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Equity Research Report

Newmont Corporation

December 2020

The Rise of Newmont Corporation

The story of gold's historic pricing in 2020 has peaked the interest of many investors across the globe. In order to gain exposure to the potential upside of gold in early 2020 we decided on an investment into Newmont Corporation.

Finding a high growth gold mining equity is like finding a needle in a haystack. However, the purpose of this report is to give a more detailed and comprehensive understanding into the discovery of Newmont Corporation and our reasoning for our investment. This report is going to provide a detailed understanding of Newmont's position in the mining industry and the factors that have driven the equity to be the most successful gold mining company in the world.

Author Information

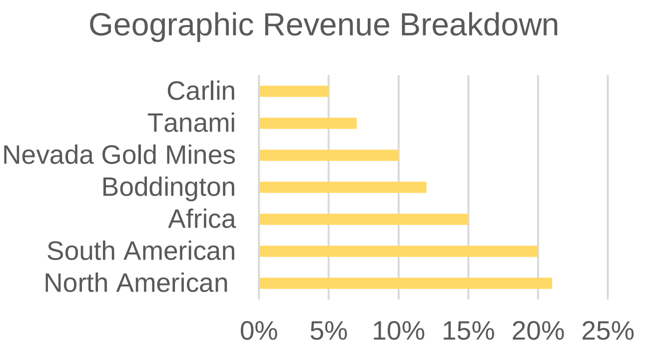
Sector Manager
Name: Jack Spain
Email: jack.spain@trinitysmf.com

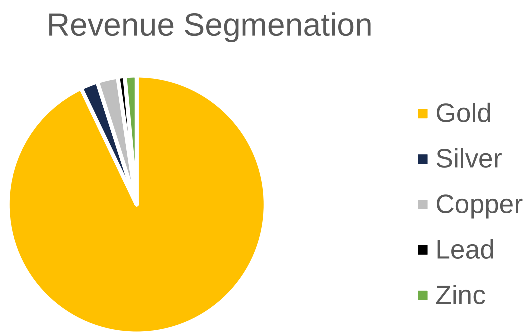
Senior Analyst
Name: Seamus Conlon
Email: seconlon@tcd.ie

Senior Analyst
Name: Jayne Holton
Email: holtonj@tcd.ie

Business Overview

Newmont is the largest gold mining company in the world with mines based in Africa, Australia, North and South America. With acquisition of Goldcorp 2018, their Nevada gold mine was established as the largest gold mine in the world. The increase the company's production capacity saw Newmont report its strongest earnings to date in Q3 2020. At December 31, 2019, Newmont had attributable proven and probable gold reserves of 100.2 million ounces and an aggregate land position of approximately 26,400 square miles



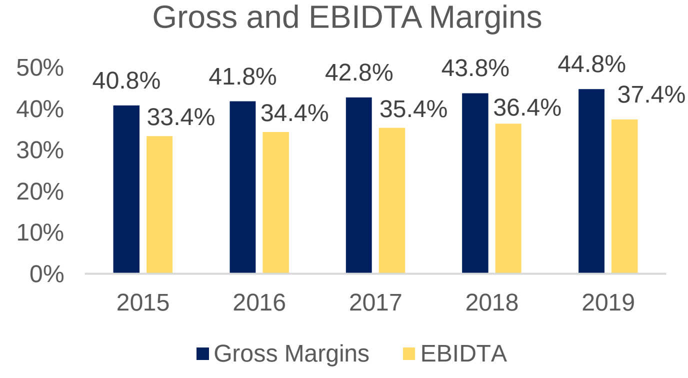


Investment Thesis

Gold has acted as a shiny yellow comfort blanket for both investors and global central banks throughout 2020. Real interest rates across the world have been reduced ultimately weighing on bond yields which are also at historical lows. With the US fed announcement of sustained low interest rates until 2023, Gold looks to maintain favourable pricing due to its ability to preserve purchasing power.

Mining stocks traditionally possess heavy tangible assets bases creating the need for Newmont to sustain healthy gross profit and EBITDA margins. Traditionally with mining companies a particular focus is placed on EBITDA to evaluate the miner's ability to generate cashflow from their expensive tangible assets. Free cash flow has seen 85.9% CAGR since 2015 with the most recent cash balance standing at $4.8bn. Having announced their intention to maintain a $2-3bn cash balance, it provides the opportunity to further reduce debt, increase dividend payment or increase organic investment.

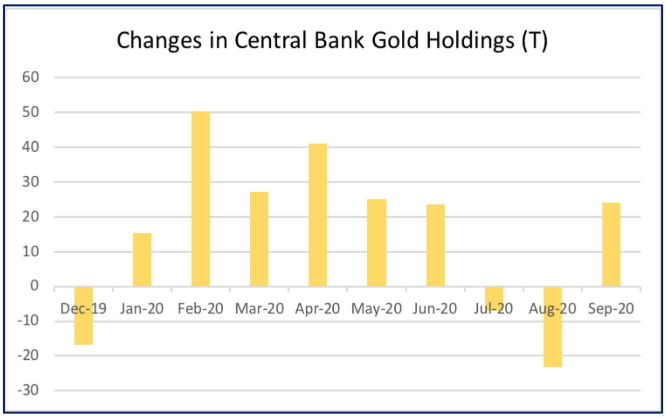
Extensive quantitative easing policies are being rolled out in the US. With investors turning negative on the dollar due to aggressive easing it is foreseeable that gold will continue to be acquired by major emerging market economies to protect against FX rate fluctuations.



Industry Overview

The topic of gold has been at the front of investors' minds throughout 2020. Demand from central banks of many emerging economies including Russia, Turkey and China acted as a catalyst for the performance of gold driving the run of spot gold to an all time high of $2,067. As we enter Q4, the price of gold has tumbled 6% with the potential to continue as investors begin to dump the safe haven asset due to a wave of vaccine optimism.

However, casting our attention long term, the economy does have a place for gold as Central Banks across the world continue to roll out fiscal injections as an economic restart mechanism and will continue to require gold to reinforce these policies. There is further potential for the strength of gold to sustain as the dollar races towards its lowest level in two years as investors have turned bearish on US currency prospects which should, at least in the short term, keep gold pricing strong.

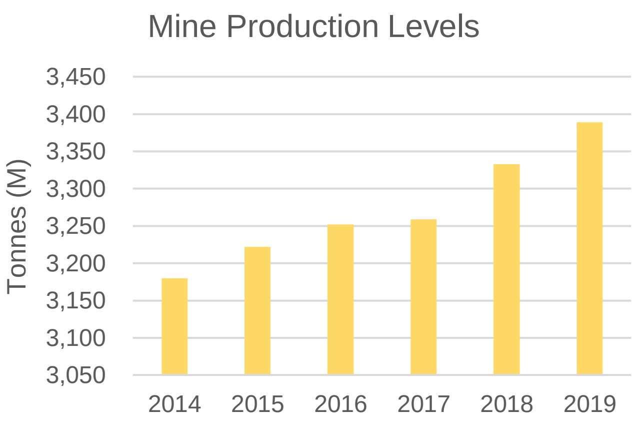


Risks

Newmont's entire business is grounded on the performances of metals pricing which can be manipulated by external factors such as Government purchases and sales, interest rates, relative strength of the US dollar index (DX1) and speculative short positions on metals pricing. The external nature of this risk poses an uncertainty over Newmont's forecasted earnings

The largest qualitative risk that faces Newmont is the consistent need to replace reserves. Newmont have to continually acquired and explore new reserves in order to maintain long term returns on invested capital.

Furthermore, exploration is speculative and can result in significant capex losses. This risks comes embedded in the nature of mining companies



Financial Summary

Income Statement

	2018	2019	2020E	2021E
Revenue	7,253	9,740	9,935	10,133
EBITDA	2,394	3,501	2,980	3,040
% margin	27.1%	58.0%	30.0%	30.0%
EBIT	1,179	1,541	1,490	1,520
% margin	*9.7%*	*47.7%*	*15.0%*	*15.0%*
Net Income	**341**	**2,805**	**915**	**954**

Commentary

Newmont's income statement tells an interesting story for a cyclical mining equity. It is rare to find materials stocks with strong earnings growth due to the high cost base of mining. However, a combination of the acquisition of Goldcorp and the bullish run of gold in 2020 has driven excellent profitability margins including significant developments in EBITDA. This is fundamental to mining companies with a heavy asset basis, growing EBITDA margins indicates Newmont's strengthening ability to generate cash for the near future.

Capital Structure

	As of 30/11/2020
Current Share Price	$58.82
No. of Shares Outstanding	803.4
Equity Value	**$47,255.99**
(-) Cash & Equivalents	($4,828)
(-) Short Term Investments	($313)
(+) Total Debt	$6,677
(+) Non-Controlling Interests	$959
(+) Preferred Stock	--
= Enterprise Value	***$49,750.99***

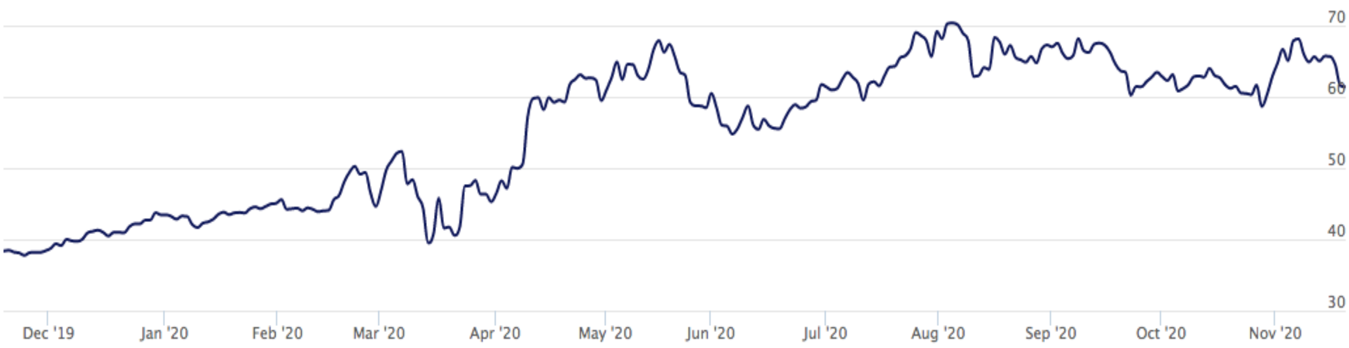
Newmont have indicated their intention to maintain a cash balance of $2-3 billion for the coming five years. Net debt has been reduced further to $1.85 billion in Q3 2020. With their cash reserves, Newmont have the options to alter their capital structure with increased buy back or a reduction in debt.

Key Financial Metrics

	Firm	Industry
Current Ratio	2.63	2.57
Quick Ratio	2.20	10.40
Credit Rating	Baa2	
Interest Coverage	4.51	7.44
LT Debt/Equity	31.44	22.08
Net Debt/EBIDTA	0.4x	
EPS (LTM)	2.96	*2.59*
Dividend Yield	2.80%	1.87

Perhaps the most striking metric is Net Debt/Equity. It was adjusted as of September 2020 to 0.4x and due to the excess cash reserves of Newmont, there is guidance that they could be net cash by 2Q21.

TTM Share Price Movements



Valuation

Comparable Companies Analysis

	Firm	Industry
Trailing P/E	18.9	25.3
Fwd. P/E	13.5	15.3
PEG	0.56	-
P/B	2.07	2.47
P/S	4.19	0.87
EV/EBITDA	8.83	11.8
Fwd. PEG	0.4	0.6
ROE	11.7%	4.2%

In comparison to the metals and mining industry, Newmont appears to be undervalued. The company's P/E is slightly below the industry average perhaps speaking to the strength of its earnings. It is important to note that Newmont is the largest gold miner and therefore is heavily weighted against the rest of the industry.

Newmont evidently presents strong future earnings prospects with a significant decline in forward P/E. Based on forward P/E valuation, Newmont trades at a 12% discount to its gold mining peers. Combined with a declining PEG ratio, Newmont's financials paint a rosy picture for the future.

It is imperative to mention ROE as Newmont boast a ratio of 11.7%, more than double the mining average. The rationale for this performance is found in the quality of Newmont's earnings and was a significant factor in the final investment decision.

Discounted Cash Flow Analysis

The DCF carried out indicated an implied share price of $86.35 from the current share price of $59.86 giving the potential for a 44.25% upside. This is of course based on the projections of unlevered free cash flow to 2025. The levels of FCF generated by Newmont are liable to change with a change in gold prices.

It is estimated that there is $400m per annum for every $100/oz increase in gold price. Newmont's guidance indicated a stable production rate of 6.2 – 6.7 million ounzes annually allowing for stable projections.