



# Newmont Goldcorp Corp. (NEM)

Updated May 25<sup>th</sup>, 2022 by Jonathan Weber

## Key Metrics

|                             |      |  |       |                                  |          |
|-----------------------------|------|--|-------|----------------------------------|----------|
| <b>Current Price:</b>       | \$67 | <b>5 Year CAGR Estimate:</b>               | 3.6%  | <b>Market Cap:</b>               | \$53B    |
| <b>Fair Value Price:</b>    | \$59 | <b>5 Year Growth Estimate:</b>             | 3.0%  | <b>Ex-Dividend Date:</b>         | 06/09/22 |
| <b>% Fair Value:</b>        | 113% | <b>5 Year Valuation Multiple Estimate:</b> | -2.4% | <b>Dividend Payment Date:</b>    | 06/24/22 |
| <b>Dividend Yield:</b>      | 3.3% | <b>5 Year Price Target</b>                 | \$69  | <b>Years Of Dividend Growth:</b> | 6        |
| <b>Dividend Risk Score:</b> | F    | <b>Retirement Suitability Score:</b>       | D     | <b>Rating:</b>                   | Sell     |

## 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. 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, following the merger, changed its name and is now known as Newmont Goldcorp Corporation, although it retained the ticker NEM.

Newmont reported its first quarter earnings results on April 29. Revenues during the quarter totaled \$3.0 billion, which represents an increase of 5% compared to the previous year's quarter. The analyst community had forecasted higher revenues, Newmont Goldcorp missed the consensus estimate by \$40 million. The company's gold production totaled 1.69M ounces (including co-products), which was up by around 5% on a sequential basis. Newmont's all-in sustaining costs were \$1,160 per ounce, which was higher than during the previous quarter, which had a negative impact on Newmont's profitability during the quarter, which is why EBITDA declined by 5% despite positive revenue growth. Higher costs were attributed to higher raw material and energy expenses.

Earnings-per-share came in at \$0.69 during the first quarter, which missed the analyst consensus estimate, as margins were weaker than expected. Gold prices have pulled back since our last update, and so did Newmont's shares, which generally move into the same direction as the price for the commodity the company produces. Profits should still be healthy this year, as analysts are currently forecasting earnings-per-share of around \$3.30.

## Growth on a Per-Share Basis

| Year                      | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022          | 2027          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$3.78 | \$1.37 | \$0.99 | \$0.81 | \$1.10 | \$1.46 | \$1.34 | \$1.32 | \$2.64 | \$2.96 | <b>\$3.30</b> | <b>\$3.83</b> |
| <b>DPS</b>                | \$1.40 | \$1.23 | \$0.23 | \$0.10 | \$0.13 | \$0.25 | \$0.54 | \$0.56 | \$1.04 | \$2.20 | <b>\$2.20</b> | <b>\$2.20</b> |
| <b>Shares<sup>1</sup></b> | 497    | 498    | 499    | 530    | 530    | 533    | 535    | 818    | 802    | 797    | <b>790</b>    | <b>750</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. However, based on current forecasts, Newmont could get close to that level of profitability during 2021, thanks to strong tailwinds from a high gold price.

Newmont should 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 company plans to capture. The price of gold has an enormous impact on Newmont's profitability. In 2020, the price trend of gold has allowed for a doubling of earnings-per-share versus 2019, and earnings-per-share rose further in 2021. For 2022, even higher profits are expected on the back of another up-move in gold prices.

<sup>1</sup> In Millions

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## Valuation Analysis

| Year      | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now         | 2027        |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E  | 13.5 | 23.8 | 23.6 | 25.9 | 29.9 | 24.3 | 26.9 | 33.0 | 22.7 | 20.9 | <b>20.3</b> | <b>18.0</b> |
| Avg. Yld. | 2.7% | 3.8% | 1.0% | 0.5% | 0.4% | 0.7% | 1.6% | 1.3% | 1.7% | 3.5% | <b>3.3%</b> | <b>3.2%</b> |

Newmont Goldcorp's price-to-earnings multiple moved up quite a lot between 2010 and 2019, rising to more than 30 during 2019. Its share price rose to an even higher level in 2020 and 2021, but the strong growth in its net profits has still made its valuation decline compared to the previous years. Newmont has historically traded at an earnings multiple in the low-20s. We believe that the stock will likely not trade at 20+ times net profits in the long run, which is why we see downside potential towards a high-teens earnings multiple over the coming years.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022         | 2027         |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| Payout | 37.0% | 89.8% | 23.2% | 12.3% | 11.8% | 17.1% | 41.8% | 42.4% | 39.4% | 74.3% | <b>66.7%</b> | <b>57.5%</b> |

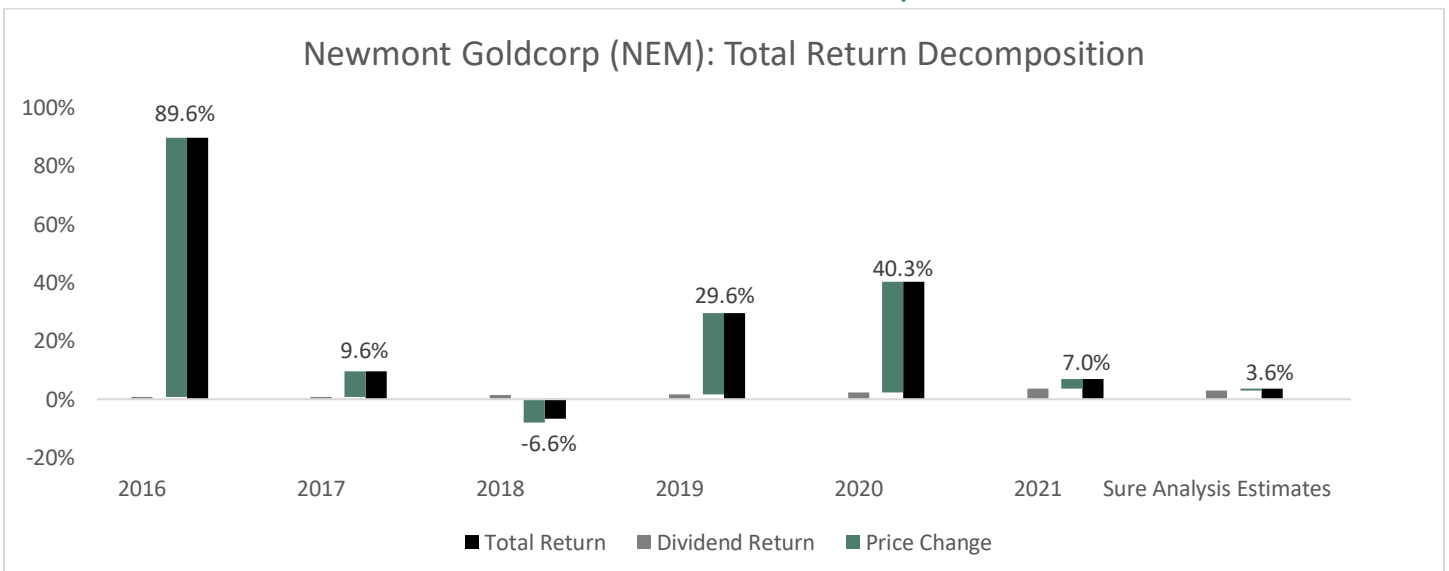
Newmont Goldcorp's dividend payout ratio has moved in a very wide range, dependent on what profits looked like during each individual year. In 2021, Newmont has paid out roughly three-quarters of its profits in the form of dividends.

Newmont's biggest advantage is its enormous scale, as it is one of the largest gold producers in the world, 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 has solid fundamentals, and the strong balance sheet and high cash flows allow for meaningful shareholder returns. However, Newmont is trading above fair value, we believe. We believe that returns over the coming years will not be overly attractive, which is why we rate Newmont a sell today.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2012  | 2013    | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020   | 2021   |
|------------------|-------|---------|-------|-------|-------|-------|-------|-------|--------|--------|
| Revenue          | 9,964 | 8,414   | 6,819 | 6,085 | 6,680 | 7,379 | 7,253 | 9,740 | 11,497 | 12,222 |
| Gross Profit     | 4,598 | 1,753   | 1,812 | 1,405 | 1,729 | 2,056 | 1,945 | 2,585 | 4,183  | 4,464  |
| Gross Margin     | 46.1% | 20.8%   | 26.6% | 23.1% | 25.9% | 27.9% | 26.8% | 26.5% | 36.4%  | 36.5%  |
| SG&A Exp.        | 212   | 203     | 237   | 241   | 233   | 237   | 244   | 313   | 269    | 259    |
| D&A Exp.         | 1,032 | 1,362   | 1,088 | 1,102 | 1,213 | 1,261 | 1,215 | 1,960 | 2,300  | 2,323  |
| Operating Profit | 3,350 | 838     | 1,098 | 602   | 1,045 | 1,305 | 1,188 | 1,577 | 3,061  | 1,988  |
| Operating Margin | 33.6% | 10.0%   | 16.1% | 9.9%  | 15.6% | 17.7% | 16.4% | 16.2% | 26.6%  | 16.3%  |
| Net Profit       | 1,802 | (2,534) | 508   | 220   | (629) | (114) | 341   | 2,805 | 2,829  | 1,166  |
| Net Margin       | 18.1% | -30.1%  | 7.4%  | 3.6%  | -9.4% | -1.5% | 4.7%  | 28.8% | 24.6%  | 9.5%   |
| Free Cash Flow   | (838) | (357)   | 398   | 834   | 1,653 | 1,258 | 795   | 1,403 | 3,580  | 2,626  |
| Income Tax       | 876   | (755)   | 204   | 391   | 579   | 1,127 | 386   | 832   | 704    | 1,098  |

## Balance Sheet Metrics

| Year               | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets       | 29,650 | 24,607 | 24,916 | 25,130 | 21,031 | 20,646 | 20,715 | 39,974 | 41,369 | 40,564 |
| Cash & Equivalents | 1,561  | 1,555  | 2,403  | 2,363  | 2,756  | 3,259  | 3,397  | 2,243  | 5,540  | 4,992  |
| Acc. Receivable    | 283    | 230    | 186    | 81     | 160    | 124    | 254    | 373    | 449    | 337    |
| Inventories        | 2,765  | 2,201  | 1,972  | 1,343  | 1,380  | 1,355  | 1,327  | 1,826  | 1,790  | 1,787  |
| Goodwill & Int.    | 324    | 230    | 214    |        |        |        | 58     | 2,674  | 2,771  | 2,771  |
| Total Liabilities  | 12,702 | 11,698 | 11,827 | 10,838 | 9,157  | 9,127  | 9,250  | 17,604 | 17,524 | 18,751 |
| Accounts Payable   | 657    | 478    | 406    | 315    | 320    | 375    | 303    | 539    | 493    | 518    |
| Long-Term Debt     | 6,294  | 6,707  | 6,637  | 5,844  | 4,605  | 4,040  | 4,044  | 6,138  | 6,031  | 5,652  |
| Total Equity       | 13,773 | 9,993  | 10,274 | 11,350 | 10,721 | 10,535 | 10,502 | 21,420 | 23,008 | 22,022 |
| LTD/E Ratio        | 0.46   | 0.67   | 0.65   | 0.51   | 0.43   | 0.38   | 0.39   | 0.29   | 0.26   | 0.26   |

## Profitability & Per Share Metrics

| Year             | 2012   | 2013   | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  |
|------------------|--------|--------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 6.5%   | -9.3%  | 2.1%  | 0.9%  | -2.7% | -0.5% | 1.6%  | 9.2%  | 7.0%  | 2.8%  |
| Return on Equity | 13.5%  | -21.3% | 5.0%  | 2.0%  | -5.7% | -1.1% | 3.2%  | 17.6% | 12.7% | 5.2%  |
| ROIC             | 8.4%   | -11.8% | 2.6%  | 1.1%  | -3.4% | -0.7% | 2.2%  | 12.7% | 9.7%  | 4.1%  |
| Shares Out.      | 497    | 498    | 499   | 530   | 530   | 533   | 535   | 818   | 802   | 797   |
| Revenue/Share    | 19.97  | 16.90  | 13.67 | 11.79 | 12.56 | 13.79 | 13.56 | 13.22 | 14.26 | 15.26 |
| FCF/Share        | (1.68) | (0.72) | 0.80  | 1.62  | 3.11  | 2.35  | 1.49  | 1.90  | 4.44  | 3.28  |

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

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