Newmont Mining Corp. (NEM)

Updated June 8th, 2018 by Josh Arnold

Key Metrics

Current Price:	$39	**5 Year CAGR Estimate:**	2.8%	**Quality Percentile:**	N/A
Fair Value Price:	$31	**5 Year Growth Estimate:**	5.4%	**Momentum Percentile:**	N/A
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.1%	**Total Return Percentile:**	N/A
Dividend Yield:	1.5%	**5 Year Price Target**	$41	**Valuation Percentile:**	N/A

Overview & Current Events

Newmont Mining Corporation operates gold and copper mines on four different continents. The company was founded in 1916 as a holding company for investments in mineral, oil and gas properties. It has been listed on the NYSE since 1940 and today, is worth almost $21B with $7.5B in annual revenue.

The company's recently reported Q1 earnings were strong as revenue was up 8% and adjusted EPS was up 35%. The company's dividend also nearly tripled from 5 cents to 14 cents during the quarter, the product of strong operating results. Total gold production was 1.2M ounces in Q1, in line with guidance set by the company for 4.9 to 5.4M ounces in 2018, but weighted more heavily towards the second half of the year. In addition, all-in sustaining costs were at the bottom range of guidance at $973 per ounce, which caused margins to improve materially during the quarter. Sadly, the company's Ahafo Mill site in Africa experienced a fatal accident in April and as such, production for that site will come in under original expectations. However, preparations are being made for a safe restart so company-wide totals for the year shouldn't be materially impacted. Overall, NEM's outlook for this year is bright.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.82	$2.76	$3.82	$4.40	$3.78	$1.37	$0.99	$0.81	$1.10	$1.46	***$1.50***	***$1.95***
DPS	$0.40	$0.40	$0.50	$1.00	$1.40	$1.23	$0.23	$0.10	$0.13	$0.25	***$0.56***	***$0.66***

NEM's EPS has been predictably volatile as mining companies generally have wild swings in earnings, particularly during periods of big moves in the prices of the commodities they mine. NEM certainly experienced some enormous EPS growth from 2008 to 2011 when metal prices were booming, but since that time, it has failed to reclaim even half of its peak earnings of $4.40 per share. We don't see that sort of profitability anytime in the near future, although we do have NEM producing 5.4% EPS growth going forward.

It will achieve this growth mostly through the development projects it has in the pipeline right now and as those projects come online, the additional volume should drive efficiencies, which will lower unit costs. NEM is spending heavily this year on several projects but capex will fall significantly in subsequent years. This development should drive some revenue gains but we see unit cost reductions from today's levels as a primary source of earnings growth. Q1's production cost of $973/oz compares unfavorably to last year's $924/oz and even lower numbers for 2016. In short, NEM is spending in 2018 to grow in 2019 and beyond and we see this as a significant positive for EPS growth potential.

The dividend has moved meaningfully higher but NEM's dividend history is spotty at best. It tends to move the payout up and down based upon actual earnings and as a result, we see the payout ratio remaining about where it is going forward, so most of the dividend growth for the next few years appears to be in the stock already.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	23.8	15.7	14.7	13.4	13.5	23.8	23.6	25.9	29.9	24.3	***25.7***	***20.9***
Avg. Yld.	0.9%	0.9%	0.9%	1.7%	2.7%	3.8%	1.0%	0.5%	0.4%	0.7%	***1.5%***	***1.6%***

The company's P/E multiple has moved up a bunch in recent years and sits at 25.7 today. That compares very unfavorably to its historical norm of 20.9 and as a result, we see the stock as overvalued here. That implies a sizable

4.1% headwind to total returns going forward as we see the stock as already pricing in most of the bright outlook we have for the company. The yield should remain about where it is in the mid-1% range with modest payout growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	49.8%	61.0%	51.5%	49.5%	43.7%	18.1%	22.6%	16.2%	23.4%	25.6%	***25.5%***	***27.0%***
Debt/A	55%	43%	39%	40%	43%	48%	47%	43%	44%	43%	***43%***	***41%***
Int. Cov.	13.5	29.6	16.0	8.8	14.2	-10.9	3.5	2.0	0.2	6.3	***6.5***	***7.0***
Payout	22%	15%	13%	22%	37%	89%	23%	12%	11%	17%	***37%***	***34%***
Std. Dev.	60%	35%	22%	26%	32%	30%	28%	50%	51%	20%	***28%***	***35%***

The company's quality metrics are actually very strong in most cases as leverage is quite reasonable and its interest coverage is more than adequate. NEM is very conservatively financed and that gives it the ability to spend opportunistically, as it is doing in 2018. It also allows for the dividend payment to remain safe as it isn't spending its free cash on servicing debt. Margins should grow in the coming years but we do not expect material movement in 2018.

NEM's competitive advantage is in its enormous size and scale as well as its financial flexibility. Many miners are overly leveraged and that hampers growth opportunities but NEM has no such problem. Miners aren't beholden to economic conditions as much as metal prices, so the next recession likely won't mean much to NEM's earnings.

Final Thoughts & Recommendation

Overall we see NEM as a strong miner but one that is already pricing in a lot of growth. We see only 2.8% total returns moving forward from this level, consisting of the current 1.5% yield, 5.4% EPS growth and 4.1% headwind from the lower valuation. NEM is certainly in a much better spot fundamentally than many of its competitors, but that has been recognized by investors and they have priced the stock accordingly. Those interested in owning NEM would do well to wait for a much lower entry price before taking a position since its growth outlook does not justify the current valuation and we believe it to be unsustainable.

Total Return Breakdown by Year