



Newmont Goldcorp Corp. (NEM)

Updated August 7th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$69	5 Year CAGR Estimate:	0.3%	Market Cap:	\$56B
Fair Value Price:	\$50	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	09/09/20
% Fair Value:	137%	5 Year Valuation Multiple Estimate:	-6.1%	Dividend Payment Date:	09/24/20
Dividend Yield:	1.4%	5 Year Price Target	\$64	Years Of Dividend Growth:	5
Dividend Risk Score:	C	Retirement Suitability Score:	F	Last Dividend Increase:	2.5%

Overview & Current Events

Newmont Goldcorp 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. The company is among the biggest publicly traded gold miners, generating more than \$11 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 30. Revenues during the quarter totaled \$2.37 billion, which represents growth of 5% compared to the previous year's quarter. The analyst community had forecasted an even larger revenue increase, so Newmont Goldcorp missed the consensus estimate by \$130 million. The company's gold production declined by 21% year over year, to 1.26M ounces, while higher average selling prices explain why total revenues continued to rise despite the drop in production volumes. The decline in production and sales volumes can be attributed to the forced temporary closures of some mines due to the current pandemic. Newmont's all-in sustaining costs were \$1,100 per ounce, but average sales prices rose to a very attractive level of \$1,720 per ounce.

Earnings-per-share came in at \$0.32 during the second quarter, which was slightly ahead of the analyst consensus estimate, thanks to higher-than-expected margins. Despite the high prices for gold during the quarter, Newmont was not able to grow its profits on a quarter-to-quarter basis, but it is expected that profits during the remainder of the year will be quite attractive, rising to well above \$2 this year on the back of gold's bull run.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.82	\$4.40	\$3.78	\$1.37	\$0.99	\$0.81	\$1.10	\$1.46	\$1.34	\$1.32	\$2.40	\$3.06
DPS	\$0.50	\$1.00	\$1.40	\$1.23	\$0.23	\$0.10	\$0.13	\$0.25	\$0.54	\$0.56	\$1.00	\$1.22
Shares¹	493	495	497	498	499	530	530	533	535	818	820	830

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. As those projects come online, the additional production volumes 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 the year-to-date portion of 2020 the price trend of gold has been very favorable.

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.7	13.4	13.5	23.8	23.6	25.9	29.9	24.3	26.9	33.0	28.8	21.0
Avg. Yld.	0.9%	1.7%	2.7%	3.8%	1.0%	0.5%	0.4%	0.7%	1.6%	1.3%	1.4%	1.9%

Newmont Goldcorp's price-to-earnings multiple moved up tremendously between 2010 and 2019, rising to more than 30 at the end of last year. Its share price rose to an even higher level in 2020 so far, but the expected growth in its net profits has still made its valuation decline slightly, to the high 20s. Newmont has historically traded at an earnings multiple in the low-20s. We believe that the stock is substantially overvalued at current prices, despite the fact that this year's profits will be quite strong compared to those that Newmont generated in the recent past.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	13.1%	22.7%	37.0%	89.8%	23.2%	12.3%	11.8%	17.1%	41.8%	42.4%	41.7%	39.7%

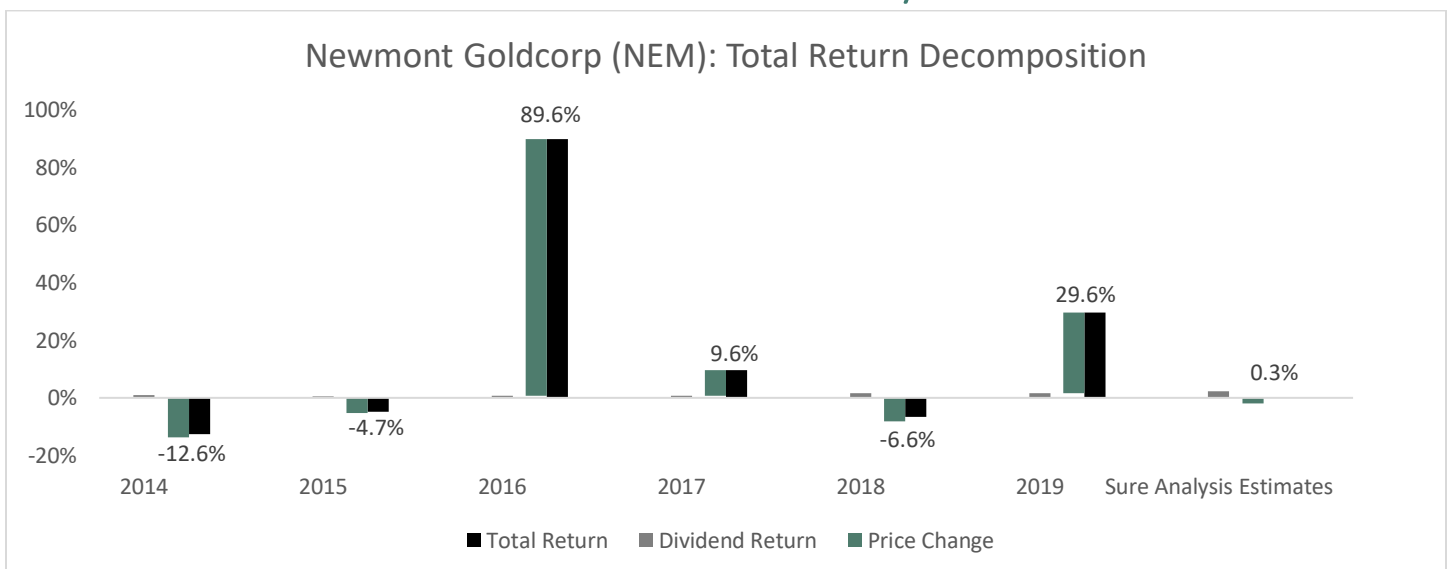
Newmont Goldcorp's dividend payout ratio has moved in a very wide range, dependent on what profits looked like during each individual year. In 2020, Newmont will pay out a little less than half its earnings in the form of dividends.

Newmont's biggest advantage is its enormous scale, as it is one of the largest gold producers on the globe, which allows for cost advantages over smaller peers. 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, although results can still be quite cyclical during times when the price of gold declines due to any reason.

Final Thoughts & Recommendation

Newmont Goldcorp is a leader in the gold mining industry, and its position provides significant scale advantages. Newmont is in a better spot fundamentally compared to most of its competitors, but the stock's very high valuation accounts for that already. Gold prices have risen quite a lot this year, but the current valuation easily accounts for that. We believe that, due to a high valuation, Newmont is a sell at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	9,540	10,358	9,964	8,414	6,819	6,085	6,680	7,379	7,253	9,740
Gross Profit	5,111	5,432	4,598	1,753	1,812	1,405	1,729	2,056	1,945	2,585
Gross Margin	53.6%	52.4%	46.1%	20.8%	26.6%	23.1%	25.9%	27.9%	26.8%	26.5%
SG&A Exp.	178	198	212	203	237	241	233	237	244	313
D&A Exp.	945	1,036	1,032	1,362	1,088	1,102	1,213	1,261	1,215	1,960
Operating Profit	4,191	4,190	3,322	794	1,059	566	1,029	1,287	1,179	1,541
Operating Margin	43.9%	40.5%	33.3%	9.4%	15.5%	9.3%	15.4%	17.4%	16.3%	15.8%
Net Profit	2,277	366	1,802	(2,534)	508	220	(629)	(114)	341	2,805
Net Margin	23.9%	3.5%	18.1%	-30.1%	7.4%	3.6%	-9.4%	-1.5%	4.7%	28.8%
Free Cash Flow	1,765	797	(838)	(357)	398	834	1,653	1,258	795	1,403
Income Tax	856	713	876	(755)	204	391	579	1,127	386	832

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	4,056	1,760	1,561	1,555	2,403	2,363	2,756	3,259	3,397	2,243
Cash & Equivalents	582	300	283	230	186	81	160	124	254	373
Acc. Receivable	1,275	1,510	1,979	1,396	1,306	561	617	679	630	1,014
Inventories	279	335	324	230	214				58	2,674
Goodwill & Int.	9,947	10,340	12,702	11,698	11,827	10,838	9,157	9,127	9,250	17,604
Total Liabilities	427	561	657	478	406	315	320	375	303	539
Accounts Payable	4,441	4,147	6,294	6,707	6,637	5,844	4,605	4,040	4,044	6,138
Long-Term Debt	13,345	12,896	13,773	9,993	10,274	11,350	10,721	10,535	10,502	21,420
Total Equity	0.33	0.32	0.46	0.67	0.65	0.51	0.43	0.38	0.39	0.29
D/E Ratio	4,056	1,760	1,561	1,555	2,403	2,363	2,756	3,259	3,397	2,243

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	9.5%	1.4%	6.5%	-9.3%	2.1%	0.9%	-2.7%	-0.5%	1.6%	9.2%
Return on Equity	18.9%	2.8%	13.5%	-21.3%	5.0%	2.0%	-5.7%	-1.1%	3.2%	17.6%
ROIC	12.1%	1.8%	8.4%	-11.8%	2.6%	1.1%	-3.4%	-0.7%	2.2%	12.7%
Shares Out.	493	495	497	498	499	530	530	533	535	818
Revenue/Share	19.08	20.55	19.97	16.90	13.67	11.79	12.56	13.79	13.56	13.22
FCF/Share	3.53	1.58	(1.68)	(0.72)	0.80	1.62	3.11	2.35	1.49	1.90

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

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