Newmont Mining Corp. (NEM)

Updated July 28th, 2018 by Josh Arnold

Key Metrics

Current Price:	$37	**5 Year CAGR Estimate:**	3.7%	**Volatility Percentile:**	91.2%
Fair Value Price:	$31	**5 Year Growth Estimate:**	5.4%	**Momentum Percentile:**	32.2%
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Valuation Percentile:**	32.2%
Dividend Yield:	1.5%	**5 Year Price Target**	$41	**Total Return Percentile:**	18.1%

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 $20 billion with $7.4 billion in annual revenue.

Newmont's Q2 report was released on 7/25/18 and results were in line with expectations. Revenue fell 12% and earnings-per-share fell 43% on an adjusted basis. Lower production was the primary cause of lower earnings, partially offset by slightly higher prices. However, Newmont's all-in-sustaining-costs are now over $1,000 per ounce of gold, so margins are slim. Guidance is for $965 to $1,025 per ounce for this year, with the first half coming in at $998. Newmont reiterated its growth in production is weighted towards the back half of this year, so investors will be keen to see progress in the Q3 report. Management is still guiding for 4.9 to 5.4 million ounces of gold production this year, with the first half seeing 2.4 million ounces. In addition, Newmont announced on 7/26/18 that it purchased a 50% interest in the Galore Creek Partnership from NovaGold Resources for $275 million. This should help boost proven reserves and production for copper and gold in the years to come. We are keeping estimates for this year steady at $1.50 per share.

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***

Newmont's earnings-per-share have been predictably volatile as mining companies generally have wild swings in profitability, particularly during periods of significant moves in the prices of the commodities they mine. Newmont certainly experienced some enormous earnings 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 do not see that sort of profitability anytime in the near future, although we do have Newmont 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. Newmont 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. Q2's production cost of $1,024/oz compares unfavorably to the past couple of years, as well as guidance. In short, Newmont is spending in 2018 to grow in 2019 and beyond and we see this as a significant positive for earnings growth potential.

The dividend has moved meaningfully higher, but Newmont'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 today 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	***24.6***	***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%***

Disclosure: This analyst has no position in the security discussed in this article, and no plans to initiate one in the next 72 hours.

The company’s price-to-earnings multiple has moved up tremendously in recent years and sits at 24.6 today. That compares unfavorably to its historical norm of 20.9 and as a result, we see the stock as overvalued here. That implies a 3.2% 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%***

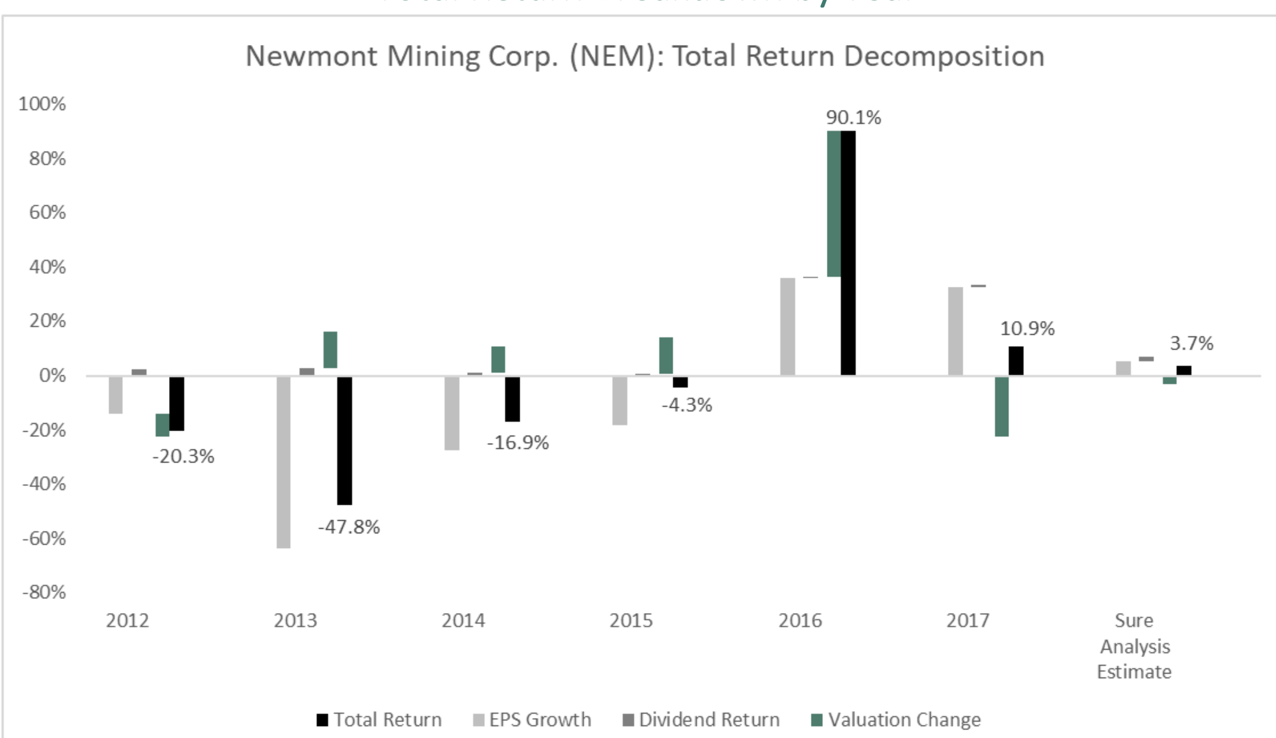
The company’s quality metrics are actually very strong in most cases as leverage is quite reasonable and its interest coverage is more than adequate. Newmont is very conservatively financed for a miner and that gives it the ability to spend opportunistically, as it is doing now. It also allows for the 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.

Newmont’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 Newmont 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 Newmont’s earnings.

Final Thoughts & Recommendation

Overall, we see Newmont as a strong miner but one that is already pricing in a lot of growth. We see only 3.7% total returns moving forward from this level, consisting of the current 1.5% yield, 5.4% EPS growth and 3.2% headwind from a lower valuation. Newmont 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 Newmont would do well to wait for a much lower entry price before taking a position. Newmont’s growth outlook does not justify the current valuation, and we believe it to be unsustainable. The company earns a sell recommendation at current prices.

Total Return Breakdown by Year



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