1,463 | (328) | 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 | (2,068) | (2,400) | (2,300) | (1,500) | (1,200) |
| Net proceeds from issue of shares | (98) | (479) | (521) | (149) | 0 | 0 | 0 | 0 |
| Movements in debt | 0 | (1,186) | (175) | (550) | (492) | (414) | 0 | 0 |
| Dividends paid | (301) | (889) | (834) | (1,829) | (1,854) | (1,815) | (1,343) | (1,394) |
| Other financing activities | (56) | (223) | (150) | 69 | 77 | 77 | 160 | 490 |
| Cash from financing activities (CFF) | (455) | (2,777) | (1,680) | (2,459) | (2,268) | (2,152) | (1,183) | (904) |
| Currency translation differences and other | (4) | (3) | 6 | 0 | 0 | 0 | 0 | 0 |
| Increase/(decrease) in cash and equivalents | 191 | (1,140) | 3,299 | 39 | 165 | 338 | 2,417 | 2,806 |
| Cash and equivalents at end of period | 3,489 | 2,349 | 5,648 | 5,687 | 5,852 | 6,190 | 8,607 | 11,414 |
| Net (debt)/cash | (864) | (4,591) | (1,162) | (573) | 84 | 836 | 3,253 | 6,060 |
| Movement in net (debt)/cash over period | (864) | (3,727) | 3,429 | 589 | 657 | 752 | 2,417 | 2,806 |

Source: Company sources, Edison Investment Research.

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