EDISON

Endeavour Mining

Irrepressible

Q421 preview and Q321 analysis

Metals & mining

In the wake of an excellent set of third quarter results, we have increased our production forecasts for Houndé and Sabodala-Massawa for Q421 by 7.3% and 4.9% respectively, with the result that we expect Endeavour to meet almost exactly the top of its guidance range of 1,350–1,475koz gold for the full year at all-in sustaining costs (AISC) within its guided range of US$850–900/oz (see Exhibit 2). In the meantime, Q321 results were materially ahead of our expectations on virtually every measure of performance (despite Q3 normally being the quarter most affected by west Africa's seasonal rains) with the result that adjusted net EPS outperformed our prior forecast by 65.4% (see analysis on pages 5–8). As a result, we have upgraded our estimate of adjusted net EPS for Q421 by 10.3% and for FY21 by 13.9% on a pro forma basis and by 14.8% on an 'as reported' basis (see Exhibit 4).

Year end	Revenue (US$m)	EBITDA (US$m)	PBT* (US$m)	Operating cash flow per share (US$)	DPS (c)	Yield (%)
12/19	1,362.1	618.4	220.4	3.30	0	N/A
12/20	1,847.9	910.3	501.2	5.35	37	1.4
12/21e	2,821.7	1,457.2	766.9	4.26	56	2.6
12/22e	2,649.8	1,456.0	910.7	4.56	61	2.8

Note: *PBT is normalised, excluding amortisation of acquired intangibles and exceptional items.

Heralding the next wave of growth

Company calculated debt has now reduced to an insignificant US$70m (despite Endeavour having made US$70m in dividend payments and US$35m in share repurchases during Q3) and the company has indicated that it will increase its full year dividend payout beyond the US$125m originally indicated. In the longer term, the results of three major definitive feasibility studies (DFSs) at the beginning of next year (see right) will herald the start of a new growth wave for the company.

Valuation: >50% premium to the current share price

Our 'base case' valuation of Endeavour remains broadly unchanged relative to our last note (The second five-year plan, published on 20 October 2021). Based on the average multiples of its gold major peers, we estimate a value for Endeavour of US$31.36 (C$39.87 or £24.67) per share. By contrast, using an absolute valuation methodology, whereby we discount back six years of cash flow and then apply an ex-growth, ad infinitum multiple to steady-state terminal cash flows in FY26, implies a valuation of US$33.41 (C$42.47 or £25.27) per share if performed using a standardised discount rate of 10% or US$53.22 (C$67.66 or £40.25) per share if performed using a CAPM-derived (real) discount rate of 6.55%. Note that to all of these valuations, a further US$4.30–7.45/share may also be added to reflect the value that we ultimately expect to be imparted to Endeavour via its most recent five-year exploration programme (see The second five-year plan). Otherwise, it is trading at a discount to the average multiples of its peers on at least 72% of common valuation measures (see Exhibit 10) despite its being the largest premium LSE-listed pure gold producer, which is included in the FTSE 250 index and could potentially join the FTSE 100 index at the next reshuffle.

14 December 2021

Price	**C$27.09**
Market cap	**C$6,729m**

C$1.2713/US$, US$1.3221/£

Net debt* (US$m) at end-September 2021	46.7

*Excludes lease liabilities, option premium and restricted cash.

Shares in issue	248.4m
Free float	75.2%
Code	EDV
Primary exchange	LSE
Secondary exchange	TSX, US OTC

Share price performance

%	1m	3m	12m
Abs	(20.9)	(11.7)	(10.0)
Rel (local)	(17.0)	(12.0)	(23.9)
52-week high/low		C$34.94	C$23.58

Business description

Following its acquisitions of SEMAFO and Teranga, Endeavour has become one of the top 10 major gold producers globally, with seven mines in Côte d'Ivoire, Burkina Faso and Senegal plus a portfolio of development projects, all in the West African Birimian greenstone belt.

Next events

Resource updates	Q421
Sabodala-Massawa Phase 2 DFS	Q122
Fetekro DFS	Q122
Kalana DFS	Q122

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Edison profile page

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Q421e and FY21e preview

Endeavour's performance in Q321 was the third consecutive quarter in FY21 in which it produced and sold c 20% more gold than Edison's prior expectations. In its wake, we have revised some of our operating assumptions for Q421 and FY22, which are summarised below:

Exhibit 1: Q421 and FY22 assumption revision summary, by mine

Mine	Q421	FY22
Gold price	Increased fractionally from US$1,768/oz to US$1,771/oz	Maintained at US$1,819/oz
Houndé	Q421 processed grade revised upwards from 1.80g/t to 1.93g/t (cf 2.11g/t in Q321) to reflect continuing contribution of high grade material from Kari Pump	Throughput increased from an average 1.0Mt to 1.1Mt per quarter to reflect consistently high rates achieved throughout FY21. Grade maintained at FY21 levels to reflect continuing high grade contribution from Kari Pump
Karma		Production increased from 54koz to 85koz to reflect a full year of operations (cf a part year previously). AISC estimated at c US$1,200/oz
Ity CIL		Production increased from 247koz to 260koz as surge bins allow oxide capacity to be maintained at higher levels. AISC increased from US$759/oz to US$861/oz to reflect unit costs declining on a slower trajectory than previously anticipated
Mana		Production reduced from 192koz to 180koz as processed grades maintained around 2.65g/t (approximately half way between resource grade of 2.08g/t and reserve grade of 3.11g/t)
Boungou	Q421 processed grade revised downwards from 4.56g/t to 3.60g/t – in line with average reserve grade of the mine of 3.65g/t	AISC increased from US$934/oz to US$998/oz as decline in unit processing costs on a slower trajectory than previously expected
Sabodala-Massawa	Q421 processed grade revised upwards from 3.00g/t to 3.15g/t to reflect continuing contribution of high grades from the Sofia pits. Unit mining costs reduced from US$3.20/t mined (approximately FY20 levels) to US$2.41/t (approximately Q320 level)	Production increased from 326koz to 360koz after the successful completion of the Phase 1 expansion; processed grade maintained near 3g/t and metallurgical recovery near 90%; general & administrative costs increased to US$6.36/t (ie approximately equal to FY21e); sustaining capex increased to US$42.6m (approximately FY21 level)
Wahgnion	Unit processing costs revised up to US$11.00/t (approximately the average of Q221 and Q321) from US$10.00/t	

Source: Edison Investment Research

Historically, Endeavour has a good record of meeting its production and cost guidance targets and FY21 appears almost certain to be the ninth year in succession in which the company achieves (or exceeds) its production and AISC targets.

In the wake of the changes made to our Q421 operating assumptions, our estimates of Endeavour's mines' likely production and cost results for the full year relative to official guidance are shown in the table below:

Exhibit 2: Endeavour production cost and AISC guidance, by mine, FY21

	Production (koz)			AISC (US$/oz)	
Mine	FY21e guidance	Edison FY21e forecast (pro forma)	Edison FY21e forecast (as reported*)	FY21e guidance	Edison FY21e forecast (pro forma)
Houndé	240–260	275.9	275.9	855-905	846
Karma	80–90	85.5	85.5	1,220–1,300	1,221
Ity CIL	230–250	263.4	263.4	800–850	880
Mana	170–190	196.0	196.0	975–1,050	1,023
Boungou	180–200	174.4	174.4	690–740	823
Sabodala-Massawa	310–330	366.8	330.7	690–740	688
Wahgnion	140–155	161.5	143.1	940–990	967
Continuing operations	**1,350–1,475**	**1,523.5**	**1,469.0**		**870**
Agbaou	15–20	12.6	12.6	1,050–1,125	1,027
Group	**1,365–1,495**	**1,536.1**	**1,481.6**		**870**
Corporate G&A etc**				**35**	**26**
Group incl corporate etc costs	**1,365–1,495**	**1,536.1**	**1,481.6**	**850–900**	**896**

Source: Endeavour Mining, Edison Investment Research. Note: *Since acquisition date. **Excludes costs relating to LSE listing.

Readers should note that Endeavour's guidance includes production from Sabodala-Massawa and Wahgnion from 10 February onwards only. They should also note that, for the purposes of our forecasts (below), we have left Agbaou fully consolidated into Endeavour's 'pro forma' accounts. For those who wish to deconsolidate it, Agbaou's profit and loss for the period in which it was under Endeavour ownership in Q121 is reproduced below. All told, however, we would note that its contribution to Endeavour's bottom line was, to all intents and purposes, immaterial during this period.

Exhibit 3: Agbaou profit and loss, Q121 (US$000s unless otherwise indicated)

	Q121
Revenue	25,426
Operating costs	(14,250)
Depreciation and depletion	0
Royalties	(1,418)
Other income/(expenses)	80
Loss on disposal	(13,540)
Earnings/(loss) before tax	(3,702)
Deferred and current income tax expense	0
Net comprehensive earnings/(loss)	(3,702)
Minority interest	1,466
Comprehensive earnings attributable to EDV shareholders	(5,168)
Basic EPS (US$/share)	(0.025)
Diluted EPS (US$/share)	(0.025)

Source: Endeavour Mining

In the meantime, we understand it is not Endeavour's intention, at least for the time being, to reflect Karma as an asset held for sale (despite its now being classified as 'non-core'). With these provisos, our updated forecasts for Endeavour for the remainder of FY21 and in the wake of the Q321 results, by quarter, on both an 'as reported' and 'pro forma' basis, are as follows:

Exhibit 4: Endeavour Mining FY21 earnings forecasts, by quarter

US$000s (unless otherwise indicated)	Q121a (reported)	Est Q121 (pro forma)	Q221a	Q321a	Q421e (prior)	Q421e (current)	FY21e (pro forma)	FY21e (reported)
Houndé production (koz)	66.1	66.1	79.6	70.2	55.9	60.0	275.9	275.9
Agbaou production (koz)	-	12.6	0	0	0	0	12.6	0
Karma production (koz)	21.6	21.6	25.1	20.6	18.3	18.3	85.5	85.5
Ity production (koz)	70.9	70.9	79.5	61.5	51.6	51.6	263.4	263.4
Boungou production (koz)	59.7	59.7	38.8	40.8	44.3	35.0	196.0	196.0
Mana production (koz)	52.4	52.4	49.2	49.1	45.3	45.3	174.4	174.4
Sabodala-Massawa	38.9	75.0	95.9	105.9	85.8	90.0	366.8	330.7
Wahgnion	24.7	43.0	41.0	34.1	43.3	43.3	161.5	143.1
Total gold produced (koz)	334.3	401.2	409.0	382.2	344.6	343.5	1,536.1	1,469.0
Total gold sold (koz)	363.5	432.0	420.8	392.4	344.6	343.5	1,588.7	1,520.2
Gold price (US$/oz)	1,749*	1,763	1,791*	1,763*	1,768	1,771	1,776*	1,773*
Mine level cash costs (US$/oz)	794**	643	625	634	738	715	652	649
Mine level AISC (US$/oz)	837	818	828	881	988	976	870	877
Revenue								
– Gold revenue	635,792	761,448	753,427	691,707	609,142	615,121	2,821,703	2,696,047
Cost of sales								
– Operating expenses	251,112	300,140	278,161	257,470	254,215	245,679	1,081,450	1,032,422
– Royalties	44,366	51,280	43,908	42,509	37,278	38,837	176,534	169,620
Gross profit	340,314	410,028	431,358	391,728	317,649	330,604	1,563,719	1,494,004
Depreciation	(122,611)	(141,190)	(158,382)	(156,614)	(152,817)	(147,097)	(603,283)	(584,704)
Expenses								
– Corporate costs	(11,409)	(12,726)	(15,890)	(11,990)	(8,276)	(8,276)	(48,882)	(47,565)
– Impairments		0	0	0	0	0	0	0
– Acquisition etc costs	(12,160)	(12,160)	(14,544)	(1,804)	0	0	(28,508)	(28,508)
– Share based compensation	(7,955)	(9,436)	(9,839)	(7,281)	(6,907)	(6,907)	(33,463)	(31,982)
– Exploration costs	(9,810)	(9,810)	(5,874)	(2,855)	(5,625)	(5,625)	(24,164)	(24,164)
Total expenses	(41,334)	(44,132)	(46,147)	(23,930)	(20,808)	(20,808)	(135,017)	(132,219)
Earnings from operations	176,369	224,707	226,829	211,184	144,024	162,699	825,419	777,081
Interest income							0	0
Interest expense	(12,318)	(16,841)	(13,694)	(14,696)	(8,773)	(11,631)	(56,863)	(52,339)
Net interest	(12,318)	(16,841)	(13,694)	(14,696)	(8,773)	(11,631)	(56,863)	(52,339)
Loss on financial instruments	42,077	42,077	(14,807)	(20,012)			7,258	7,258
Other expenses	(6,290)	(19,750)	(7082)	(3,380)			(30,212)	(16,752)
Profit before tax	199,838	230,192	191,246	173,096	135,251	151,068	745,602	715,248
Current income tax	72,148	81,321	44,463	40,395	35,162	40,014	206,192	197,020
Deferred income tax	8,688	8,688	(2,166)	158	0	0	6,680	6,680
Total tax	80,836	90,009	42,297	40,553	35,162	40,014	212,872	203,700
Effective tax rate (%)	40.5	39.1	22.1	23.4	26.0	26.5	28.6	28.5
Profit after tax	119,002	140,183	148,949	132,543	100,089	111,054	532,730	511,548
Net profit from discontinued ops.	(3,702)	0	0	0	0	0	0	(3,702)
Total net and comprehensive income	115,300	140,183	148,949	132,543	100,089	111,054	532,730	507,846
Minority interest	25,733	29,919	22,170	18,956	14,201	15,900	86,946	82,759
Minority interest (%)	22.3	21.3	14.9	14.3	14.2	14.3	16.3	16.3
Profit attributable to shareholders	89,567	110,264	126,779	113,587	85,887	95,154	445,784	425,087
Basic EPS from continuing ops (US$)	0.455	0.437	0.504	0.454	0.345	0.383	1.779	1.796
Diluted EPS from continuing ops (US$)	0.453	0.434	0.500	0.451	0.343	0.380	1.764	1.780
Basic EPS (US$)	0.431	0.437	0.504	0.454	0.345	0.383	1.779	1.774
Diluted EPS (US$)	0.428	0.434	0.500	0.451	0.343	0.380	1.764	1.759
Norm. basic EPS from continuing ops (US$)		0.318	0.620	0.542	0.345	0.383	1.864	1.879
Norm. diluted EPS from continuing ops (US$)		0.317	0.616	0.537	0.343	0.380	1.849	1.862
Adj net earnings attributable (US$000s)	104,686	135,156	183,147	152,964	91,814	101,072	572,339	541,869
Adj net EPS from continuing ops (US$)	0.503	0.535	0.727	0.612	0.369	0.407	2.285	2.262

Source: Endeavour Mining, Edison Investment Research. Note: Company reported basis. *Includes adjustment for Karma stream. **As reported, including royalty payments (Edison calculates US$629/oz excluding royalty payments).

The net result of these changes (including a marginal increase in our forecast gold price for Q4, from US$1,768/oz to US$1,771/oz) is a 13.9% increase in adjusted net EPS from continuing operations, from US$2.006/share to US$2.285/share (on a pro forma basis – see our note, The second five-year plan, published on 20 October 2021 for direct comparison) and a similar 14.8%

increase in adjusted net EPS from continuing operations, from US$1.970/share to US$2.262/share (on an ‘as reported’ basis).

For FY22, our adjusted net EPS from continuing operations estimate has declined by an immaterial 2.7% to US$2.378/share. This is in the top half of the consensus range (see Exhibit 5); however, readers should note that this forecast is contingent on the gold price averaging US$1,819/oz for the year. In the event that it remains at current levels (US$1,777/oz at the time of writing) for the full 12-month period, our forecast declines to US$2.217/share (ie marginally below the average).

As before, items included in the reconciliation between adjusted net earnings attributable and total net and comprehensive earnings are losses from discontinued operations, deferred income tax effects, gains/losses on financial instruments, other expenses, share-based compensation and acquisition costs (all shown independently in the table above), plus the tax impact of adjusting items, non-cash and other adjustments and the minority interest attributable to the adjusting items (not shown independently).

Notwithstanding the detailed appearance of our forecasts, readers are cautioned that forecasting on a quarterly basis is prone to large variations between actual and forecast numbers. As such, the exhibits both above and below should be regarded as indicative, rather than prescriptive, particularly with respect to individual quarters. With this caveat, a comparison between our Q421, FY21 and FY22 adjusted net EPS from continuing operations estimates and consensus estimates is as follows:

Exhibit 5: Edison adjusted net EPS from continuing operations estimates versus consensus FY21 by quarter

(US$/share)	As reported	Pro forma					FY22
	Q121a	Q221a	Q321e	Q421e	Sum Q1–Q421e	FY21e	
Edison forecast*	0.535*	0.727	0.612	0.407	2.281	2.285	2.378
Mean consensus forecast	0.503	0.727	0.612	0.500	2.342	2.280	2.320
High consensus forecast	0.503	0.727	0.612	0.560	2.402	2.440	3.480
Low consensus forecast	0.503	0.727	0.612	0.410	2.252	2.010	1.680

Source: Refinitiv, Edison Investment Research. Note: *As per Exhibits 4 and 6 on a pro forma basis. Consensus priced 14 December 2021.

Self-evidently, one of the main assumptions behind our forecasts is that there are no major deleterious effects to ongoing operations as a result of the COVID-19 pandemic. To date, the effect of COVID-19 on Endeavour’s operations in West Africa has proved to be negligible and is expected to remain so, as the company has now been able to vaccinate more than 50% of its workforce in an ongoing programme of pandemic mitigation. In addition, Endeavour has further mitigated future risks as far as possible by both setting itself up to operate under level 2 COVID-19 restrictions (see our note, New senior gold major looking to join FTSE 100, published on 17 December 2020) and also by preparing multiple different levels in its pits from which to produce, thereby affording it greater operational flexibility in the event of disruptions.

Q321 results analysis

A full analysis of Endeavour’s Q321 results relative to our prior forecasts is provided below:

Exhibit 6: Endeavour Mining Q221a cf prior forecasts (as reported and estimated pro forma)

US$000s (unless otherwise indicated)	Actual Q121a	Est Q121a (pro forma)	Q221a	Q321e	Q321a	Change* (%)	Change* (units)	Variance** (%)	Variance** (units)
Houndé production (koz)	66.1	66.1	79.6	57.9	70.2	-11.8	-9.4	21.2	12.3
Agbaou production (koz)		12.6	0	0	0	N/A	0.0	N/A	0
Karma production (koz)	21.6	21.6	25.1	16.8	20.6	-17.9	-4.5	22.6	3.8
Ity production (koz)	70.9	70.9	79.5	50.4	61.5	-22.6	-18.0	22.0	11.1
Boungou production (koz)	59.7	59.7	38.8	42.8	40.8	5.2	2.0	-4.7	-2
Mana production (koz)	52.4	52.4	49.2	43.2	49.1	-0.2	-0.1	13.7	5.9
Sabodala-Massawa	38.9	75.0	95.9	83.0	105.9	10.4	10.0	27.6	22.9
Wahgnion	24.7	43.0	41.0	34.0	34.1	-16.8	-6.9	0.3	0.1
Total gold produced (koz)	334.3	401.2	409.0	328.2	382.2	-6.6	-26.8	16.5	54
Total gold sold (koz)	363.5	432.0	420.8	328.2	392.4	-6.7	-28.4	19.6	64.2
Gold price (US$/oz)	1,749***	1,763***	1,791***	1,790	1,763***	-1.6	-28.0	-1.5	-27
Mine level cash costs (US$/oz)	794****	643	625	737	634	1.4	9.0	-14.0	-103
Mine level AISC (US$/oz)	837	818	828	1,017	881	6.4	53.0	-13.4	-136
Revenue									
– Gold revenue	635,792	761,448	753,427	587,523	691,707	-8.2	-61,720	17.7	104,184
Cost of sales									
– Operating expenses	251,112	300,140	278,161	241,929	257,470	-7.4	-20,691	6.4	15,541
– Royalties	44,366	51,280	43,908	35,909	42,509	-3.2	-1,399	18.4	6,600
Gross profit	340,314	410,028	431,358	309,685	391,728	-9.2	-39,630	26.5	82,043
Depreciation	(122,611)	(141,190)	(158,382)	(142,619)	(156,614)	-1.1	1,768	9.8	-13,995
Expenses									
– Corporate costs	(11,409)	(12,726)	(15,890)	(8,276)	(11,990)	-24.5	3,900	44.9	-3,714
– Impairments		0	0	0	0	N/A	0	N/A	0
– Acquisition etc costs	(12,160)	(12,160)	(14,544)	0	(1,804)	-87.6	12,740	N/A	-1,804
– Share based compensation	(7,955)	(9,436)	(9,839)	(6,907)	(7,281)	-26.0	2,558	5.4	-374
– Exploration costs	(9,810)	(9,810)	(5,874)	(5,625)	(2,855)	-51.4	3,019	-49.2	2,770
Total expenses	(41,334)	(44,132)	(46,147)	(20,808)	(23,930)	-48.1	22,217	15.0	-3,122
Earnings from operations	176,369	224,707	226,829	146,258	211,184	-6.9	-15,645	44.4	64,926
Interest income									
Interest expense	(12,318)	(16,841)	(13,694)	(9,152)	(14,696)	7.3	-1,002	60.6	-5,544
Net interest	(12,318)	(16,841)	(13,694)	(9,152)	(14,696)	7.3	-1,002	60.6	-5,544
Loss on financial instruments	42,077	42,077	(14,807)		(20,012)	35.2	-5,205	N/A	-20,012
Other expenses	(6,290)	(19,750)	(7082)		(3,380)	-52.3	3,702	N/A	-3,380
Profit before tax	199,838	230,192	191,246	137,106	173,096	-9.5	-18,150	26.2	35,990
Current income tax	72,148	81,321	44,463	36,497	40,395	-9.1	-4,068	10.7	3,898
Deferred income tax	8,688	8,688	(2,166)	0	158	-107.3	2,324	N/A	158
Total tax	80,836	90,009	42,297	36,497	40,553	-4.1	-1,744	11.1	4,056
Effective tax rate (%)	40.5	39.1	22.1	26.6	23.4	5.9	1.3	-12.0	-3.2
Profit after tax	119,002	140,183	148,949	100,610	132,543	-11.0	-16,406	31.7	31,933
Net profit from discontinued ops.	(3,702)	0	0	0	0	N/A	0	N/A	0
Total net and comprehensive income	115,300	140,183	148,949	100,610	132,543	-11.0	-16,406	31.7	31,933
Minority interest	25,733	29,919	22,170	14,319	18,956	-14.5	-3,214	32.4	4,637
Minority interest (%)	22.3	21.3	14.9	14.2	14.3	-4.0	-0.6	0.7	0.1
Profit attributable to shareholders	89,567	110,264	126,779	86,291	113,587	-10.4	-13,192	31.6	27,296
Basic EPS from continuing ops (US$)	0.455	0.437	0.504	0.346	0.454	-9.9	-0.050	31.2	0.108
Diluted EPS from continuing ops (US$)	0.453	0.434	0.500	0.344	0.451	-9.8	-0.049	31.1	0.107
Basic EPS (US$)	0.431	0.437	0.504	0.346	0.454	-9.9	-0.050	31.2	0.108
Diluted EPS (US$)	0.428	0.434	0.500	0.344	0.451	-9.8	-0.049	31.1	0.107
Norm. basic EPS from cont. ops (US$)		0.318	0.620	0.346	0.542	-12.6	-0.078	56.6	0.196
Norm. diluted EPS from cont. ops (US$)		0.317	0.616	0.344	0.537	-12.8	-0.079	56.1	0.193
Adj net earnings attributable (US$000s)	104,686	135,156	183,147	92,215	152,964	-16.5	-30,183	65.9	60,749
Adj net EPS from continuing ops (US$)	0.503	0.535	0.727	0.370	0.612	-15.8	-0.115	65.4	0.242

Source: Endeavour Mining, Edison Investment Research. Note: *Q321a cf Q221a; **Q321a cf Q321e. ***Includes adjustment for Karma stream. ****Includes royalty payments (Edison calculates US$629/oz excluding royalty payments).

Items included in the reconciliation between adjusted net earnings attributable and total net and comprehensive earnings are losses from discontinued operations, deferred income tax effects, gains/losses on financial instruments, other expenses, share-based compensation and acquisition costs (all shown independently in the table above), plus the tax impact of adjusting items, non-cash and other adjustments and the minority interest attributable to the adjusting items (not shown independently). Readers are reminded that Endeavour changed its definition of cash costs in Q420 to include royalties. The decision was made so that Endeavour may be more consistent in reporting within the context of its peer group. For reasons of comparability with past results, however, as well as ease of forecasting (given that royalties are reported as a discreet item distinct from operating expenses), Edison (at least for the moment) is continuing to show total cash costs excluding royalties unless specifically indicated otherwise (eg the 'Actual Q121a' column in Exhibit 6, above).

Notwithstanding the fact that the third quarter is almost invariably Endeavour's weakest quarter in any particular year, owing to the onset of seasonal rains in west Africa, this year Q321 results were materially ahead of our expectations on virtually every measure from production to adjusted net EPS, putting the company on track to achieve record output and to beat its own production guidance (in this case, for the ninth year in succession) while, at the same time, meeting cost guidance. While revenue was 17.7% ahead of our expectations, costs were ahead by only 6.4%, with the result that adjusted net EPS outperformed our prior forecast by 65.4%. Moreover, more than half of the variance in costs (US$8.6m out of a total of US$15.5m) could be attributed to a non-cash inventory expense associated with a fair value adjustment on the purchase of Teranga. Otherwise, almost all of its seven underlying mines exceeded our expectations on all measures of performance, with the exception of the grade of material processed at Boungou (which nevertheless still outperformed our expectations in terms of profitability – see Exhibit 7) and costs at Wahgnion (albeit these were inflated by a US$1.5m non-cash operating expense relating to the reversal in the period of the fair value adjustment of inventory on hand at the acquisition date).

Full details of each mine's operational performance and outlook are available in Endeavour's press release. However, a summary of the financial performance of each mine, relative to our prior expectations, is as follows.

Exhibit 7: EDV assets actual cf forecast earnings from mine operations, by mine (US$m)

Mine	Actual	Prior forecast	Variance	
	(US$m)	(US$m)	(%)	US$m
Houndé	67.1	47.0	+42.8	+20.1
Karma	(2.5)	(3.3)	+24.2	+0.8
Ity	48.3	26.3	+83.7	+22.0
Boungou	16.3	13.7	+19.0	+2.6
Mana	24.5	19.2	+27.6	+5.3
Sabodala-Massawa	77.5	56.4	+37.4	+21.1
Wahgnion	7.5	10.5	-28.6	-3.0
Total	**238.6**	**169.8**	**+40.5**	**+68.9**

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

In broad terms, financial results in Q321 fell between those of Q221 and our (with hindsight) conservative prior expectations. As well as exceeding our forecast, however, at US$0.612/share, actual adjusted net EPS for the quarter were also comfortably in excess of the consensus analysts' forecast of US$0.44/share as well as the top end of the range of expectations, of US$0.50/share:

Exhibit 8: Actual Q221 adjusted net EPS from continuing operations vs prior consensus estimate (US$/share)

(US$/share)	Q121a	Q221a	Q321a
Actual	0.50	0.73	0.61
Mean consensus forecast	N/A	N/A	0.44
High consensus forecast	N/A	N/A	0.50
Low consensus forecast	N/A	N/A	0.37

Source: Refinitiv, Edison Investment Research. Note: Consensus as at 15 October 2021.

While corporate costs appeared to exceed our expectations, these were, in fact, inflated by US$3.0m in residual charges relating to the expense of Endeavour's LSE listing (note: these are excluded in the calculation of adjusted net earnings), without which they would have been broadly in line. Also excluded from adjusted net earnings are losses on financial instruments. Endeavour booked a loss on financial instruments of US$20.0m in Q321, albeit this item could be attributed solely to losses on forex of US$23.3m (which we anyway decline to attempt to forecast). The company also benefited from the absence of tax instalment payments, which typically inflate Endeavour's tax charge in the second quarter of any particular financial year.

Debt at Endeavour has now reduced to an insignificant US$70m (despite US$70m in dividend payments and US$35m in share repurchases during the quarter – company calculation) and the company has therefore indicated that it will increase its full year dividend payout beyond the US$125m originally indicated.

Shareholder returns

Dividend

As disclosed on 7 June 2021, Endeavour has implemented a shareholder returns programme that is composed of a minimum progressive dividend that may be supplemented with additional dividends and buybacks, providing the prevailing gold price remains above US$1,500/oz and Endeavour's net debt/adjusted EBITDA ratio remains below 0.5x. Subject to the gold price condition being met, the minimum progressive dividend policy has a target of distributing at least US$500m to shareholders over the next three years. To date, minimum dividends have been indicated at US$125m, US$150m and US$175m for FY21, FY22, and FY23, respectively, payable semi-annually (cf a maiden FY20 dividend of US$60m). At the half-year stage, however, Endeavour declared an interim dividend of US$70m (or US$0.28/share) – 12% above the level that might be expected pro rata with its minimum guided level of US$125m for the full year. At the time, this caused us to increase our forecast dividend for the full year, from US$0.50/share to US$0.56/share which we are, at least for the moment, maintaining, albeit with the recognition that this may have to increase once again in the event of another strong quarter in Q4 (which is traditionally the strongest quarter of Endeavour's year in terms of financial and operating results).

Share buyback

In tandem with its FY20 results, on 18 March 2021, Endeavour announced a normal-course issuer bid (NCIB) or share buyback programme to supplement its policy of augmenting shareholder returns. The NCIB commenced on 22 March and will end on 21 March 2022, and will allow Endeavour to buy up to 12.2m ordinary shares, or approximately 5% of its total issued and outstanding ordinary shares at the time of the announcement, whereupon the purchased shares will be cancelled. At Endeavour's current share price of C$27.09 (US$21.31), the NCIB is worth an estimated US$155.9m in additional purchases (on top of the estimated US$111.3m already made) and compares extremely favourably with its FY20 dividend payout of US$60.3m and our forecast of its payout to shareholders of US$138.4m in FY21. Combined, the NCIB and FY21e dividend distribution together represent a potential c US$327.5m in aggregate returns to shareholders – currently equivalent to a total shareholder yield of 6.2% – in FY21 (albeit dependent on whether the maximum allowable under the NCIB is repurchased within the requisite timeframe).

Note that, owing to the inherent uncertainty surrounding whether purchases are made and at what price under the NCIB, we have not attempted to include potential future share buybacks in our financial forecasts in Exhibit 11, below, but only historical ones. To date in FY21 (until 9 December), we calculate that Endeavour has repurchased a total of 4.9m shares at an estimated average price of US$22.8 (C$28.99 at the prevailing forex rate), resulting in total cash outflows of c C$141.5m, or US$111.3m.

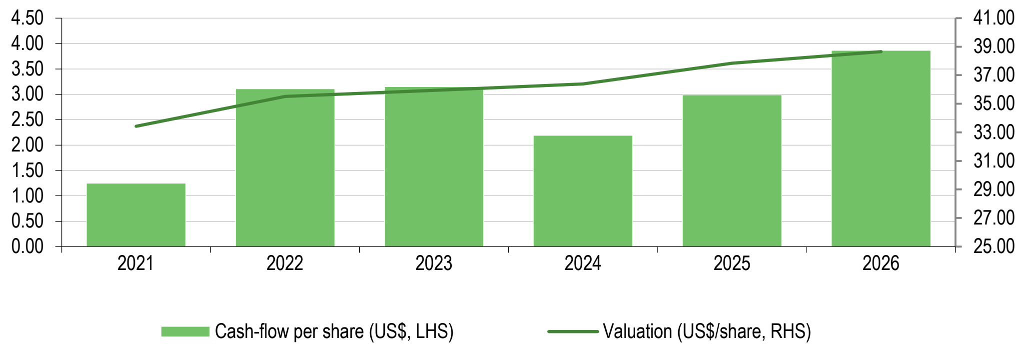
In the light of its strong operational performance, coupled with its near-zero net debt position, in its Q321 results press release, Endeavour stated: 'Having already returned $224 million in dividends and share buybacks this year, and considering our near zero Net Debt to adjusted EBITDA leverage ratio, we expect to continue to supplement our shareholder return programme with further share buybacks and deliver more than the guided minimum dividend of $125 million for the full year.'

Valuation

Endeavour is a multi-asset company that has shown a willingness and desire to trade assets to maintain production, reduce costs and maximise returns to shareholders (eg the sale of Youga in FY16, Nzema in FY17, Tabakoto in FY18 and Agbaou in FY20 and the acquisition of SEMAFO in FY20 and Teranga in FY21). Historically, rather than our customary method of discounting maximum potential dividends over the life of operations back to FY21, in the case of Endeavour, we have instead opted to discount six years of forecast cash flows in FY21–26 back to the start of FY21 and then to apply an ex-growth terminal multiple of 10x (consistent with using a standardised discount rate of 10%) to forecast cash flows in that year (ie FY26). In the normal course of events, exploration expenditure would have been excluded from such a calculation on the basis that it is an investment. In the case of Endeavour, however, it was included on the grounds that it was a critical component of ongoing business performance in its ability to continually expand and extend the lives of its mines.

In this case, our estimate of cash flows in FY26 remains ostensibly unchanged at US$3.86/share (cf US$3.97/share previously), giving rise to a terminal valuation of the company at end-FY26 of US$38.65/share (cf US$39.73/share previously), which (in conjunction with forecast intervening cash flows) then discounts back to a valuation of US$33.41/share (cf US$34.67/share previously) at the start of FY21, as shown in the graph below.

Exhibit 9: Endeavour current forecast valuation and cash flow per share, FY20–26e (US$/share)



Source: Edison Investment Research

Given its elevation into the ranks of the world's foremost producers of gold, however, we believe that Endeavour can increasingly attract lower cost finance and, as such, a CAPM-derived WACC can also be considered (as discussed in our February 2021 initiation on Newmont Corporation). Long-term nominal equity returns have been 9% and 30-year break-evens are currently expecting a 2.2964 inflation rate (source: Bloomberg, 9 December) cf 2.3727% previously. These two measures imply an expected real equity return of 6.55% (1.09/1.022964) and applying this to our forecast cash flows would imply a terminal valuation for Endeavour of US$58.97/share (cf US$62.22/share previously) and a current valuation of US$53.32/share (cf US$56.73/share previously). Readers should note that, given its Canadian dollar-derived share price beta of 0.58 (source: Refinitiv, 9 December 2021), even this (real) discount rate of 6.55% could prove conservative.

In the meantime, Endeavour's valuation remains at a material discount to those of its peer group, as shown in Exhibit 10, below.

Relative Endeavour valuation

Endeavour's valuation on a series of commonly used measures, relative to a selection of gold mining majors (the ranks of which it has now joined since its takeovers of SEMAFO and Teranga have been completed), is as follows:

Exhibit 10: Endeavour valuation relative to peers

Company	Ticker	Price/cash flow (x)			EV/EBITDA (x)			Yield (%)		
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Endeavour (Edison)	EDV	5.0	4.7	5.0	*3.7	*3.6	*3.4	2.6	2.8	3.0
Endeavour (consensus)	EDV	4.4	4.2	4.4	4.3	4.3	4.6	2.5	2.8	2.4
Majors										
Barrick	ABX	7.3	6.7	6.4	6.3	6.3	6.0	3.4	2.2	2.3
Newmont	NEM	9.9	9.4	10.0	8.0	7.4	7.8	3.8	3.8	3.7
Newcrest	NCM AU	10.3	7.9	9.1	6.4	5.6	6.6	1.5	1.8	1.5
Kinross	K	5.9	3.4	3.2	5.0	3.1	2.9	2.3	2.3	2.3
Agnico-Eagle	AEM	7.5	7.2	7.1	7.1	5.4	4.9	2.9	2.9	2.9
Eldorado	ELD	5.1	4.4	4.1	4.3	3.8	3.4	0.0	0.0	0.0
Average		7.7	6.5	6.6	6.2	5.3	5.3	2.3	2.2	2.1
Implied EDV share price (US$)		**32.62**	**29.69**	**30.96**	**36.40**	**33.28**	**33.50**	**24.13**	**28.16**	**33.50**
Implied EDV share price (C$)		**41.47**	**37.75**	**39.36**	**46.27**	**42.31**	**42.59**	**30.68**	**35.80**	**42.59**

Source: Edison Investment Research, Refinitiv. Note: *Forecast EV. Consensus and peers priced at 14 December 2021.

Of note is the fact that Endeavour's valuation is materially cheaper than the averages of the majors on all of the measures shown in Exhibit 10 regardless of whether Edison or consensus forecasts are used. On an individual basis, it is cheaper than its senior gold mining peers on at least 41 out of 54 (75%) of valuation measures if Edison forecasts are used and, similarly, 39 out of 54 (72%) if consensus forecasts are used. Reverse engineered, the average valuation measures of its peers imply an average share price for Endeavour of US$31.36, or C$39.87 per share.

Financials

According to its Q321 balance sheet, Endeavour had net debt of US$143.6m. This compares with net debt of US$147.6m as at end-Q221, US$220.2m as at end-Q121 (after the completion of the Teranga acquisition and the injection of US$200m by La Mancha) and US$43.3m as at end-FY20 (pre the Teranga acquisition). This figure of US$143.6m also includes lease liabilities of US$53.5m and an option premium of US$43.4m. Excluding these two items results in a net debt position of just US$46.7m or just 1.1% of the company's balance sheet equity of US$4,064.4m at end-Q321 (cf US$52.3m and 1.3% as at end-Q221). Note that this figure of US$46.7m also excludes US$30.5m held in the form of 'restricted cash' in 'other financial assets' and US$2.7m in marketable securities. It also differs slightly from the US$69.6m net debt figure calculated by Endeavour and quoted in its announcements owing to the discounting, variously, of certain committed future payments to present value.

Note that, for the purposes of our financial modelling (see Exhibit 11, below) and for simplicity's sake, we have assumed that the consolidation of Endeavour's and Teranga's balance sheets took place retrospectively on 31 December 2020. In this case, we estimate that Endeavour would have consolidated c US$242.6m in net debt on its balance sheet and c US$349.2m in gross debt as a consequence of its Teranga acquisition (as at end-December). As such, on a pro forma basis, we estimate that Endeavour would have had US$323.1m in net debt on its balance sheet at end-FY20, which we calculate would have equated to a gearing (net debt/equity) ratio of just 8.8% and a leverage (net debt/[net debt+equity]) ratio of 8.1% on the group's enlarged equity base (see Exhibit 11, below).

Exhibit 11: Financial summary

US$'000s	2019	2020	2021e	2022e	2023e
December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	1,362,121	1,847,894	2,821,703	2,649,816	2,384,441
Cost of Sales	(884,869)	(1,061,891)	(1,393,001)	(1,193,853)	(1,027,329)
Gross Profit	477,252	786,003	1,428,702	1,455,963	1,357,112
EBITDA	618,443	910,295	1,457,210	1,455,963	1,357,112
Operating Profit (before amort. and except.)	281,400	546,072	853,927	910,611	878,492
Intangible Amortisation	0	0	0	0	0
Exceptionals	(199,159)	(201,532)	(21,250)	0	0
Other	(9,392)	8,886	(30,212)	0	0
Operating Profit	72,849	353,426	802,465	910,611	878,492
Net Interest	(51,607)	(53,774)	(56,863)	85	6,043
Profit Before Tax (norm)	220,401	501,184	766,852	910,695	884,535
Profit Before Tax (FRS 3)	21,242	299,652	745,602	910,695	884,535
Tax	(97,253)	(158,466)	(212,872)	(218,546)	(205,375)
Profit After Tax (norm)	123,148	342,718	553,980	692,150	679,159
Profit After Tax (FRS 3)	(76,011)	141,186	532,730	692,150	679,159
Net loss from discontinued operations	(4,394)	0	0	0	0
Minority interests	33,126	44,719	86,946	101,504	100,272
Net profit	(80,405)	141,186	532,730	692,150	679,159
Net attrib. to shareholders contg. businesses (norm)	90,022	297,998	467,034	590,646	578,888
Net attrib.to shareholders contg. businesses	(109,137)	96,466	445,784	590,646	578,888
Average Number of Shares Outstanding (m)	157.4	160.8	250.5	248.4	248.4
EPS - normalised (c)	57.20	185.34	186.43	237.78	233.05
EPS - normalised fully diluted (c)	56.95	181.51	184.85	230.42	225.84
EPS - (IFRS) ($)	(0.72)	0.60	1.78	2.38	2.33
Dividend per share (c)	0	37	56	61	70
Gross Margin (%)	35.0	42.5	50.6	54.9	56.9
EBITDA Margin (%)	45.4	49.3	51.6	54.9	56.9
Operating Margin (before GW and except.) (%)	20.7	29.6	30.3	34.4	36.8
BALANCE SHEET					
Fixed Assets	2,330,033	5,093,409	5,053,577	4,909,128	4,813,008
Intangible Assets	5,498	24,851	24,851	24,851	24,851
Tangible Assets	2,254,476	3,968,746	3,928,914	3,784,465	3,688,346
Investments	70,059	1,099,812	1,099,812	1,099,812	1,099,812
Current Assets	652,871	1,168,382	1,416,505	2,261,396	2,765,588
Stocks	266,451	305,075	352,713	509,580	458,546
Debtors	83,836	104,545	151,168	243,337	221,525
Cash	288,186	751,563	898,167	1,494,022	2,071,059
Other	14,398	7,199	14,457	14,457	14,457
Current Liabilities	(354,931)	(661,171)	(552,922)	(697,741)	(631,837)
Creditors	(312,427)	(612,862)	(504,613)	(649,432)	(583,528)
Short term borrowings	(42,504)	(48,309)	(48,309)	(48,309)	(48,309)
Long Term Liabilities	(963,736)	(1,647,799)	(1,462,862)	(1,462,862)	(1,462,862)
Long term borrowings	(770,902)	(1,026,337)	(841,400)	(841,400)	(841,400)
Other long term liabilities	(192,834)	(621,462)	(621,462)	(621,462)	(621,462)
Net Assets	1,664,237	3,952,821	4,454,298	5,009,921	5,483,897
CASH FLOW					
Operating Cash Flow	628,617	1,046,370	1,272,497	1,351,746	1,364,053
Net Interest	(35,413)	(53,774)	(56,863)	85	6,043
Tax	(109,494)	(186,332)	(206,192)	(218,546)	(205,375)
Capex	(401,227)	(335,599)	(563,451)	(400,904)	(382,500)
Acquisitions/disposals	3,654	(19,000)	20,000	40,000	0
Financing	2,402	100,000	31,247	0	0
Dividends	(6,154)	(88,288)	(165,697)	(176,527)	(205,183)
Net Cash Flow	82,385	463,377	331,541	595,855	577,037
Opening net debt/(cash)*	518,607	525,220	323,083	(8,458)	(604,312)
Other	(88,998)	(261,240)	0	0	(0)
Closing net debt/(cash)*	525,220	323,083	(8,458)	(604,312)	(1,181,350)

Source: Company sources, Edison Investment Research. Note: Presented on a pro forma basis including SEMAFO from FY18 balance sheet and Teranga from FY20 balance sheet. EPS normalised from FY18 to reflect continuing business only. *Excludes restricted cash.

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