



# Newmont Goldcorp Corp. (NEM)

Updated November 22<sup>nd</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$38	<b>5 Year CAGR Estimate:</b>	0.4%	<b>Volatility Percentile:</b>	57.4%
<b>Fair Value Price:</b>	\$28	<b>5 Year Growth Estimate:</b>	5.0%	<b>Momentum Percentile:</b>	65.6%
<b>% Fair Value:</b>	136%	<b>5 Year Valuation Multiple Estimate:</b>	-6.0%	<b>Growth Percentile:</b>	40.3%
<b>Dividend Yield:</b>	1.5%	<b>5 Year Price Target</b>	\$36	<b>Valuation Percentile:</b>	21.5%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Total Return Percentile:</b>	11.0%

## 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 \$31 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 third quarter earnings results on November 5. Revenues during the third quarter totaled \$2.71 billion, which represents growth of 57% 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 \$120 million. The company said gold production rose to 1.64 million ounces, which was up 28% year over year, while all-in sustaining costs were \$987 per ounce. This is a higher cost per ounce compared to the cost per ounce during the previous year's quarter, but all-in costs declined versus the second quarter of the current year, due to the capturing of some synergies following the merger with Goldcorp.

Earnings-per-share came in at \$0.36 during the third quarter, which was slightly below the average analyst estimate, as the analyst community had forecasted adjusted earnings-per-share of \$0.39. This was an improvement versus the previous quarter, which had been expected, due to factors such as synergies that could be captured following the Goldcorp merger, production growth, declining all-in sustaining costs, and tailwinds from a rising gold price.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$2.76	\$3.82	\$4.40	\$3.78	\$1.37	\$0.99	\$0.81	\$1.10	\$1.46	\$1.34	<b>\$1.33</b>	<b>\$1.70</b>
<b>DPS</b>	\$0.40	\$0.50	\$1.00	\$1.40	\$1.23	\$0.23	\$0.10	\$0.13	\$0.25	\$0.56	<b>\$0.56</b>	<b>\$0.68</b>
<b>Shares<sup>1</sup></b>	491	493	495	497	498	499	530	530	533	535	<b>820</b>	<b>825</b>

Newmont's earnings-per-share have been highly volatile in the past, which is not surprising, as mining companies generally have wild swings in profitability due to their exposure to commodity prices. Newmont 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 believe that the long-term growth outlook is positive.

Newmont could achieve earnings growth through the development projects it has in the pipeline right now, in combination with other factors that will improve its profitability. 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 that the combined company plans to capture. The price of gold has an enormous impact on Newmont's profitability, and during 2019 the price trend of gold has been

<sup>1</sup> In Millions

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quite 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	28.6	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%	1.9%

Newmont Goldcorp's price-to-earnings multiple has moved up tremendously in recent years and sits at close to 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 in the low 20s. As a result, we believe that the stock is substantially overvalued at current prices, which will pressure total returns going forward. The dividend is not at an attractive level right now.

## 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%	42.1%	40.1%

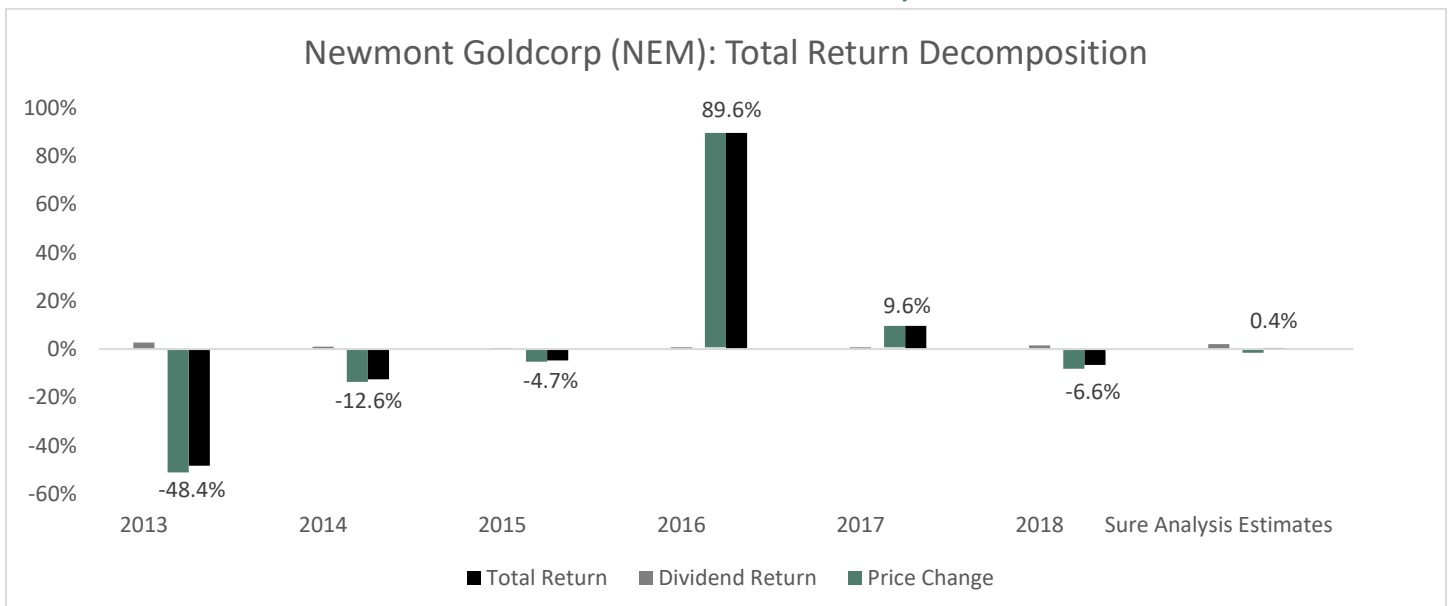
Newmont Goldcorp's dividend payout ratio has moved in a very wide range, dependent on what profits looked like during each individual year. In 2019, Newmont will pay out a little less than half its earnings in the form of dividends.

Newmont's biggest advantage is its enormous scale. On top of that, the company is financially flexible. 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 Goldcorp 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 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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