

Newmont Corporation(NEM)

\$68.15 (As of 08/03/20)

Price Target (6-12 Months): **\$73.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/31/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: C

Summary

Newmont's profits increased year over year in second-quarter 2020. However, adjusted earnings and sales missed the respective Zacks Consensus Estimate. Newmont is making notable progress with its growth projects. It is likely to gain from a number of projects including the Tanami expansion, Subika Underground and Ahafo mill expansion. Moreover, the merger with Goldcorp is expected to be value-accretive to its cash flow and generate significant synergies. Higher gold prices are also expected to continue boosting earnings amid market volatility and economic uncertainties. The company's efforts to lower debt level is also encouraging. However, Newmont faces headwinds from higher expected cost of production. The company also faces challenges in the copper market. Lower demand and stretched valuation are other concerns.

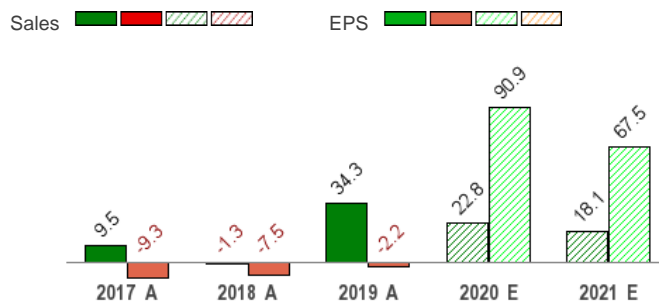
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$70.30 - \$33.00
20 Day Average Volume (sh)	7,490,420
Market Cap	\$55.5 B
YTD Price Change	59.3%
Beta	0.34
Dividend / Div Yld	\$1.00 / 1.4%
Industry	Mining - Miscellaneous
Zacks Industry Rank	Top 22% (55 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.9%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	5.7%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	43.8
P/E F1	27.0
PEG F1	NA
P/S TTM	5.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,407 E	3,530 E	3,644 E	3,644 E	14,129 E
2020	2,581 A	2,365 A	3,644 E	3,743 E	11,964 E
2019	1,803 A	2,257 A	2,713 A	2,967 A	9,740 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.94 E	\$0.96 E	\$0.98 E	\$0.96 E	\$4.22 E
2020	\$0.40 A	\$0.32 A	\$0.89 E	\$1.03 E	\$2.52 E
2019	\$0.33 A	\$0.12 A	\$0.36 A	\$0.50 A	\$1.32 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/03/2020. The reports text is as of 08/04/2020.

Overview

Colorado-based Newmont Corporation is one of the world's largest producers of gold with several active mines in Nevada, Peru, Australia and Ghana. As of Dec 31, 2019, Newmont had gold reserves of 100.2 million ounces. Its attributable gold production for 2019 was 6.3 million ounces, up 23% year over year.

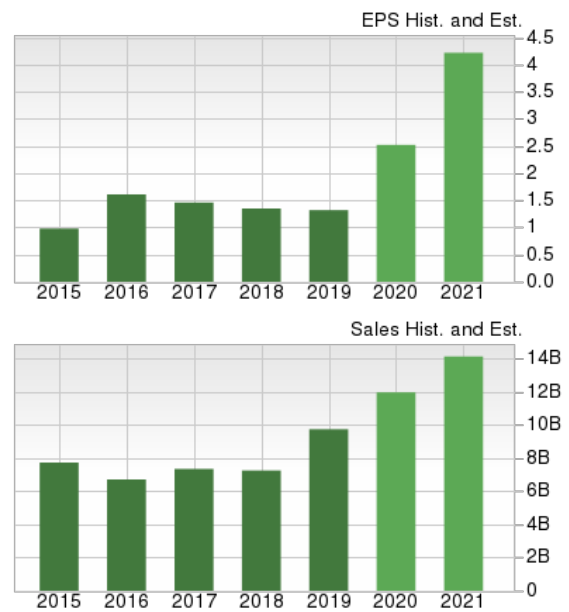
Newmont's operating segments are North America, South America, Australia and Africa.

The North America segment (23% of 2019 gold production) is represented by operations at Nevada. In Nevada, its operations include the Carlin, Twin Creeks and Phoenix mines. The South America segment (22%) is represented by operations in Yanacocha, Peru. The Asia Pacific segment (32%) now consists of the operations in Australia. In Australia, Newmont fully owns and operates the Tanami mine. The Super Pit mine in Kalgoorlie are jointly owned with Barrick Gold. It also owns 100% of the Boddington mine. The Africa segment (23%) operations are represented by the fully-owned Ahafo and Akyem mines in Ghana.

The company closed the sale of its 48.5% ownership interest in PT Newmont Nusa Tenggara (PTNNT), which operates the Batu Hijau copper and gold mine in Indonesia, to PT Amman Mineral Internasional (PTAMI) on Nov 2, 2016. The asset's name is now changed to PT Amman Mineral Nusa Tenggara (PTAMNT).

The company, in February 2014, completed the sale of its Midas underground operation and mill complex to Klondex Mines Ltd. The company, in March 2014, also sold its 5.4% equity interest in Paladin Energy Ltd. through a block sale deal with UBS Australia. Moreover, the company, in July 2014, completed the sale of its Jundee underground gold mine in Australia to Northern Star Resources for roughly \$91 million. The company also completed the sale of its 44% stake in the Penmont joint venture in Mexico in October 2014 to Fresnillo plc for \$477 million.

In January 2019, Newmont entered into a definitive deal with Goldcorp to acquire all of the outstanding common shares of the latter in a stock-for-stock transaction. The transaction was successfully closed on Apr 18, 2019. The deal provides the company an investment-grade balance sheet and financial flexibility to pursue promising projects.



Reasons To Buy:

- ▲ Newmont's shares have gained 84.9% in the past year, outperforming the industry's rise of 18.5%. Newmont continues to invest in growth projects in a calculated manner. The company is pursuing a number of projects including Tanami Expansion in Australia, and Subika Underground and Ahafo mill expansion in Africa. Subika Underground is expected to yield an average annual gold production of 150,000-200,000 ounces per annum for the first five years starting 2019 and has an initial mine life of roughly 11 years. Also, the company's production is likely to be boosted by higher grade production from the Subika Underground project, which reached commercial production in November 2018. It is also pursuing a second expansion at Tanami and advancing greenfields exploration prospects in Western Australia, the Northern Territory and New South Wales. The Tanami Power Project is also fully permitted. It will lower Tanami power costs and carbon emissions by roughly 20% starting 2019. The project was successfully completed in March 2019. The company expects the Tanami power project to deliver net cash savings per ounce of \$34 from 2019 to 2023 and generate an IRR of more than 50%. The Ahafo expansion project represents additional upside. The expansion was also brought on line in third-quarter 2019, with a budget of around \$175 million. It is likely to boost mill capacity to nearly 10 million tons per year. The Africa witnessed 1.1 million ounces of attributable gold production in 2019 at an all-in sustaining cost of less than \$800 per ounce. This was driven by the successfully completion of the Ahafo's expansion projects. It will also add annual gold production of 75,000-100,000 ounces per year from 2020 to 2024.
- ▲ Newmont is well placed benefit from its merger with Goldcorp. The transaction is immediately value-accretive to its cash flow and net asset value per share. It is projected to generate an annual expected benefit of around \$165 million per year. Moreover, annual pre-tax synergies and full potential benefits are expected to be \$265 million, representing value creation potential of more than \$2.5 billion. In 2019, the company generated \$3.7 billion in adjusted EBITDA and realized substantial value from the Goldcorp acquisition that exceeded targets. In 2020, the company expects to achieve \$340 million in cash flow improvements, which represents more than 90% of its commitment for value delivering \$365 million from this transaction. It is also on track to realize \$500 million of cash flow improvements in 2021.
- ▲ Gold has been the bright spot this year as mounting fears over the coronavirus pandemic made it the most attractive safe-haven asset. A slump in crude oil prices, a low interest rate environment and geopolitical tensions also triggered demand for gold. Concerns over supply crunch arising from suspensions of operations by miners per government mandates also contributed to the gain in gold prices. Gold prices crossed the \$1,800-an ounce mark in June 2020 and also surged past the \$1,900 an ounce mark in July. Meanwhile, Newmont's averaged realize price of gold also rose 31% year over year to \$1,724 per ounce in the last reported quarter and boosted margins. Higher gold prices are expected to continue to drive earnings in 2020 amid market volatility and economic uncertainties.
- ▲ Newmont is making notable progress with efficiency improvement programs. Improved operational efficiency is allowing the company to generate positive free cash flow. The company ended 2019 with consolidated cash worth \$2.2 billion. Moreover, the company's consolidated cash flow from continuing operations surged 57% year over year to \$2.9 billion in 2019, partly due to higher realized gold prices and inclusion of sales from the Goldcorp assets. Also, the company ended the second quarter with \$3.8 billion of consolidated cash. It is also committed to boost shareholders' value. It has unveiled plans to increase its quarterly dividend by 79%. The company has returned \$1.4 billion to shareholders through share repurchases and dividends in 2019, including \$500 million in share buybacks and \$900 million in dividends. The company also generated operating cash flow of \$668 million and free cash flow of \$388 million in the last reported quarter.
- ▲ The company's efforts to lower debt level is encouraging. Its long-term debt was \$6,028 million at the end of second-quarter 2020, down from \$6,561 million in the prior quarter. Further, its time-interest-earned ratio of 15.7 at the end of the second quarter rose from 13.9 in the prior quarter. As such, the company appears to have a lower default risk.

Newmont is making notable progress with its growth projects. The merger with Goldcorp will also generate significant synergies. Higher gold prices should also support margins.

Reasons To Sell:

- ▼ Higher expected production cost is a concern for the company. Newmont recorded AISC of \$946 per ounce for 2019, up 6% year over year. Its CAS also rose 2% year over year in 2019. Moreover, the company's AISC rose 8% year over year in the last reported quarter. Newmont now expects CAS to be \$760 per ounce in 2020, higher than \$721 per ounce reported in 2019. The company also projects AISC at \$1,015 per ounce, also higher than \$966 per ounce expected earlier. As such, rising cost may continue to weigh on the margins in 2020.
- ▼ Newmont still faces challenges in the copper market stemming from the oversupply of the metal. Copper – an important barometer for the global economy – is a major industrial metal and plays a significant role especially in emerging countries. However, oversupply in the market (with production exceeding demand) poses a threat on copper prices. A slowdown in demand in China amid the coronavirus outbreak adds to the concerns. China's move to tighten credit growth could hurt demand for copper in its property and infrastructure sectors. The company's average realized copper price also declined 4% year over year in 2019 to \$2.63 per pound. Further, copper prices fell 18% year over year in the first six months of 2020. Lower copper production at Boddington is also concerning.
- ▼ The coronavirus outbreak in China may hurt gold demand in the near term. While the companies operating in this space are seeing a spike in gold prices, demand for gold in the country could be in doldrums. China is the largest consumer of gold in the world and the outbreak could have a cascading effect globally. Moreover, gold demand in India, another key market, is expected to witness a considerable fall in 2020 as the country is reeling under the effects of the pandemic. As such, an expected slowdown in demand may have an impact on the company's production and sales.
- ▼ The company's stretched valuation is another concern. In case of Newmont, the trailing 12-month EV/EBITDA multiple (a preferred valuation metric for cyclical industries like mining) is 38.1 whereas its industry's trailing 12-month EV/EBITDA multiple is lower at 20. As such, investors might not want to pay more for Newmont's stock.

Higher expected production cost is a concern for Newmont. It also faces challenges in the copper market. Lower demand and stretched valuation are other concerns.

Last Earnings Report

Newmont's Earnings and Sales Miss Estimates in Q2

Newmont reported net income from continuing operations of \$412 million or 51 cents per share in second-quarter 2020, up from \$1 million or breakeven per share in the year-ago quarter.

Barring one-time items, adjusted earnings were 32 cents per share that missed the Zacks Consensus Estimate of 34 cents.

Newmont reported revenues of \$2,365 million, up 4.8% year over year. However, the figure missed the Zacks Consensus Estimate of \$2,368.4 million.

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	-0.15%
EPS Surprise	-5.88%
Quarterly EPS	0.32
Annual EPS (TTM)	1.58

Operational Highlights

Newmont's attributable gold production declined 20.8% year over year to 1.26 million ounces in the quarter.

Average realized prices of gold rose 31% year over year to \$1,724 per ounce.

The company's CAS for gold was \$748 per ounce, down 1% year over year.

AISC for gold increased 8% year over year to \$1,097 per ounce. The uptick was mainly due to care and maintenance costs related to the coronavirus pandemic, which was partly offset by lower sustaining capital spending.

Regional Performance

North America: Attributable gold production in North America was 232,000 ounces, down 8% year over year. Gold CAS for the region was \$735 per ounce, down 29% year over year.

South America: Attributable gold production in South America was 136,000 ounces, down 48% year over year. Gold CAS for the region rose 20% on a year-over-year basis to \$781 per ounce.

Australia: Attributable gold in the region was 294,000 ounces, down 18% year over year. Gold CAS in the region dropped 1% year over year to \$719 per ounce.

Africa: Production in the region totaled 193,000 ounces of gold in the quarter, down 30% year over year. Gold CAS was \$696 per ounce, up 16% year over year.

Financial Position

The company ended the second quarter with cash and cash equivalents of \$3,808 million, up 108.4% year over year. Long-term debt was \$5,478 million, up from \$5,475 million in the prior-year quarter.

Net cash from operating activities amounted to \$664 million in the quarter.

Outlook

For 2020, Newmont projects attributable gold production of around 6 million ounces. Gold CAS is projected at \$760 per ounce and AISC is expected to be \$1,015 per ounce on higher sustaining capital spending.

The company is progressing with majority of its development and sustaining capital projects, including Tanami Expansion 2 and Subika Underground as well as advancing laybacks at Boddington and Ahafo.

Recent News

Newmont Announces Quarterly Dividend

On **Jul 23, 2020**, Newmont's board declared quarterly dividend of 25 cents per share, which is payable on Sep 24, 2020, to stockholders of record at the close of business on Sep 10, 2020.

Valuation

Newmont's shares are up 59.7% in the year-to-date period and up 84.9% over the trailing 12-month period. Stocks in the Zacks Mining - Miscellaneous industry and the Zacks Basic Materials sector are up 7.9% and 0.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 18.5% and 9.9%, respectively.

The S&P 500 index is up 1.7% in the year-to-date period and up 8.7% in the past year.

The stock is currently trading at 19.65X forward 12-month earnings, which compares to 10.77X for the Zacks sub-industry, 15.71X for the Zacks sector and 22.66X for the S&P 500 index.

Over the past five years, the stock has traded as high as 38.43X and as low as 15.1X, with a 5-year median of 24.51X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$73 price target reflects 20.73X forward 12-month earnings per share.

The table below shows summary valuation data for NEM:

Valuation Multiples - NEM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.65	10.77	15.71	22.66
	5-Year High	38.43	33.26	21.05	22.66
	5-Year Low	15.1	8.12	9.86	15.25
	5-Year Median	24.51	10.23	13.51	17.55
P/B TTM	Current	2.42	3.65	2.73	4.47
	5-Year High	2.75	4.21	3.07	4.56
	5-Year Low	0.58	0.46	1.23	2.82
	5-Year Median	1.55	2.19	2.2	3.72
P/S TTM	Current	5.24	6.42	2.49	3.51
	5-Year High	5.24	7.4	3.43	3.67
	5-Year Low	1.03	2.96	1.45	2.43
	5-Year Median	2.63	5.83	2.59	3.21

As of 07/31/2020

Industry Analysis Zacks Industry Rank: Top 22% (55 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Agnico Eagle Mines Limited (AEM)	Outperform	3
AngloGold Ashanti Limited (AU)	Neutral	3
Yamana Gold Inc. (AUY)	Neutral	2
B2Gold Corp (BTG)	Neutral	3
Eldorado Gold Corporation (EGO)	Neutral	2
Gold Fields Limited (GFI)	Neutral	2
Barrick Gold Corporation (GOLD)	Neutral	2
Kinross Gold Corporation (KGC)	Neutral	3

Industry Comparison Industry: Mining - Miscellaneous				Industry Peers		
	NEM	X Industry	S&P 500	BTG	GOLD	KGC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	C	-	-	B	C	A
Market Cap	55.54 B	114.61 M	22.59 B	7.20 B	51.40 B	11.79 B
# of Analysts	7	2	14	5	7	7
Dividend Yield	1.45%	0.00%	1.83%	1.14%	0.97%	0.00%
Value Score	C	-	-	B	D	A
Cash/Price	0.07	0.06	0.07	0.03	0.07	0.11
EV/EBITDA	9.69	-6.37	12.94	9.46	7.80	7.30
PEG Ratio	NA	3.16	3.04	0.85	16.51	NA
Price/Book (P/B)	2.42	1.51	3.17	3.34	1.69	2.20
Price/Cash Flow (P/CF)	19.08	5.55	12.51	18.11	56.98	10.18
P/E (F1)	27.04	15.84	21.87	13.91	33.01	14.84
Price/Sales (P/S)	5.23	1.92	2.44	5.66	4.97	3.13
Earnings Yield	3.64%	1.77%	4.31%	7.25%	3.04%	6.72%
Debt/Equity	0.26	0.05	0.75	0.09	0.17	0.47
Cash Flow (\$/share)	3.63	-0.01	6.94	0.38	0.51	0.92
Growth Score	C	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	3.13%	6.20%	10.85%	60.10%	1.47%	49.41%
Proj. EPS Growth (F1/F0)	91.13%	11.11%	-7.75%	254.29%	71.71%	85.71%
Curr. Cash Flow Growth	51.58%	-1.36%	5.39%	-4.32%	120.54%	28.17%
Hist. Cash Flow Growth (3-5 yrs)	12.12%	7.41%	8.55%	-14.11%	-18.05%	2.79%
Current Ratio	2.81	1.62	1.31	2.35	3.27	3.58
Debt/Capital	20.93%	12.06%	44.32%	8.65%	14.51%	32.05%
Net Margin	36.79%	-26.92%	10.44%	27.39%	41.16%	23.96%
Return on Equity	5.70%	-7.83%	14.73%	15.81%	3.75%	11.27%
Sales/Assets	0.27	0.32	0.52	0.47	0.25	0.41
Proj. Sales Growth (F1/F0)	22.84%	0.00%	-1.95%	37.11%	23.70%	10.80%
Momentum Score	C	-	-	D	C	B
Daily Price Chg	-3.28%	-2.36%	-0.92%	-1.92%	-1.84%	-1.47%
1 Week Price Chg	6.09%	6.09%	0.37%	6.18%	4.02%	6.85%
4 Week Price Chg	13.52%	12.74%	3.81%	24.10%	10.05%	30.68%
12 Week Price Chg	7.19%	33.30%	11.93%	21.69%	6.05%	31.97%
52 Week Price Chg	86.27%	13.01%	-1.92%	105.36%	70.56%	109.62%
20 Day Average Volume	7,490,420	207,056	1,887,986	7,293,034	14,803,269	15,663,406
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	5.70%	3.16%	0.38%	6.44%	10.45%	22.84%
(F1) EPS Est 12 week change	-2.49%	0.00%	-0.07%	12.22%	0.80%	20.16%
(Q1) EPS Est Mthly Chg	5.71%	0.00%	0.16%	7.69%	12.31%	31.71%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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