



Newmont Goldcorp Corp. (NEM)

Updated May 15th, 2019 by Josh Arnold

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|---------------------------------|-------|
| Current Price: | \$31 | 5 Year CAGR Estimate: | 4.4% | Volatility Percentile: | 64.9% |
| Fair Value Price: | \$27 | 5 Year Growth Estimate: | 5.0% | Momentum Percentile: | 15.4% |
| % Fair Value: | 113% | 5 Year Valuation Multiple Estimate: | -2.4% | Growth Percentile: | 35.5% |
| Dividend Yield: | 1.8% | 5 Year Price Target | \$35 | Valuation Percentile: | 30.5% |
| Dividend Risk Score: | D | Retirement Suitability Score: | F | Total Return Percentile: | 18.4% |

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 \$25 billion with nearly \$10 billion in annual revenue. Newmont completed its merger with Goldcorp in April of 2019, creating the world's largest gold producer by market value, output, and reserves. The company, as a result of the merger, changed its name and is now known as Newmont Goldcorp Corporation, although it retained the ticker NEM.

Newmont reported Q1 earnings on 4/25/19 and results were largely in line with expectations in Newmont's final quarter prior to the merger with Goldcorp. The company reported a slight revenue decline year-over-year as higher gold production and lower costs were offset by weak gold prices, which all producers have been dealing with in recent quarters.

The company said gold production rose 2% to 1.23 million ounces and all-in sustaining costs fell 4% to \$907 per ounce, down significantly from \$943 per ounce, which were both in line with the company's full-year guidance. However, average realized gold price fell by \$26 to \$1,300 per ounce.

Adjusted net income per share came in at \$0.33 against \$0.35 in the prior year as lower price realization took its toll on earnings.

The company expects gold production to come in at 5.2 million ounces, driven mostly by higher grade production from the new Subika Underground project in Africa. Newmont also says the Ahafo mill expansion in Ghana and the Quecher Main project in Peru will achieve commercial production before the end of the year.

After Q1 results, we've slightly boosted our earnings-per-share estimate for this year from \$1.20 to \$1.30.

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 | \$1.30 | \$1.66 |
| 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 | 820 | 825 |

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 again in Q1. Newmont is spending heavily 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. 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.

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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 | 23.7 | 21.0 |
| Avg. Yld. | 0.9% | 0.9% | 1.7% | 2.7% | 3.8% | 1.0% | 0.5% | 0.4% | 0.7% | 1.6% | 1.8% | 2.0% |

The company's price-to-earnings multiple has moved up tremendously in recent years and sits at 23.7 today. That compares very unfavorably to its historical norm of 21 and as a result, we see the stock as somewhat overvalued. That implies a 2.4% 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% | 43% | 42% |

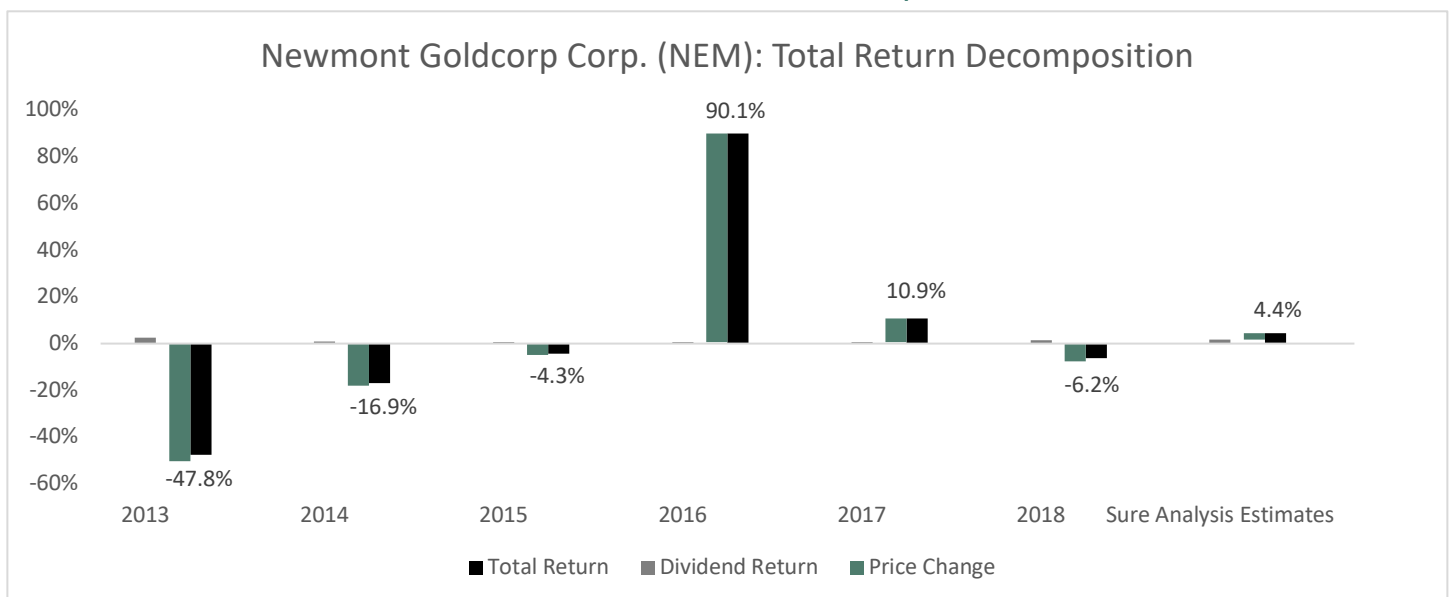
The dividend is just under half of earnings, and we don't expect a lot of deviation from that in the coming years.

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 4.4% total returns moving forward, consisting of the current 1.8% yield, 5% earnings-per-share growth and 2.4% 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. The much lower price of the stock in recent weeks has improved the valuation and as a result, we're upgrading Newmont from a sell to a hold.

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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