



Newmont Mining Corp. (NEM)

Updated October 27th, 2018 by Josh Arnold

Key Metrics

Current Price:	\$30	5 Year CAGR Estimate:	3.0%	Volatility Percentile:	90.7%
Fair Value Price:	\$24	5 Year Growth Estimate:	5.4%	Momentum Percentile:	20.1%
% Fair Value:	125%	5 Year Valuation Multiple Estimate:	-4.3%	Growth Percentile:	44.1%
Dividend Yield:	1.9%	5 Year Price Target	\$31	Valuation Percentile:	13.7%
Dividend Risk Score:	D	Retirement Suitability Score:	F	Total Return Percentile:	8.2%

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 \$16 billion with \$7.1 billion in annual revenue.

Newmont reported Q3 earnings on 10/25/18 and results were somewhat disappointing. Revenue fell 8% year-over-year as the company suffered from lower gold production, which fell 4%, and lower realized prices, which declined about 6%. All-in sustaining costs fell fractionally as a result of operational improvements, but it wasn't enough to offset what is currently a weak environment for the miners. Volume guidance was narrowed but not raised, while all-in sustaining costs are expected to rise again in Q4. Newmont reported earnings-per-share of -\$0.31 versus a profit of \$0.39 in the year-ago quarter and as a result of deteriorating fundamentals, we've reduced our 2018 estimate to \$1.15 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	\$1.15	\$1.50
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
Shares	455	491	493	495	497	498	499	530	530	533	533	537

Newmont's earnings-per-share have been volatile as mining companies generally have wild swings in profitability. 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 in the near future, although we forecast 5.4% earnings-per-share 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. Q3's production cost of \$927/oz is a step in the right direction, but there is more work to be done. 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. A slight increase in the share count will offset some of this and keep in mind that the price of gold and copper have enormous impacts on Newmont's ability to produce earnings growth.

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	26.0	20.9
Avg. Yld.	0.9%	0.9%	0.9%	1.7%	2.7%	3.8%	1.0%	0.5%	0.4%	0.7%	1.9%	2.1%

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The company's price-to-earnings multiple has moved up tremendously in recent years and sits at 26.0 today. That compares unfavorably to its historical norm of 20.9 and as a result, we see the stock as meaningfully overvalued. That implies a 4.3% headwind to total returns going forward. The yield should move up to ~2% as the payout grows.

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%	25.0%	26.5%
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%	49%	44%
Std. Dev.	60%	35%	22%	26%	32%	30%	28%	50%	51%	20%	28%	35%

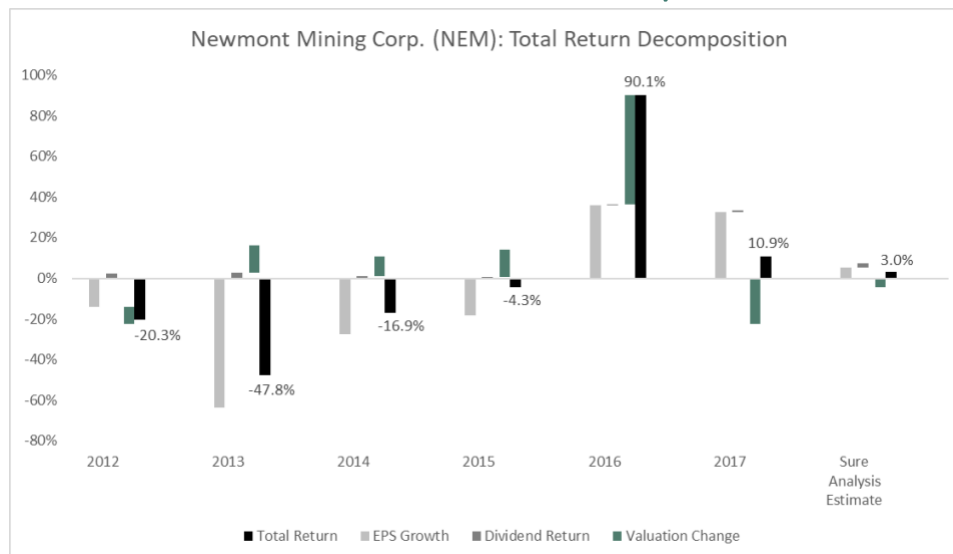
The company's quality metrics are actually very strong in most cases as leverage is quite reasonable and its interest coverage is more than adequate. Newmont is very conservatively financed for a miner and that gives it the ability to spend opportunistically, as it is doing now. It also allows for the dividend payment to remain safe as it is not spending its free cash on servicing debt. Margins should grow in the coming years, but we do not expect material movement in 2018. To that end, we've slightly reduced our margin estimates after the weak Q3 report.

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 are not 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 stock that is already pricing in a lot of growth. We forecast only 3.0% total returns moving forward, consisting of the current 1.9% yield, 5.4% earnings-per-share growth and 4.3% headwind from a lower valuation. Newmont is certainly in a 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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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	6124	7705	9540	10358	9964	8414	6819	6085	6711	7348
Gross Profit	3086	4697	5111	5432	4598	1753	1812	1405	1719	2061
Gross Margin	50.4%	61.0%	53.6%	52.4%	46.1%	20.8%	26.6%	23.1%	25.6%	28.0%
SG&A Exp.	144	159	178	198	212	203	237	241	233	224
D&A Exp.	738	806	945	1036	1032	1362	1088	1102	1220	1249
Operating Profit	1585	3052	4191	4190	3322	794	1059	566	1009	1322
Operating Margin	25.9%	39.6%	43.9%	40.5%	33.3%	9.4%	15.5%	9.3%	15.0%	18.0%
Net Profit	831	1297	2277	366	1802	-2534	508	220	-627	-98
Net Margin	13.6%	16.8%	23.9%	3.5%	18.1%	-30.1%	7.4%	3.6%	-9.3%	-1.3%
Free Cash Flow	-577	1178	1765	797	-838	-357	398	834	1659	1469
Income Tax	142	829	856	713	876	-755	204	391	563	1125

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	15839	22299	25663	26111	29650	24607	24916	25130	21031	20563
Cash & Equivalents	435	3215	4056	1760	1561	1555	2403	2363	2756	3259
Acc. Receivable	327	438	582	300	283	230	186	81	160	124
Inventories	519	896	1275	1510	1979	1396	1306	561	617	679
Goodwill & Int.	188	217	279	335	324	230	214			
Total Liabilities	8737	9686	9947	10340	12702	11698	11827	10838	9157	8933
Accounts Payable	412	396	427	561	657	478	406	315	320	375
Long-Term Debt	3542	4809	4441	4147	6294	6707	6637	5844	4605	4047
Total Equity	7102	10703	13345	12896	13773	9993	10274	11350	10721	10609
D/E Ratio	0.50	0.45	0.33	0.32	0.46	0.67	0.65	0.51	0.43	0.38

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	5.3%	6.8%	9.5%	1.4%	6.5%	-9.3%	2.1%	0.9%	-2.7%	-0.5%
Return on Equity	11.3%	14.6%	18.9%	2.8%	13.5%	-21.3%	5.0%	2.0%	-5.7%	-0.9%
ROIC	7.9%	9.2%	12.1%	1.8%	8.4%	-11.8%	2.6%	1.1%	-3.4%	-0.6%
Shares Out.	455	491	493	495	497	498	499	530	530	533
Revenue/Share	13.46	15.82	19.08	20.55	19.97	16.90	13.67	11.79	12.61	13.73
FCF/Share	-1.27	2.42	3.53	1.58	-1.68	-0.72	0.80	1.62	3.12	2.75

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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