



Newmont Mining Corp. (NEM)

Updated February 23rd, 2019 by Josh Arnold

Key Metrics

Current Price:	\$36	5 Year CAGR Estimate:	-0.6%	Volatility Percentile:	74.9%
Fair Value Price:	\$25	5 Year Growth Estimate:	5.0%	Momentum Percentile:	38.9%
% Fair Value:	145%	5 Year Valuation Multiple Estimate:	-7.1%	Growth Percentile:	34.2%
Dividend Yield:	1.5%	5 Year Price Target	\$32	Valuation Percentile:	6.1%
Dividend Risk Score:	F	Retirement Suitability Score:	F	Total Return Percentile:	3.6%

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 \$19 billion with \$7.5 billion in annual revenue.

Newmont reported Q4 earnings on 2/21/19 and results were essentially flat year-over-year. Adjusted earnings-per-share came in at \$0.40 in Q4, a fractional year-over-year increase. Fourth quarter revenue was up 6% year-over-year as several of the company's sites saw higher production volumes, but that was partially offset by lower average selling prices. Indeed, average gold selling price in Q4 was down 3% year-over-year while average copper selling price plummeted 18% against last year's Q4. The production cost of gold was down 9% in Q4 as lower capital spending and higher production volumes contributed positively. Copper production costs were flat year-over-year, but the much lower average selling price of the base metal caused margins to plunge in Q4.

Our initial estimate for earnings-per-share in 2019 is for \$1.20, which is off just over 10% from the company's 2018 actual earnings. Higher production volumes in 2019 should be more than offset by forecast higher production costs, so we think margins will move lower before they move higher.

However, Newmont's 2019 outlook has been clouded significantly in recent weeks thanks to the possible separate mergers of Newmont with Goldcorp and Barrick, respectively. On 1/14/19, Newmont announced a plan to acquire Goldcorp in a primarily stock-funded transaction. The ~\$10 billion deal would be expected to close in Q2 of this year, creating an enormous challenger in the metals mining space.

Subsequent to that, Barrick confirmed on 2/22/19 that it was a possible suitor for Newmont in what would be an all-stock transaction. The two companies tried to merge in 2014 but deal terms couldn't be agreed upon. To add another layer of complexity, Newcrest Mining was mentioned as a potential third partner in the Newmont/Barrick merger. This list of potential mergers certainly muddies the waters for investors in Newmont, so we'll keep a keen eye on developments as the year goes on.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$2.76	\$3.82	\$4.40	\$3.78	\$1.37	\$0.99	\$0.81	\$1.10	\$1.46	\$1.34	\$1.20	\$1.53
DPS	\$0.40	\$0.50	\$1.00	\$1.40	\$1.23	\$0.23	\$0.10	\$0.13	\$0.25	\$0.56	\$0.56	\$0.70
Shares	491	493	495	497	498	499	530	530	533	535	537	545

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% earnings-per-share growth going forward.

It will achieve this growth mostly through the development projects it has in the pipeline right now. As those projects come online, the additional volume should drive efficiencies, which will lower unit costs, as we saw in Q4. Newmont is spending heavily on several projects, but capex will fall significantly in subsequent years. This development should drive

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some revenue gains, but we see unit cost reductions from today's levels as a primary source of earnings growth. 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	15.7	14.7	13.4	13.5	23.8	23.6	25.9	29.9	24.3	26.9	30.4	21.0
Avg. Yld.	0.9%	0.9%	1.7%	2.7%	3.8%	1.0%	0.5%	0.4%	0.7%	1.6%	1.5%	2.2%

The company's price-to-earnings multiple has moved up tremendously in recent years and sits at 30.4 today. That compares very unfavorably to its historical norm of 21 and as a result, we see the stock as meaningfully overvalued. That implies a 7.1% headwind to total returns going forward. The yield should move up to ~2% as the payout grows.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	15%	13%	22%	37%	89%	23%	12%	11%	17%	42%	47%	46%

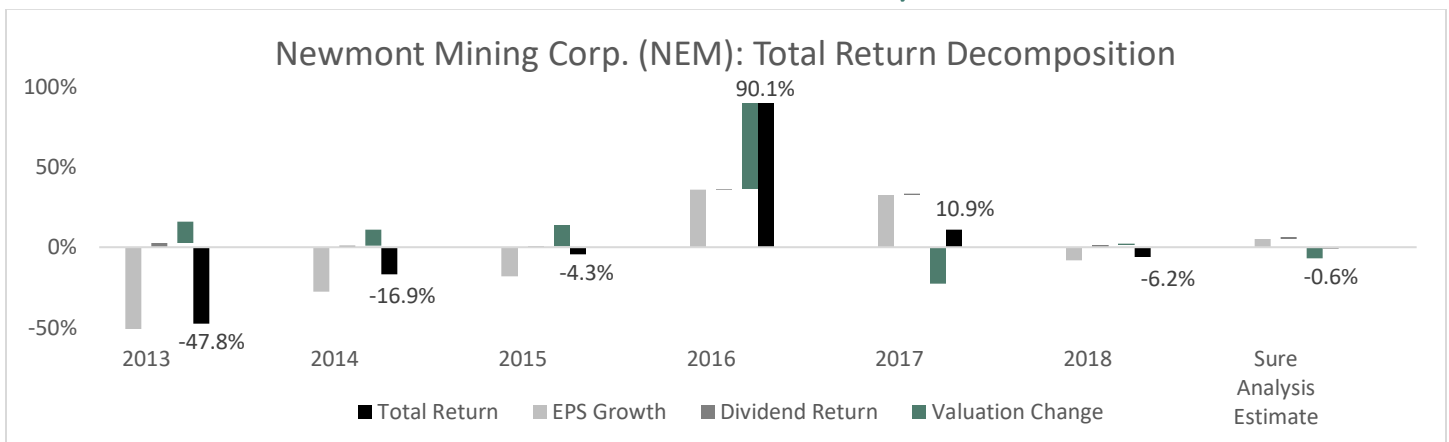
The dividend is about half of earnings, and we don't expect a lot of deviation from that in the coming years.

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 -0.6% total returns moving forward, consisting of the current 1.5% yield, 5% earnings-per-share growth and 7.1% 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 continues to earn a sell recommendation at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	7705	9540	10358	9964	8414	6819	6085	6680	7379	7253
Gross Profit	4697	5111	5432	4598	1753	1812	1405	1729	2056	1945
Gross Margin	61.0%	53.6%	52.4%	46.1%	20.8%	26.6%	23.1%	25.9%	27.9%	26.8%
SG&A Exp.	159	178	198	212	203	237	241	233	237	244
D&A Exp.	806	945	1036	1032	1362	1088	1102	1213	1261	1215
Operating Profit	3052	4191	4190	3322	794	1059	566	1029	1289	1179
Operating Margin	39.6%	43.9%	40.5%	33.3%	9.4%	15.5%	9.3%	15.4%	17.5%	16.3%
Net Profit	1297	2277	366	1802	-2534	508	220	-629	-114	341
Net Margin	16.8%	23.9%	3.5%	18.1%	-30.1%	7.4%	3.6%	-9.4%	-1.5%	4.7%
Free Cash Flow	1178	1765	797	-838	-357	398	834	1653	1258	795
Income Tax	829	856	713	876	-755	204	391	579	1127	386

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	22299	25663	26111	29650	24607	24916	25130	21031	20646	20715
Cash & Equivalents	3215	4056	1760	1561	1555	2403	2363	2756	3259	3397
Acc. Receivable	438	582	300	283	230	186	81	160	124	254
Inventories	896	1275	1510	1979	1396	1306	561	617	679	630
Goodwill & Int.	217	279	335	324	230	214	N/A	N/A	N/A	N/A
Total Liabilities	9686	9947	10340	12702	11698	11827	10838	9157	9127	9250
Accounts Payable	396	427	561	657	478	406	315	320	375	303
Long-Term Debt	4809	4441	4147	6294	6707	6637	5844	4605	4040	4044
Total Equity	10703	13345	12896	13773	9993	10274	11350	10721	10535	10502
D/E Ratio	0.45	0.33	0.32	0.46	0.67	0.65	0.51	0.43	0.38	0.39

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.8%	9.5%	1.4%	6.5%	-9.3%	2.1%	0.9%	-2.7%	-0.5%	1.6%
Return on Equity	14.6%	18.9%	2.8%	13.5%	-21.3%	5.0%	2.0%	-5.7%	-1.1%	3.2%
ROIC	9.2%	12.1%	1.8%	8.4%	-11.8%	2.6%	1.1%	-3.4%	-0.7%	2.2%
Shares Out.	491	493	495	497	498	499	530	530	533	535
Revenue/Share	15.82	19.08	20.55	19.97	16.90	13.67	11.79	12.56	13.79	13.56
FCF/Share	2.42	3.53	1.58	-1.68	-0.72	0.80	1.62	3.11	2.35	1.49

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

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