



Newmont Goldcorp Corp. (NEM)

Updated August 24th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$39	5 Year CAGR Estimate:	-0.5%	Volatility Percentile:	70.3%
Fair Value Price:	\$27	5 Year Growth Estimate:	5.0%	Momentum Percentile:	92.2%
% Fair Value:	143%	5 Year Valuation Multiple Estimate:	-6.9%	Growth Percentile:	38.5%
Dividend Yield:	1.4%	5 Year Price Target	\$35	Valuation Percentile:	9.5%
Dividend Risk Score:	D	Retirement Suitability Score:	F	Total Return Percentile:	4.3%

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 is trading with a market capitalization of \$32 billion, while generating roughly \$10 billion in annual revenues. 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 its second quarter earnings results on July 25. Revenues during the second quarter totaled \$2.26 billion, which represents growth of 36% compared to the previous year's quarter. The acquisition of Goldcorp had a large impact on the company's reported revenues. The analyst community had forecasted an even larger revenue increase, as Newmont Goldcorp missed the consensus estimate by \$30 million. The company said gold production rose to 1.59 million ounces and all-in sustaining costs were \$1,016 per ounce. This is a higher cost per ounce compared to the cost per ounce during the first quarter, the takeover of Goldcorp once again impacted comparisons for both gold production as well as for cost per ounce.

Earnings-per-share came in at \$0.12 during the second quarter, which was well below the average analyst estimate, as the analyst community had forecasted adjusted earnings-per-share of \$0.23, which is almost twice the actual result. Both management, as well as the analyst community, believe that results will improve during the second half of 2019, due to factors such as synergies that can be captured following the Goldcorp acquisition, production growth, declining all-in sustaining costs, and tailwinds from a rising gold price. Trade worries and geopolitical tensions have resulted in gold prices rising to more than \$1,500 per ounce, which will help Newmont immensely during the foreseeable future.

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
Shares¹	491	493	495	497	498	499	530	530	533	535	820	825

Newmont's earnings-per-share have been volatile, which is not surprising, as mining companies generally have wild swings in profitability due to their exposure to commodity prices. Newmont certainly experienced some enormous earnings growth from 2008 to 2011 when metal prices were booming, but it has failed to get anywhere close to its peak earnings of \$4.40 per share during the last couple of years. We do not see that sort of profitability in the near future, although we forecast 5% earnings-per-share growth going forward.

Newmont could achieve this growth through the development projects it has in the pipeline right now. As those projects come online, the additional volume should drive efficiencies, which will result in declining unit costs. Newmont is spending heavily on several projects. Due to the acquisition of Goldcorp, Newmont's share count has risen substantially, but in the long run this should be more than offset by the additional revenue contribution and cost synergies.

¹ In Millions

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



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The price of gold has an enormous impact on Newmont's profitability, and during recent weeks the price trend of gold has been very favorable. It remains to be seen whether gold prices will remain at this elevated level, though. Newmont's dividend history is spotty, as the company tends to move the payout up and down based upon actual earnings.

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	30.0	21.0
Avg. Yld.	0.9%	0.9%	1.7%	2.7%	3.8%	1.0%	0.5%	0.4%	0.7%	1.6%	1.4%	2.0%

The company's price-to-earnings multiple has moved up tremendously in recent years and sits at 30 today, based on the current analyst consensus estimate for this year's net profits. That compares very unfavorably to its historical average earnings multiple of 21. As a result, we believe that the stock is overvalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	14.5%	13.1%	22.7%	37.0%	89.8%	23.2%	12.3%	11.8%	17.1%	41.8%	43.1%	42.2%

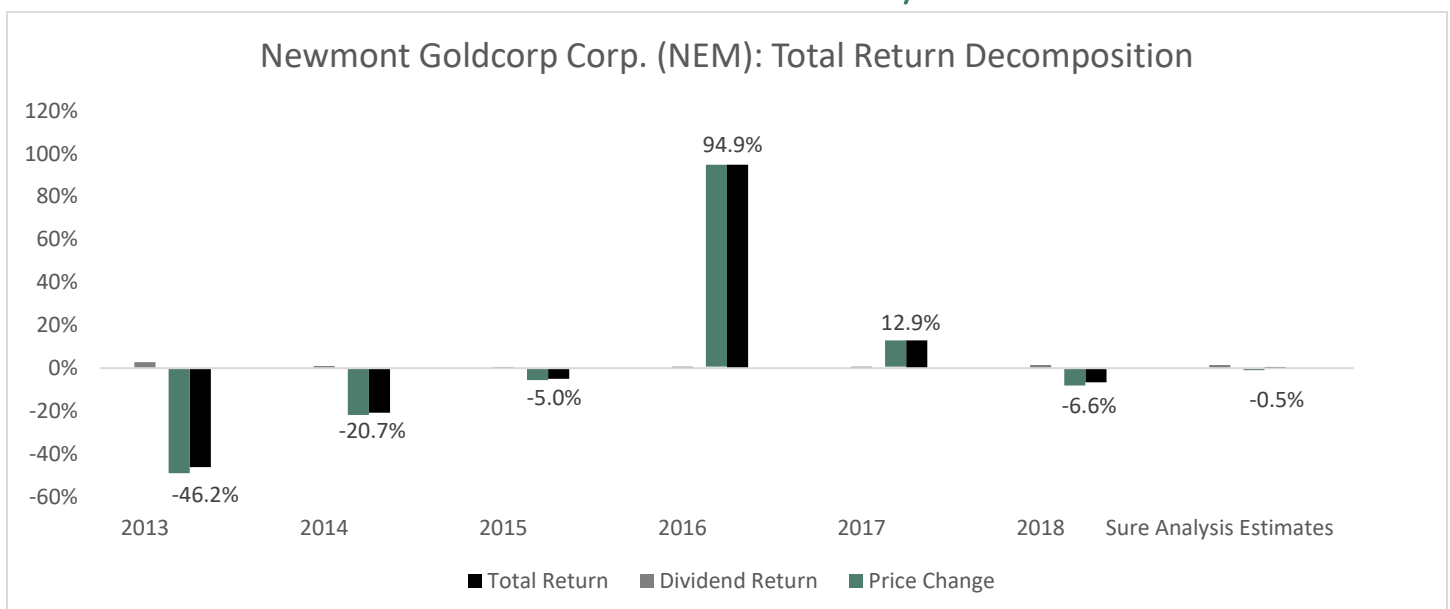
Newmont's dividend payout ratio has moved in a very wide range, dependent on what profits looked like during each individual year. In 2019, Newmont will pay out a little less than half its earnings in the form of dividends.

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

Final Thoughts & Recommendation

Newmont is a leader in the gold mining industry, which provides significant scale advantages. Newmont is in a better spot fundamentally compared to most of its competitors, but the stock's high valuation accounts for that already. Gold prices have risen meaningfully in the very recent past, which could be a major tailwind for Newmont's future profits. For now, we believe that shares are substantially overvalued, which is why we rate the stock a sell.

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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