

Endeavour Mining

Picking up the crown

Endeavour's premium listing on the LSE brings the largest producer of gold in the second largest gold producing region to London to pick up the mantle vacated by Randgold when it departed these shores in 2018. Like Randgold, Endeavour has set a 20% post-tax IRR hurdle rate from its investments (at a gold price of US\$1,300/oz), is targeting a 20% return on capital employed, an AISC of US\$900/oz and has recently announced a progressive dividend policy and share buyback programme.

Year end	Revenue (US\$m)	EBITDA (US\$m)	PBT* (US\$m)	Op. cash flow per share (US\$)	DPS (c)	Yield (%)
12/19	1,362.1	618.4	220.4	3.30	0	N/A
12/20	1,847.9	910.3	501.2	5.35	37	1.5
12/21e	2,758.1	1,386.6	788.1	3.68	50	2.1
12/22e	2,495.1	1,417.3	930.2	4.82	60	2.5

Note: Pro forma basis. *PBT is normalised, excluding amortisation of acquired intangibles and exceptional items.

In the right place at the right time...

West Africa remains under-explored, despite accounting for the largest number of gold ounces discovered in any region in the past decade. According to some forecasts, it will surpass China in terms of output within a few years. It also offers simple geology, simple terrain, good infrastructure and good jurisdictional risk, where governments have made concerted efforts to ensure the region is attractive to gold mining companies, without being over-dependent on a single industry.

...with the right track record

In the past 10 years Endeavour has invested more than US\$1bn to build four mines with zero lost time. In the meantime, it has adopted an exploration approach that is drawn from the oil & gas, rather than mining, industry and has been successful in delineating 84% of its five-year target of 10–15m resource ounces after only four years to increase medium-term production levels at Ity and Houndé to 0.5Moz pa (combined) until at least 2028.

Valuation: US\$35.88 or C\$43.45 or £25.42 per share

Having changed nothing but our dividend assumptions and updated our estimate of shares in issue to reflect the latest buyback data, our valuation of Endeavour remains substantially unchanged relative to our last note ([Showing its mettle as well as its metal](#), published on 28 May 2021). Based on the average multiples of its gold major peers, we estimate a valuation for Endeavour of US\$37.02 (C\$44.82 or £26.23) per share. By contrast, using an absolute valuation methodology, whereby we discount back six years of cash flow and then apply an ex-growth, ad infinitum multiple to steady-state terminal cash flows in FY26, implies a valuation of US\$35.88 (C\$43.45 or £25.42) per share if a standardised 10% discount rate is used or US\$56.96 (C\$68.97 or £40.36) per share if a CAPM-derived discount rate of 6.5% is used. In the meantime, it is trading at a discount to the average multiples of its LSE peers in at least two-thirds of common valuation measures (see Exhibit 3) despite being the largest premium LSE-listed pure gold producer.

Premium LSE listing

Metals & mining

14 June 2021

Price **C\$28.95**

Market cap **C\$7,301m**

C\$1.2109/US\$, US\$1.4113/£

Net debt (US\$m) at end-March 2021* 173.9

*Excludes convertible premium

Shares in issue (thousands) 252,568

Free float 75.2%

Code EDV

Primary exchange TSX

Secondary exchange LSE, US OTC

Share price performance



% 1m 3m 12m

Abs 8.5 15.7 (8.9)

Rel (local) 5.6 7.6 (27.9)

52-week high/low C\$38.85 C\$23.58

Business description

Following its acquisitions of SEMAFO and Teranga, Endeavour has become one of the top 10 major gold producers globally, with seven mines in Côte d'Ivoire, Burkina Faso and Senegal plus a portfolio of development projects, all in the West African Birimian greenstone belt.

Next events

Afema maiden resource H121

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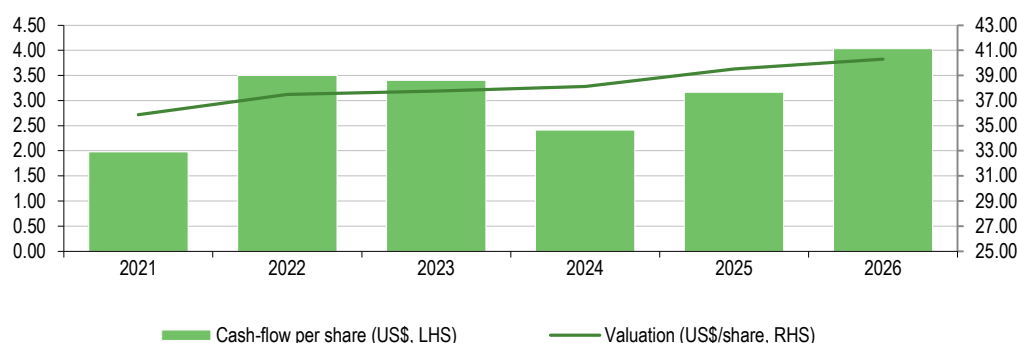
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Valuation summary

Endeavour is a multi-asset company that has shown a willingness and desire to trade assets to maintain production, reduce costs and maximise returns to shareholders (eg the sale of Youga in FY16, Nzema in FY17, Tabakoto in FY18 and Agbaou in FY20 and the acquisition of SEMAFO in FY20 and Teranga in FY21). Historically, rather than our customary method of discounting maximum potential dividends over the life of operations back to FY21, in the case of Endeavour, we have instead opted to discount six years of forecast cash flows in FY21–26 back to the start of FY21 and then to apply an ex-growth terminal multiple of 10x (consistent with using a standardised discount rate of 10%) to forecast cash flows in that year (ie FY26). In the normal course of events, exploration expenditure would be excluded from such a calculation on the basis that it is an investment. In the case of Endeavour, however, it has been included on the grounds that it is a critical component of its ongoing business performance to enable it to continually expand and extend the lives of its mines.

In this case, our estimate of cash flows in FY26 is US\$4.03 (cf US\$4.00/share previously), giving rise to a terminal valuation of the company at end-FY26 of US\$40.30/share (cf US\$39.96/share previously), which (in conjunction with forecast intervening cash flows) then discounts back to a valuation of US\$35.88/share (cf US\$35.66/share previously) at the start of FY21, as shown in the graph below.

Exhibit 1: Endeavour current forecast valuation and cash flow per share, FY21–26e (US\$/share)



Source: Edison Investment Research

Given its elevation into the ranks of the world's foremost producers of gold however, we believe that Endeavour can increasingly attract lower cost finance and, as such, a capital asset pricing model (CAPM)-derived WACC can also be considered (as discussed in our February 2021 [initiation on Newmont Corporation](#)). Long-term nominal equity returns have been 9% and 30-year break-evens are expecting 2.32% inflation. These two measures imply an expected real equity return of 6.5% (1.09/1.0232) and applying this to our forecast cash flows would imply a terminal valuation for Endeavour of US\$61.76/share (cf US\$60.05/share previously) and a current valuation of US\$56.96/share (cf US\$55.39/share previously). Readers should note that, given its realised beta of 0.56 (source: Refinitiv, 10 June 2021), even this (real) discount rate of 6.5% is likely to prove conservative.

In the meantime, Endeavour's valuation remains at a material discount to those of its newly acquired peer group of gold majors, as shown in Exhibit 2, below.

Relative Endeavour valuation

Endeavour's valuation on a series of commonly used measures, relative to a selection of gold mining majors (the ranks of which it has now joined following its takeovers of SEMAFO and Teranga), is as follows:

Exhibit 2: Endeavour valuation relative to global gold major peers

Company	Ticker	Price/cash flow (x)			EV/EBITDA (x)			Yield (%)		
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Endeavour (Edison)	EDV	6.5	5.0	4.9	4.6	*4.2	*3.3	2.1	2.5	3.0
Endeavour (consensus)	EDV	4.9	4.5	5.0	4.6	4.4	4.9	1.9	3.8	3.8
Majors										
Barrick	ABX	7.8	7.7	7.9	7.2	6.8	6.9	2.6	1.5	1.8
Newmont	NEM	10.6	9.7	11.2	8.3	7.8	8.9	2.9	3.0	2.8
Newcrest	NCMAU	9.0	9.0	9.3	7.6	7.5	7.7	1.5	1.5	1.7
Kinross	K	6.2	4.5	4.6	5.4	4.0	3.9	1.6	1.6	1.6
Agnico-Eagle	AEM	10.6	9.7	9.9	9.5	8.1	8.5	2.1	2.1	2.0
Eldorado	ELD	5.7	5.0	4.9	4.7	4.2	4.1	0.0	0.0	0.0
Average		8.3	7.6	7.9	7.1	6.4	6.7	1.8	1.6	1.6
Implied EDV share price (US\$)		30.60	36.76	37.96	39.43	39.16	41.41	27.93	37.31	42.64
Implied EDV share price (C\$)		36.98	44.51	45.97	47.75	47.41	50.15	33.82	45.17	51.63

Source: Edison Investment Research, Refinitiv. Note: *Forecast EV. Consensus and peers priced at 10 June 2021.

Of note is the fact that Endeavour's valuation is materially cheaper than the averages of the majors in all the measures shown in Exhibit 2, regardless of whether consensus or Edison forecasts are used. On an individual basis, it is cheaper than the majors on at least 45 out of 54 (83%) of individual valuation measures if Edison forecasts are used or 45 out of 54 (83%) if consensus forecasts are used. Reverse engineered, the average valuation measures of its peers imply an average share price for Endeavour of US\$37.02, or C\$44.82 or £26.23, per share.

Relative to its new-found peers listed in London, Endeavour's valuation is as follows:

Exhibit 3: Endeavour valuation relative to London-listed precious metal peers

Company	Ticker	Price/cash flow (x)			EV/EBITDA (x)			Yield (%)		
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Endeavour (Edison)	EDV	6.5	5.0	4.9	4.6	*4.2	*3.3	2.1	2.5	3.0
Endeavour (consensus)	EDV	4.9	4.5	5.0	4.6	4.4	4.9	1.9	3.8	3.8
LSE-listed peers										
Polymetal	POLYP	8.1	6.9	8.1	7.3	6.6	7.4	6.5	7.9	6.5
Fresnillo	FRES	9.1	8.4	9.3	6.6	5.4	6.0	2.9	3.4	3.0
Centamin	CEY	11.2	9.3	4.4	4.3	3.9	4.2	5.9	4.4	3.4
Petropavlovsk	POG	7.2	4.5	4.3	5.8	4.2	4.2	0.0	3.4	5.5
Hochschild	HOC	4.7	4.7	5.8	3.2	3.3	3.7	2.0	2.0	2.2
Polyus	PLZL	9.1	8.0	8.0	7.7	7.6	7.4	3.7	4.3	4.4
Yamana Gold	YRI	5.9	5.6	7.3	5.7	5.4	6.0	2.3	2.3	2.2
Resolute Mining	RSGAU	2.5	2.2	2.4	3.6	2.8	3.2	3.3	3.0	3.5
Hummingbird	HUMR	2.5	3.0		3.5	2.5	2.2	0.0	0.0	
Shanta	SHAN				3.1	3.3	2.7	2.2	1.8	1.3
Chaarat	CGH	9.5			16.0	13.9	3.8	0.0	0.0	0.0
Pan African**	PAFR	4.8	3.7	3.3	3.8	3.3	3.1	3.9	3.4	8.6
Average		6.8	5.6	5.9	5.9	5.2	4.5	2.7	3.0	3.7
Implied EDV share price (US\$)		24.95	27.19	28.04	32.69	32.15	29.70	18.36	20.13	18.94
Implied EDV share price (C\$)		30.21	32.92	33.95	39.58	38.93	35.96	22.24	24.37	22.94

Source: Edison Investment Research, Refinitiv. Note: *Forecast EV. **Edison forecasts. Consensus and peers priced at 10 June 2021.

Of note is the fact that Endeavour's valuation is materially cheaper than the averages of its LSE-listed peers in six out of nine of the measures shown in Exhibit 2 if Edison forecasts are used and seven out of nine if consensus forecasts are used. On an individual basis, it is cheaper than its LSE-listed peers on 49 out of 101 (48%) of individual valuation measures if Edison forecasts are used or 53 out of 101 (52%) if consensus forecasts are used. Reverse engineered, the average valuation

measures of its LSE-listed peers imply an average share price for Endeavour of US\$25.79, C\$31.23 or £18.27 per share.

Dividend adjustments

Edison has adjusted its dividend distribution assumptions since Endeavour's capital markets day (CMD) on 7 June.

Previously (when it declared its maiden dividend of US\$0.37/share for FY20 in November), Endeavour announced a policy of declaring future dividends on a semi-annual basis with the aim of maintaining an approximate dividend yield of 1.6% until it reached a targeted net cash position of c US\$250m (note, in H122 according to our estimates). Thereupon, it said that it would re-assess its capital allocation priorities, which could involve augmenting its shareholder return programme. As a result, our previous dividend forecast for FY22 and FY23 was based on the maximum distribution that Endeavour could make and still retain a net cash position of US\$250m on its balance sheet. Although we believed that such payouts would be unlikely in practice, this methodology nevertheless served to demonstrate the latitude that Endeavour had at its disposal to increase its dividend distributions in the short to medium term.

At its CMD however, Endeavour announced an update to its dividend policy to the effect that it would pay minimum progressive dividends of 50 US cents, 60c and 70c per share in FY21, FY22 and FY23, respectively (assuming that the gold price remains above US\$1,500/oz, otherwise payment becomes discretionary based on balance sheet strength), with the potential for additional supplementary shareholder returns as long as net debt remains below 0.5x EBITDA.

Share buyback programme

In tandem with its FY20 results, on 18 March 2021, Endeavour announced a normal course issuer bid (NCIB) or share buyback programme to supplement its policy of augmenting shareholder returns. The NCIB commenced on 22 March and will end on 21 March 2022 and will allow Endeavour to buy up to 12.2m ordinary shares, or approximately 5% of its total issued and outstanding ordinary shares at the time of the announcement, whereupon the purchased shares will be cancelled. At Endeavour's current share price of C\$28.95 (US\$23.91), the NCIB is worth c US\$291.7m and compares extremely favourably with its FY20 dividend payout of US\$60.3m and its forecast US\$125.2m pay-out in FY21. Combined, the NCIB and FY21e dividend distribution together represent c US\$416.9m in aggregate returns to shareholders – equivalent to a dividend yield of 7.0% – in FY21.

Note that, owing to the inherent uncertainty surrounding whether purchases are made and at what price under the NCIB, we have not attempted to include potential future share buybacks in our financial forecasts in Exhibit 3, below, but only historical ones. To date in FY21, we estimate that Endeavour has repurchased and cancelled a total of 2.2m shares for consideration of C\$60.4m, or US\$49.0m.

Financials

According to its Q121 balance sheet, Endeavour had net debt of US\$220.2m post the acquisition of Teranga and the injection of US\$200m by La Mancha. This compares with net debt of US\$43.3m as at end-FY20 (pre the Teranga acquisition). This figure of US\$220.2m includes lease liabilities of US\$43.6m and an option premium of US\$46.3m. Excluding the latter results in a net debt position

of US\$173.9m or just 4.3% of the company's balance sheet equity of US\$4,007.7m at end-Q121. Note that it differs slightly from the figure of US\$161.8m quoted elsewhere in Endeavour's announcements in that the latter excludes US\$43.6m in lease liabilities and owing to the discounting, variously, of certain committed future payments to present value.

Note that, for the purposes of its financial modelling (see Exhibit 3, below) and for simplicity's sake, we have assumed the consolidation of Endeavour's and Teranga's balance sheets took place retrospectively on 31 December 2020. In this case, we estimate that Endeavour would have consolidated c US\$242.6m in net debt on its balance sheet and c US\$349.2m in gross debt as a consequence of its Teranga acquisition. As such, on a pro forma basis, we estimate Endeavour would have had US\$323.1m in net debt on its balance sheet at end-FY20, which we calculate would have equated to a gearing (net debt/equity) ratio of just 8.8% and a leverage (net debt/[net debt+equity]) ratio of 8.1% on the group's enlarged equity base.

Exhibit 4: Financial summary

	US\$'000s	2018	2019	2020	2021e	2022e	2023e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		1,048,636	1,362,121	1,847,894	2,758,101	2,495,073	2,384,441
Cost of Sales		(669,719)	(884,869)	(1,061,891)	(1,383,683)	(1,077,784)	(1,034,014)
Gross Profit		378,917	477,252	786,003	1,374,418	1,417,289	1,350,427
EBITDA		378,917	618,443	910,295	1,386,578	1,417,289	1,350,427
Operating Profit (before amort. and except.)		106,090	281,400	546,072	836,328	930,000	920,276
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		8,035	(199,159)	(201,532)	29,917	0	0
Other		(3,171)	(9,392)	8,886	(19,750)	0	0
Operating Profit		110,954	72,849	353,426	846,495	930,000	920,276
Net Interest		(27,110)	(51,607)	(53,774)	(28,502)	244	7,248
Profit Before Tax (norm)		75,809	220,401	501,184	788,076	930,245	927,524
Profit Before Tax (FRS 3)		83,844	21,242	299,652	817,993	930,245	927,524
Tax		(73,637)	(97,253)	(158,466)	(231,736)	(178,048)	(168,831)
Profit After Tax (norm)		2,172	123,148	342,718	556,340	752,197	758,693
Profit After Tax (FRS 3)		10,207	(76,011)	141,186	586,257	752,197	758,693
Net loss from discontinued operations		(154,795)	(4,394)	0	0	0	0
Minority interests		8,460	33,126	44,719	87,964	110,447	109,000
Net profit		(144,588)	(80,405)	141,186	586,257	752,197	758,693
Net attrib. to shareholders contg. businesses (norm)		(16,292)	90,022	297,998	468,376	641,750	649,694
Net attrib. to shareholders contg. businesses		(8,257)	(109,137)	96,466	498,293	641,750	649,694
Average Number of Shares Outstanding (m)		155.3	157.4	160.8	250.4	250.4	250.4
EPS - normalised (\$)		(0.10)	0.57	1.85	1.87	2.56	2.59
EPS - normalised and fully diluted (\$)		(0.10)	0.57	1.82	1.85	2.53	2.56
EPS - (IFRS) (\$)		(0.99)	(0.72)	0.60	1.99	2.56	2.59
Dividend per share (c)		0	0	37	50	60	70
Gross Margin (%)		36.1	35.0	42.5	49.8	56.8	56.6
EBITDA Margin (%)		36.1	45.4	49.3	50.3	56.8	56.6
Operating Margin (before GW and except.) (%)		10.1	20.7	29.6	30.3	37.3	38.6
BALANCE SHEET							
Fixed Assets		1,594,202	2,330,033	5,093,409	5,111,622	4,996,160	4,918,676
Intangible Assets		4,186	5,498	24,851	24,851	24,851	24,851
Tangible Assets		1,543,842	2,254,476	3,968,746	3,986,959	3,871,498	3,794,014
Investments		46,174	70,059	1,099,812	1,099,812	1,099,812	1,099,812
Current Assets		327,841	652,871	1,168,382	1,931,010	2,559,155	3,175,721
Stocks		126,353	266,451	305,075	530,404	479,822	458,546
Debtors		74,757	83,836	104,545	252,237	230,619	221,525
Cash*		124,022	288,186	751,563	1,099,092	1,799,439	2,446,373
Other		2,709	14,398	7,199	49,276	49,276	49,276
Current Liabilities		(248,420)	(354,931)	(661,171)	(801,905)	(698,496)	(683,580)
Creditors		(224,386)	(312,427)	(612,862)	(753,596)	(650,187)	(635,271)
Short term borrowings		(24,034)	(42,504)	(48,309)	(48,309)	(48,309)	(48,309)
Long Term Liabilities		(729,290)	(963,736)	(1,647,799)	(1,647,799)	(1,647,799)	(1,647,799)
Long term borrowings		(618,595)	(770,902)	(1,026,337)	(1,026,337)	(1,026,337)	(1,026,337)
Other long term liabilities		(110,695)	(192,834)	(621,462)	(621,462)	(621,462)	(621,462)
Net Assets		944,333	1,664,237	3,952,821	4,592,927	5,209,020	5,763,019
CASH FLOW							
Operating Cash Flow		394,984	628,617	1,046,370	1,143,850	1,386,081	1,365,879
Net Interest		(26,734)	(35,413)	(53,774)	(28,502)	244	7,248
Tax		(36,140)	(109,494)	(186,332)	(223,048)	(178,048)	(168,831)
Capex		(689,469)	(401,227)	(335,599)	(568,463)	(371,828)	(352,667)
Acquisitions/disposals		33,179	3,654	(19,000)	20,000	40,000	0
Financing		(7,820)	2,402	100,000	151,000	0	0
Dividends		(1,956)	(6,154)	(88,288)	(147,307)	(176,104)	(204,695)
Net Cash Flow		(333,956)	82,385	463,377	347,529	700,347	646,935
Opening net debt/(cash)*		218,140	518,607	525,220	323,083	(24,446)	(724,793)
HP finance leases initiated		0	0	0	0	0	0
Other		33,489	(88,998)	(261,240)	0	0	0
Closing net debt/(cash)*		518,607	525,220	323,083	(24,447)	(724,793)	(1,371,727)

Source: Company sources, Edison Investment Research. Note: Presented on pro forma basis including SEMAFO from FY18 balance sheet and Teranga from FY20 balance sheet. EPS normalised from FY18 to reflect continuing business only. *Excludes restricted cash.

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