The Sydney Contrarian Financial Analysis

Stock Valuation Report

Newcrest Mining Limited (ASX: NCM)

Date	25/02/2019
Classification	Major Gold Miner
Current Price	$25.26
No. Issued Stocks (m)	768.3
Net Cash + Bullion ($ m)	-$1,361.78
Last Dividend Payment ($ p.a.)	$0.247
Market Capitalisation ($ m)	$19,406.06
Enterprise Value ($ m)	$20,767.84

Ranking	**Fair Value**
Price Range	$19.61-$32.29
Annual Production Guidance (oz p.a.)	2 350 000-2 600 000
All-In Sustaining Cost Guidance ($/oz)	Not given (Est $1 000-1 100)
EV/AISC-Adjusted Production Guidance ($/oz)	$8,187.00
EV/AISC-Adjusted Production Range ($/oz)	$7 000-9 500
Resources (oz)	121,300,000
Reserves (oz)	62,590,333

Summary

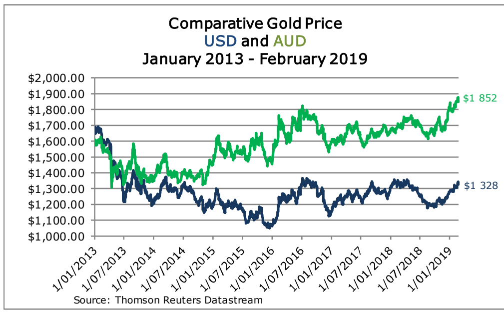
Newcrest Mining is the largest ASX-listed gold mining company and also among the top 5 in the world in terms of production. The company released their 2019 half yearly results on 14th February, reporting a half-yearly profit of US$237m (approx. A$330m) from a revenue of US$1 730m (approx. A$2 420m) and they have declared an interim dividend of US$0.075 (approx. A$0.105), which will be paid on 22nd March.

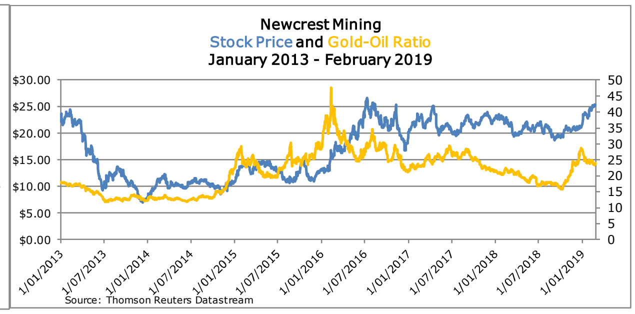
Newcrest sold their Bonikro mine in 2018 Q4, resulting in them relying on four operating mines to deliver their production. The company produced 1.203Moz of gold for the half year at AISC A$1 031/oz, which compares to the 2018 half year production of 1.136Moz at AISC $1 104/oz. Production increased as a result of the Cadia mine increasing its production by almost 50%, the Lihir mine production increasing by almost 5% and offset by a decrease in Telfer production by almost 1% and the Gosowong production fell by around 20%. The two major mines, Cadia and Lihir, contribute almost 70% of their total production, with production costs maintaining at their recent averages at AISC $180/oz and $1 277/oz, respectively. However, the Telfer mine has been a headache for the company as AISC has been above $1 800/oz in the recent two years despite production being maintained. The management has implemented a hedging program in light of this, with around 50% of the mine's gold production hedged each year till 2023 at an average hedge price of A$1 836/oz.

The company has made substantial progress in improving their balance sheet position, having inherited a significant debt in their acquisition of Lihir Gold in 2010. The subsequent bubbling and decline in gold price over 2011-2015 did much to stifle their ability to generate free cash flows to reduce their debt. With a net debt currently of A$1 361m, this will gradually give them more flexibility to undertake further growth and acquisitions of suitable mines or companies.

In light of the recent mergers and acquisitions in the major producers, including Barrick and Randgold and also now with Barrick making a hostile bid for Newmont, the gold mining industry may be transitioning towards another period of consolidation as large mining companies seek to replenish their reserves and resources base net of depletion. In these recent five years, major mine deposit discoveries have not been forthcoming and the larger mining companies have been acquiring smaller mining companies. Whether Newcrest will do the same is yet to be known, but their reserves and resources have been decreasing steadily after accounting for depletion. They have also divested two of their operating mines – Hidden Valley and Bonikro, without acquiring another producing mine.

At the current market price, the company is deemed fairly valued as they staged a 20% rally since the end of 2018. With production guidance at 2.35-2.6Moz for 2019 and a capital expenditure budget at the lower end of the $590-$690m range and exploration expenditure of $90-$100m, the company will need to deliver evidence of improved efficiency and increases in reserves and resources for 2020.





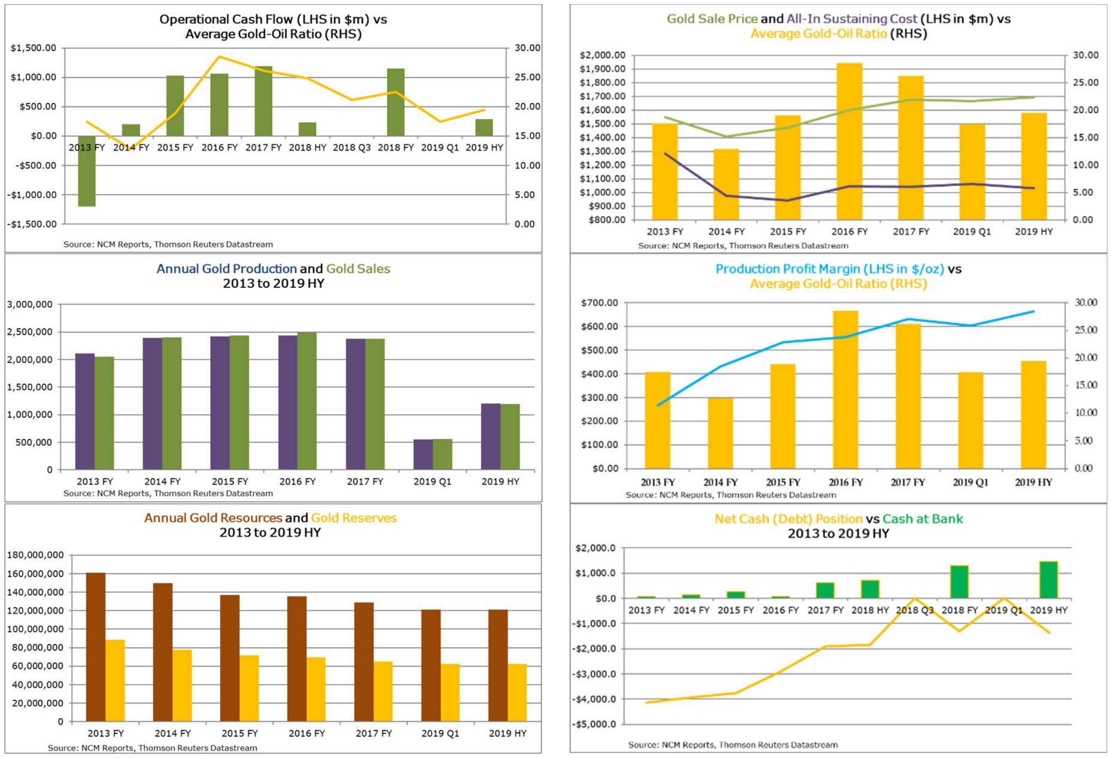
Prevailing Environment

The gold price in AUD terms has branched off increasingly from the USD terms especially in the last three months of 2018 as the Australian dollar declined more sharply, arising from a combination of a flight to safety with the global asset markets peaking as well as confirmation of the slowdown in the property markets in Australia leading to expectations of the Australian economy weakening going forward. Most noteworthy is the gold price in AUD terms was at a record high in intraday trading on 20th February 2019 at $1 878/oz. Two major factors are at play in causing the Australian dollar to remain in the 70-72c range, thus resulting in the gold price in AUD terms to approach the all-time record high. They are the Reserve Bank of Australia announcing in the February meeting that they are uncertain about whether to raise or lower the cash rate and the Royal Commission on Banking final report being released implying further pulling back on credit lending.

More important to gold mining companies is not so much the gold price, but the relative price of gold and oil. The oil price is relevant as mining companies use large quantities of fuel to power machinery and also the oil price is a significant driver on wages and general costs. A high gold-oil ratio usually results in higher profitability and cash flow generation for gold mining companies.

In early October 2018, the gold price began to rally after the September rate hike while the oil price declined, leading to the gold-oil ratio rising from 16 to as much as 28 at the beginning of January 2019. During January 2019, the oil price recovered from the mid-US$40/bbl to US$52-54/bbl, resulting in the gold-oil ratio pulling back to 24. The oil price has recently rallied above US$55/bbl.

Operational and Financial Performance Charts



SWOT Analysis

Strengths • World class gold mining company with an exceptional reserve life of over 25 years. • The flagship mines are producing at low cost and have substantial reserves that underpin cash flow generation. • Balance sheet has been improved over time without resorting to dilutive equity issues.	**Weaknesses** • The company has been seeing its reserves and resources decline the past six years, as well as selling down mine assets and not acquiring new mine assets.
Opportunities • The current gold mining industry is still slow in recovering from a long bear market, with many smaller companies trading at a discount that may be attractive to Newcrest in their bid to increase their production and reserves. • Rising gold prices may encourage more corporate activity and gives Newcrest the chance to consolidate while leveraging their position as a major industry leader.	**Threats** • Two of their operating mines (Gosowong in Indonesia and Lihir in Papua New Guinea) may face sovereign risk especially due to increasing geopolitical tension and economic uncertainty.

Peer Comparison