

Endeavour Mining

Q122 results

A strong opening

Endeavour's Q122 adjusted net EPS from continuing operations were within 4% of our prior estimate, at US\$0.49/share, with gold sold exceeding our forecasts by 7%, led by outperformance at the company's flagship assets, Houde, Ity and Sabodala-Massawa. In the wake of these first quarter results, we have revised our earnings estimates for the company – in this case downwards (see Exhibit 4), albeit the reductions reflect non-operational issues such as 1) a downward revision to the gold price, 2) the inclusion of a systematic method for estimating share-based payments on a quarterly basis for the first time and 3) a change in our assumptions regarding interest income. In the aftermath of these changes, however, our forecasts for adjusted net EPS are no more than 9.5% from the market consensus for FY22. By contrast however, our valuation of Endeavour has increased as a result of the inclusion of the Sabodala-Massawa expansion project into our medium- and longer-term cash flow forecasts.

Year end	Revenue (US\$m)	EBITDA (US\$m)	PBT* (US\$m)	Operating cash flow per share (US\$)	DPS (c)	Yield (%)
12/20	1,847.9	910.3	501.2	5.35	37	1.6
12/21	2,903.8	1,517.3	756.5	4.83	56	2.5
12/22e	2,543.8	1,360.3	688.6	4.97	62	2.8
12/23e	2,219.0	1,223.2	763.0	3.81	70	3.1

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

Sabodala-Massawa adds US\$3 to valuation in FY26

In addition to our short-term forecast revisions, we have now incorporated detailed Sabodala-Massawa expansion project operating parameters into our longer-term forecasts. In this case, inclusion of the Sabodala-Massawa expansion project increases our estimate of cash flows in FY26 to US\$4.28/share, which implies a terminal valuation of the company at end-FY26 of US\$42.78/share – representing an increase of US\$3.11/share relative to our prior terminal valuation of US\$39.67/share. This may be compared with Endeavour's standalone valuation of the project at US\$3.47/share (albeit with the caveat that Endeavour used a 5% discount rate in its calculation, rather than the 10% employed by Edison).

Valuation: First stop US\$32 (C\$41, £26)

Based on the average multiples of its gold major peers, we estimate a value for Endeavour of US\$31.52 (C\$40.50 or £25.58) per share. By contrast, using an absolute valuation methodology, whereby we discount back five years of cash flows and then apply an ex-growth, ad infinitum multiple to steady-state terminal cash flows in FY26, implies a present valuation for the company of US\$35.96 (C\$46.21 or £29.18) per share if performed using a standardised discount rate of 10% or US\$60.40 (C\$77.62 or £49.02) per share if performed using a CAPM-derived (real) discount rate of 6.31%. To these valuations a further US\$4.30–7.45/share may be added to reflect the value of Endeavour's five-year exploration programme (see [The second five-year plan](#), published on 20 October 2021). Otherwise, it is trading at a discount to the average multiples of its peers on at least two-thirds of common valuation measures despite its being the largest premium LSE-listed pure gold producer in the FTSE 100 Index.

Metals & mining

17 May 2022

Price 1,853p

Market cap £4,595m

C\$1.2851/US\$, US\$1.2322/£

Net cash (US\$m) at end-March 2021, 182.4
excludes lease liabilities, option premium and restricted cash

Shares in issue 248.0m

Free float 75.2%

Code EDV

Primary exchange LSE

Secondary exchange TSX, USOTC

Share price performance



% 1m 3m 12m

Abs (9.0) 3.2 N/A

Rel (local) (6.5) 6.5 N/A

52-week high/low 2,100p 1,510p

Business description

Following its acquisitions of SEMAFO and Teranga, Endeavour Mining 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

Sustainability report Q222

Lafique DFS Mid-2022

Sabodala-Massawa Phase 2 construction launch Q222

Wona underground production Q322

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Q122 results summary

A summary of Endeavour's Q122 results relative to both Q421 and our prior expectations is provided in the table below:

Exhibit 1: Endeavour Mining Q122 results cf prior expectations and Q421

US\$000s (unless otherwise indicated)	Q421a (underlying)	Q122e	Q122a	Q122a (underlying)	Change (%)	Variance (%)	Variance (units)
Houndé production (koz)	77.3	59.2	73.1	73.1	-5.4	23.5	13.9
Agbaou production (koz)	0.0	0.0	0.0	0.0	N/A	N/A	0
Karma production (koz)	20.5	10.3	0.0	10.2	-50.2	-1.0	-0.1
Ity production (koz)	60.0	67.8	72.4	72.4	20.7	6.8	4.6
Boungou production (koz)	34.9	34.4	33.8	33.8	-3.2	-1.7	-0.6
Mana production (koz)	53.8	51.5	52.6	52.6	-2.2	2.1	1.1
Sabodala-Massawa	104.6	89.6	96.3	96.3	-7.9	7.5	6.7
Wahgnion	47.2	30.7	28.9	28.9	-38.8	-5.9	-1.8
Total gold produced (koz)	398.3	343.5	357.1	367.3	-7.8	6.9	23.8
Total gold sold (koz)	391.0	343.5	359.1	369.2	-5.6	7.5	25.7
Gold price (US\$/oz)	1,783*	1,878	1,911	1,904*	6.8	1.4	26
Mine level cash costs (US\$/oz)**	639	723	609	-1.6	-13.0	-94	-1.6
Mine level AISC (US\$/oz)	865	958	809	828	-4.3	-13.6	-130
Revenue							
– Gold revenue	697,174	645,064	686,200	703,400	0.9	9.0	58,336
Cost of sales							
– Operating expenses	249,921	248,320	217,500	232,200	-7.1	-6.5	-16,120
– Royalties	44,917	40,441	41,000	42,700	-4.9	5.6	2,259
Gross profit	402,336	356,303	427,700	428,500	6.5	20.3	72,197
Depreciation	(201,668)	(156,234)	(152,000)	(153,900)	-23.7	-1.5	2,334
Expenses							
– Corporate costs	(20,000)	(8,276)	(14,000)	(14,000)	-30.0	69.2	-5,724
– Impairments	0		0	0	N/A	N/A	0
– Acquisition etc costs	(992)		(200)		-100.0	N/A	0
– Share based compensation	(7,425)		(7,700)	(7,700)	3.7	N/A	-7,700
– Exploration costs	(5,061)	(5,000)	(7,100)	(7,100)	40.3	42.0	-2,100
Total expenses	(33,478)	(13,276)	(29,000)	(28,800)	-14.0	116.9	-15,524
Earnings from operations	167,190	186,793	246,700	245,800	47.0	31.6	59,007
Interest income							
Interest expense	(25,392)	3,987	(15,200)	(15,200)	-40.1	-481.2	-19,187
Net interest	(25,392)	3,987	(15,200)	(15,200)	-40.1	-481.2	-19,187
Loss on financial instruments	15,642		(178,800)		-100.0	N/A	0
Other expenses	(2,051)		(2,000)		-100.0	N/A	0
Profit before tax	155,389	190,780	50,700	230,600	48.4	20.9	39,820
Current income tax	39,394	45,965	74,700	77,800	97.5	69.3	31,835
Deferred income tax	(34,000)	0	11,200	11,200	-132.9	N/A	11,200
Total tax	5,394	45,965	85,900	89,000	1,550.0	93.6	43,035
Effective tax rate (%)	3.5	24.1	(169.4)	38.6	1,002.9	60.2	14.5
Profit after tax	149,995	144,815	(35,200)	141,600	-5.6	-2.2	-3,215
Net profit from discontinued ops.	0	0	14,800		N/A	N/A	0
Total net and comprehensive income	149,995	144,815	(20,400)	141,600	-5.6	-2.2	-3,215
Minority interest	(6,559)	18,078	21,800	22,600	-444.6	25.0	4,522
Minority interest (%)	(4.4)	12.5	(106.9)	16.0	-463.6	28.0	3.5
Profit attributable to shareholders	156,554	126,738	(42,200)	119,000	-24.0	-6.1	-7,738
Basic EPS from continuing ops (US\$)	0.628	0.510	(0.23)	0.48	-23.6	-5.9	-0.03
Diluted EPS from continuing ops (US\$)	0.623	0.506	(0.23)	0.48	-23.0	-5.1	-0.03
Basic EPS (US\$)	0.628	0.510	(0.17)	0.48	-23.6	-5.9	-0.03
Diluted EPS (US\$)	0.623	0.506	(0.17)	0.48	-23.0	-5.1	-0.03
Norm. basic EPS from cont. ops (US\$)	0.569	0.510	0.49	0.48	-15.6	-5.9	-0.03
Norm. diluted EPS from cont. ops (US\$)	0.565	0.506	0.49	0.48	-15.0	-5.1	-0.03
Adj net earnings attributable (US\$000s)	118,770	126,738	122,300	122,300	3.0	-3.5	-4,438
Adj net EPS from continuing ops (US\$)	0.477	0.510	0.49	0.49	2.7	-3.9	-0.02

Source: Endeavour Mining, Edison Investment Research. Note: *Includes Karma stream. **Excludes royalty costs.

Endeavour's results for the quarter were distorted by an exceptional loss on financial instruments of US\$178.8m and the fact that Karma was reclassified as a discontinued operation after its sale in February. For the purposes of like-for-like comparison, therefore, the former has been excluded from the column entitled 'Q122a (underlying)' in Exhibit 1, above, while the latter has been reconsolidated back into Endeavour's income statement and the associated US\$14.8m profit from discontinued operations (including a US\$17.8m profit on the mine's sale) removed. Note therefore that the US\$3.3m difference between 'profit attributable to shareholders' and 'adjusted net earnings attributable' in this column is accounted for by the US\$3.3m underlying attributable loss that we calculate was reported by Karma during the quarter after deduction of the appropriate US\$0.3m minority interest.

Within that context, gold produced and sold was 7% ahead of our forecasts, with the outperformance accounted for almost exclusively by Endeavour's flagship assets, Hounde, Ity and Sabodala-Massawa. This outperformance in production was complemented by a realised gold price that was 1.4% better than the actual gold price recorded during the quarter to result in revenue that was 9% ahead of our prior forecasts. In combination with costs that were 6.5% lower in aggregate (13.0% lower at the level of unit cash costs), this in turn resulted in gross profit that was 20.3% better than our expectations and profit before tax that was similarly 20.9%, or US\$39.8m, better. However, this outperformance was itself largely offset by a current tax charge that was US\$31.8m higher than our prior expectations (owing to an increase in taxable income relative to a reduction in tax provisions in Q421 at Mana and a tax expense relating to the start of mining at the Massawa pits) and which was also augmented by a deferred tax charge of a further US\$11.2m (which Edison has historically typically declined to attempt to forecast) to result in adjusted net EPS from continuing operations that were within 4% of our prior forecast, at US\$0.49/share.

Items included in the reconciliation between adjusted net earnings attributable and total net and comprehensive earnings are losses from discontinued operations, gains/losses on financial instruments, other expenses and acquisition costs (all shown independently in the table above), plus the tax impact of adjusting items, non-cash and other adjustments and the minority interest attributable to the adjusting items (not shown independently). As noted previously, Endeavour has now changed its definition of adjusted net earnings attributable, such that deferred tax effects and share-based payments are no longer included in the adjustments to total net and comprehensive earnings, and this is now the manner in which our forecasts (below) are presented. Readers are also reminded that Endeavour changed its definition of cash costs in Q420 to include royalties. The decision was made so that Endeavour may be more consistent in reporting within the context of its peer group. For reasons of comparability with past results, however, as well as ease of forecasting (given that royalties are reported as a discrete item distinct from operating expenses), we are continuing to calculate total cash costs excluding royalties. A comparison between Endeavour's actual results and both our and the market's prior forecasts for the quarter is as follows:

Exhibit 2: Edison adjusted net EPS from continuing operations estimates cf consensus FY22 by quarter

(US\$/share)	Q122e	Q122a	Variance (%)
Edison	0.510	0.49	-3.9
Mean consensus forecast	0.465	0.49	+5.4
High consensus forecast	0.570	0.49	-14.0
Low consensus forecast	0.422	0.49	+16.1

Source: Refinitiv, Edison Investment Research. Note: Consensus as at 28 April 2022.

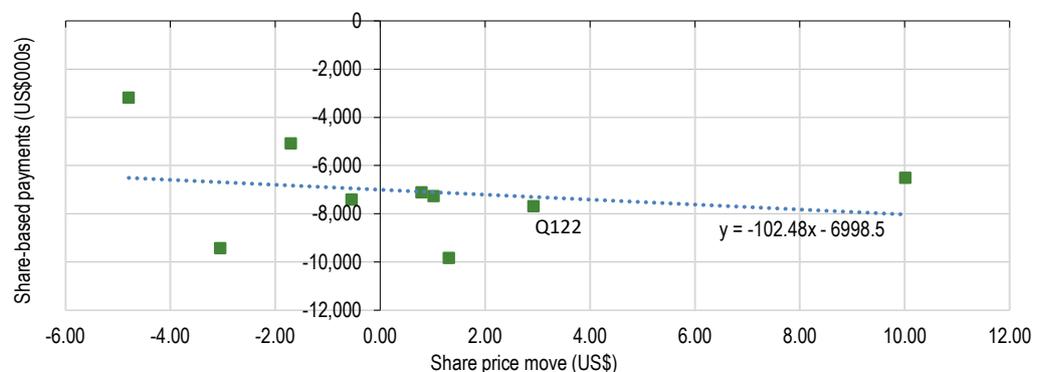
FY22 forecasts

Endeavour updated its production and cost guidance for FY22 in the aftermath of its sale of the Karma mine in February to 1,315–1,400koz at an all-in sustaining cost (AISC) of US\$890–930/oz. This remains unchanged. However, in addition to incorporating its Q122 actual results into our full-

year forecasts, in recognition of recent metals price moves, we have also reduced our gold price forecast for the remainder of the year, from US\$1,890/oz previously to US\$1,823/oz currently (the prevailing price at the time of writing). Note that, apart from this, our longer-term gold price forecasts remain unchanged. Other changes to our forecast treatments are as follows:

- Corporate costs. Where before we had generally declined to attempt to forecast share-based payments, in recognition of the fact that Endeavour has now changed its definition of adjusted net earnings attributable, such that deferred tax effects and share-based payments are no longer included in the adjustments to total net and comprehensive earnings, we have altered our treatment of share-based payments such that it is now a function of the company's share price, according to the historical relationship between the two demonstrated in Exhibit 3, below. Note that while a broadly negative relationship can be observed between Endeavour's share price move during any particular quarter and its quarterly share-based payments charge, with a Pearson Product Moment (correlation) Coefficient of -0.21, the relationship cannot be described as statistically significant at the 5% level, given the number of data points in the analysis. That is to say, at this stage there is no evidence, yet, of a significant relationship between these two parameters. This may, at least in part, reflect the distorting effects of Endeavour's acquisitions of SEMAFO and Teranga during the period in question (end-Q419 to end-Q122). It is also possible that a statistically significant relationship may develop over time (note that this is the case for other, comparable companies). In the meantime, however, as may be observed from the chart below, the share-based payment charge recorded in Q122 was nevertheless very close to that forecast by the (albeit retrospective) analysis, as shown by the point marked 'Q122'.

Exhibit 3: Historical relationship between quarterly Endeavour share price change (US\$) and quarterly share-based payments (US\$000s)



Source: Edison Investment Research (underlying data: Endeavour Mining, Bloomberg).

- In addition, after two quarters in which Endeavour has closed the quarter with net cash, but has still recorded a negative net interest charge for the quarter, we have changed our treatment of net interest to substantially remove the assumption of any interest income from positive cash balances held.

As a result (and with the usual caveat around quarterly estimates), our updated forecast for adjusted net earnings attributable to shareholders for FY22 for Endeavour in the wake of its Q122 results is now as follows:

Exhibit 4: Endeavour Mining FY22 forecasts, by quarter

US\$000s (unless otherwise indicated)	Q122a	Q222e (prior)	Q222e	Q322e (prior)	Q322e	Q422e (prior)	Q422	FY22e	FY22e (prior)
Houndé production (koz)	73.1	76.4	76.4	68.8	68.8	57.3	57.3	275.5	261.6
Agbaou production (koz)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Karma production (koz)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.3
Ity production (koz)	72.4	67.8	67.8	63.2	63.2	63.2	63.2	266.5	261.9
Boungou production (koz)	33.8	35.3	35.3	29.9	29.9	30.4	30.4	129.4	130.0
Mana production (koz)	52.6	49.3	49.3	40.6	40.6	43.1	43.1	185.6	184.6
Sabodala-Massawa	96.3	85.9	85.9	98.2	98.2	98.2	98.2	378.5	371.8
Wahgnion	28.9	32.8	32.8	33.4	33.4	43.1	43.1	138.2	140.0
Total gold produced (koz)	357.1	347.5	347.5	334.0	334.0	335.1	335.1	1,384.0**	1,360.1
Total gold sold (koz)	359.1	347.5	347.5	334.0	334.0	335.1	335.1	1,385.8**	1,360.1
Gold price (US\$/oz)	1,911	1,903	1,866	1,890	1,823	1,890	1,823	1,848	1,890
Mine level cash costs (US\$/oz)*	609	692	713	656	688	665	699	681	684
Mine level AISC (US\$/oz)	809	959	973	908	933	874	900	907	925
Revenue									
– Gold revenue	686,200	661,475	645,167	631,340	605,278	633,282	607,151	2,543,796	2,571,160
Cost of sales									
– Operating expenses	217,500	240,605	247,732	219,069	229,786	222,841	234,301	929,320	930,835
– Royalties	41,000	41,263	39,306	39,017	36,641	39,100	36,656	153,603	159,821
Gross profit	427,700	379,606	358,129	373,254	338,851	371,340	336,194	1,460,874	1,480,504
Depreciation	(152,000)	(157,461)	(151,311)	(155,594)	(152,389)	(159,997)	(160,581)	(616,281)	(629,286)
Expenses									
– Corporate costs	(14,000)	(8,276)	(13,000)	(8,276)	(12,000)	(8,276)	(11,000)	(50,000)	(33,104)
– Impairments	0							0	0
– Acquisition etc costs	(200)							(200)	0
– Share based compensation	(7,700)		(6,777)		(6,999)		(6,999)	(28,474)	0
– Exploration costs	(7,100)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(22,100)	(20,000)
Total expenses	(29,000)	(13,276)	(24,777)	(13,276)	(23,999)	(13,276)	(22,999)	(100,774)	(53,104)
Earnings from operations	246,700	208,869	182,041	204,384	162,463	198,067	152,614	743,818	798,114
Interest income								0	
Interest expense	(15,200)		(14,373)		(12,726)		(11,156)	(53,455)	83,828
Net interest	(15,200)	13,164	(14,373)	26,662	(12,726)	40,015	(11,156)	(53,455)	83,828
Loss on financial instruments	(178,800)							(178,800)	0
Other expenses	(2,000)							(2,000)	0
Profit before tax	50,700	222,033	167,668	231,046	149,737	238,083	141,458	509,563	881,942
Current income tax	74,700	48,976	44,173	48,543	40,387	47,372	38,175	197,435	190,856
Deferred income tax	11,200	0	0	0	0	0	0	11,200	0
Total tax	85,900	48,976	44,173	48,543	40,387	47,372	38,175	208,635	190,856
Effective tax rate (%)	(169.4)	22.1	26.3	21.0	27.0	19.9	27.0	40.9	21.6
Profit after tax	(35,200)	173,057	123,495	182,503	109,350	190,711	103,283	300,928	691,086
Net profit from discontinued ops.	14,800	0	0	0	0	0	0	14,800	0
Total net and comprehensive income	(20,400)	173,057	123,495	182,503	109,350	190,711	103,283	315,728	691,086
Minority interest	21,800	20,012	18,046	19,295	15,996	18,754	15,086	70,928	76,139
Minority interest (%)	(106.9)	11.6	14.6	10.6	14.6	9.8	14.6	22.5	11.0
Profit attributable to shareholders	(42,200)	153,045	105,449	163,208	93,355	171,956	88,196	244,800	614,947
Basic EPS from continuing ops (US\$)	(0.23)	0.616	0.424	0.657	0.376	0.692	0.355	0.926	2.475
Diluted EPS from continuing ops (US\$)	(0.23)	0.611	0.422	0.651	0.374	0.686	0.353	0.921	2.454
Basic EPS (US\$)	(0.17)	0.616	0.424	0.657	0.376	0.692	0.355	0.985	2.475
Diluted EPS (US\$)	(0.17)	0.611	0.422	0.651	0.374	0.686	0.353	0.980	2.454
Norm. basic EPS from cont. ops (US\$)	0.49	0.616	0.424	0.657	0.376	0.692	0.355	1.646	2.475
Norm. diluted EPS from cont. ops (US\$)	0.49	0.611	0.422	0.651	0.374	0.686	0.353	1.638	2.454
Adj net earnings attributable (US\$000s)	122,300	153,045	105,449	163,208	93,355	171,956	88,196	409,300	614,947
Adj net EPS from continuing ops (US\$)	0.49	0.616	0.424	0.657	0.376	0.692	0.355	1.648	2.475

Source: Endeavour Mining, Edison Investment Research. Note: *Excludes royalty costs. **Includes 10.2koz produced and 10.1koz sold from Karma in Q122.

As before, items included in the reconciliation between adjusted net earnings attributable and total net and comprehensive earnings are losses from discontinued operations, gains/losses on financial instruments, other expenses and acquisition costs (all shown independently in the table above), plus the tax impact of adjusting items, non-cash and other adjustments and the minority interest attributable to the adjusting items (not shown independently). As noted previously, Endeavour has

now changed its definition of adjusted net earnings attributable, such that deferred tax effects and share-based payments are no longer included in the adjustments to total net and comprehensive earnings, and this is now the manner in which our FY22 forecasts are presented. Readers are also reminded that Endeavour changed its definition of cash costs in Q420 to include royalties. The decision was made so that Endeavour may be more consistent in reporting in the context of its peer group. For reasons of comparability with past results, however, as well as ease of forecasting (given that royalties are reported as a discreet item distinct from operating expenses), we are continuing to show total cash costs excluding royalties.

Within this context, a comparison between our quarterly and full-year forecast and consensus forecasts for FY22 is as follows:

Exhibit 5: Edison adjusted net EPS from continuing operations estimates of consensus FY22 by quarter

(US\$/share)	Q122a	Q222e	Q322e	Q422e	Sum Q1–Q422	FY22e
Edison	0.493	0.424	0.376	0.355	1.648	1.648
Mean consensus forecast	0.49	0.41	0.44	0.50	1.84	1.82
High consensus forecast	0.49	0.58	0.55	0.71	2.33	2.17
Low consensus forecast	0.49	0.32	0.24	0.38	1.43	1.44

Source: Refinitiv, Edison Investment Research. Note: Consensus at 16 May 2022.

Of particular note, within the context of our financial and operating forecasts for the individual quarters, is the absence of any material decline in either production or profitability in Q3 (being the quarter historically most susceptible to disruption from the seasonal rains in West Africa). In this case, however, we are expecting a material increase in production at Sabodala-Massawa in Q322 and H222. Mining activities are expected to continue at the Massawa Central Zone for the remainder of the year along with additional mining at the Sofia North and Sofia Main pits, while mining at the Massawa North Zone is expected to commence mid-year, with non-refractory ore available for immediate treatment in the carbon-in-leach (CIL) plant, while refractory and transitional material is stockpiled. Mined and processed grades are therefore expected to decline in Q222, given the greater focus on waste extraction at the Massawa Central and North Zones ahead of the rainy season, but are then expected to increase in the second half of the year.

Self-evidently, one of the main assumptions behind our forecasts is that there are no major deleterious effects to ongoing operations as a result of the COVID-19 pandemic. It also assumes no collateral escalation of war between Russia and Ukraine into West Africa. To date, the effect of COVID-19 on Endeavour's operations in West Africa has been negligible and is expected to remain so, as the company has now been able to vaccinate more than 50% of its workforce in an ongoing programme of pandemic mitigation. In addition, Endeavour has further mitigated future risks as far as possible by setting itself up to operate under level 2 COVID-19 restrictions (see our note, [New senior gold major looking to join FTSE 100](#), published on 17 December 2020) and by preparing multiple different levels in its pits from which to produce, thereby affording it greater operational flexibility in the event of disruptions.

Sabodala-Massawa expansion launch

On 4 April, Endeavour announced its decision to proceed with the development of its Sabodala-Massawa expansion project, based on the results of a recently completed definitive feasibility study (DFS). A summary of the salient features of the DFS's results is as follows:

- The Sabodala-Massawa expansion project will supplement the current 4.2Mtpa CIL plant with a 1.2Mtpa biological oxidation (BIOX) plant to process the high-grade refractory ore from the Massawa deposits.

- Expansion is expected to increase production at the Sabodala-Massawa complex to c 373koz pa over the next five years at an average AISC of US\$745/oz; over its 10-year life, the expansion project will produce 1.35Moz at an AISC of US\$576/oz.
- Initial capex of US\$290m equates to a capital intensity of US\$2,148 per average annual ounce of production and will be self-funded by the existing Sabodala-Massawa operation.
- At a gold price of US\$1,700/oz, the project is estimated to generate US\$200m in incremental annual free cash flow in its first five years of operation to result in an NPV_{5%} of US\$861m (company calculations) and to generate a post-tax internal rate of return of 72% with a quick 1.4-year payback period.
- Construction on the project will commence in the current quarter, with the first gold pour from the BIOX plant expected in early FY24.

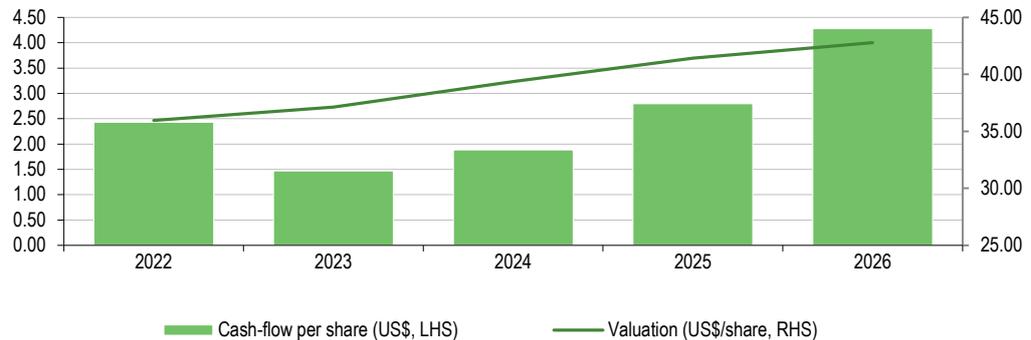
Whereas, in our previous note (see [Refining forecasts ahead of results](#), published on 28 April 2022) we had yet to incorporate the detailed Sabodala-Massawa expansion project into our longer-term forecasts (our previous valuation having been based on the outputs of the 2020 pre-feasibility study), our longer-term financial model has now been updated to rectify this omission. Thus its US\$3.47/share standalone valuation (based on its NPV_{5%} of US\$861m – management valuation, see above) is now fully included in our company valuation (below). Note that this US\$861m valuation is equivalent to US\$560 per project ounce mined.

Valuation

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, Agbaou in FY20 and Karma in FY22, 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 FY22, in the case of Endeavour, we have instead opted to discount five years of forecast cash flows in FY22–26 back to the start of FY22 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 have been excluded from such a calculation on the basis that it is an investment. In the case of Endeavour, however, it was included on the grounds that it was a critical component of ongoing business performance in its ability to continually expand and extend the lives of its mines.

All other things being equal, excluding the Sabodala-Massawa expansion project from our calculations, our estimate of cash flows in FY26 would have remained unchanged in the wake of Q122 results at US\$3.97/share. However, with it included, our estimate of cash flows in FY26 has instead increased to US\$4.28/share. This estimate implies a terminal valuation of the company at end-FY26 of US\$42.78/share – which represents an increase of US\$3.11/share relative to our prior terminal valuation of US\$39.67/share and may be compared with Endeavour's standalone valuation of the project of US\$3.47/share (albeit with the caveat that we habitually use a 10% discount rate where Endeavour used a 5% discount rate in its calculation, above). In conjunction with forecast intervening cash flows, this terminal valuation of US\$42.78/share then discounts back to a present valuation of US\$35.96/share as at the start of FY22, as follows:

Exhibit 6: Endeavour forecast valuation and cash flow per share, FY22–26e (US\$/share)



Source: Edison Investment Research

Given its elevation into the ranks of the world's foremost producers of gold, however, we believe Endeavour can increasingly attract lower-cost finance and, as such, a 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 an inflation rate of 2.5289% (source: Bloomberg, 17 May) compared to 2.5432% previously. These two measures imply an expected real equity return of 6.31% (1.09/1.025289) and applying this to our forecast cash flows would imply a terminal valuation for Endeavour of US\$67.78/share (cf US\$63.01/share previously) and a current valuation of US\$60.40/share (cf US\$59.48/share previously).

In the meantime, Endeavour's valuation remains at a material discount to those of its peer group, as shown in Exhibit 7, 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 since its takeovers of SEMAFO and Teranga have been completed), is as follows:

Exhibit 7: Endeavour valuation relative to 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	4.6	6.0	5.2	4.1	4.6	4.6	2.8	3.1	3.6
Endeavour (consensus)	EDV	4.7	5.1	4.6	4.4	4.6	4.3	2.8	3.3	3.5
Majors										
Barrick	ABX	7.9	7.4	7.4	7.0	6.4	6.6	3.0	4.5	4.8
Newmont	NEM	10.4	10.2	9.8	8.5	8.4	8.3	3.4	3.2	3.0
Newcrest	NCM AU	12.0	7.7	8.5	7.9	5.9	6.8	1.3	2.1	2.0
Kinross	K	3.8	3.7	4.1	4.5	4.1	4.6	2.8	2.8	2.8
Agnico-Eagle	AEM	9.2	8.9	9.0	7.7	7.4	7.7	3.1	3.1	3.1
Eldorado	ELD	4.2	3.4	3.3	3.5	3.1	2.9	0.0	0.0	0.0
Average		7.9	6.9	7.0	6.5	5.9	6.1	2.3	2.6	2.6
Implied EDV share price (US\$)		39.28	26.22	30.47	37.36	31.28	33.53	27.47	26.82	31.25
Implied EDV share price (C\$)		50.48	33.69	39.15	48.01	40.20	43.09	35.30	34.46	40.16

Source: Edison Investment Research, Refinitiv. Note: Consensus and peers priced at 16 May 2022.

Of note is that Endeavour's valuation is materially cheaper than the averages of the majors on all of the measures shown in Exhibit 7 regardless of whether Edison or consensus forecasts are used. On an individual basis, it is cheaper than its senior gold mining peers on at least 36 out of 54 (66%) of valuation measures if Edison forecasts are used and 39 out of 54 (72%) valuation measures if consensus forecasts are used. Reverse engineered, the average valuation measures of its peers imply an average share price for Endeavour of US\$31.52, or C\$40.50 (or £25.58), per share.

Financials

According to its Q122 balance sheet, Endeavour had net cash of US\$82.7m as at end-March, despite making US\$69.3m in dividend distributions and US\$31.1m in share repurchases during the quarter. This net cash figure compares with net cash/(debt) figures at the end of recent, comparable quarters, as follows:

Exhibit 8: Endeavour Mining net cash/(debt)*							
Heading Left	Q420	Q121	Q221	Q321	Q421	Q122	Total
Net cash/(debt)	(43.3)	(220.2)	(147.6)	(143.6)	13.2	82.7	
Change (US\$m)		(176.9)	72.6	4.0	156.8	69.5	
Dividends paid (US\$m)		60.0		69.9		69.3	199.2
Minority dividends paid (US\$m)				29.9			29.9
Share buybacks (US\$m)			59.5	34.6	43.9	31.1	169.1
Underlying net cash/(debt) change pre-shareholder returns		(116.9)	132.1	138.4	200.7	169.9	
Comment		Pre-Teranga acquisition.	Post-Teranga acquisition.				

Source: Endeavour Mining, Edison Investment Research. Note: *As per reported balance sheet.

This figure of US\$82.7m includes lease liabilities of US\$47.1m and an option premium of US\$52.6m which, if excluded, would result in an alternative net cash position of US\$182.4m. This is equivalent to, but differs slightly from, the US\$166.6m net cash figure calculated by Endeavour and quoted in its announcements owing to the discounting, variously, of certain committed future payments to present value. It also excludes US\$31.2m held in the form of 'restricted cash' and US\$40.0m in shares of Allied Gold received as consideration for the sale of Agbaou, both held in 'non-current other financial assets'.

Note that, for the purposes of our financial modelling in Exhibit 9 and for simplicity's sake, we have assumed that the consolidation of Endeavour's and Teranga's balance sheets took place retrospectively on 31 December 2020. In this case, we estimate 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 at end-December). As such, on a pro forma basis, we estimate that 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 9: Financial summary

	US\$'000s	2019	2020	2021	2022e	2023e	2024e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		1,362,121	1,847,894	2,903,756	2,543,796	2,218,986	2,235,703
Cost of Sales		(884,869)	(1,061,891)	(1,675,393)	(1,183,696)	(995,810)	(1,007,684)
Gross Profit		477,252	786,003	1,228,363	1,360,100	1,223,175	1,228,019
EBITDA		618,443	910,295	1,517,263	1,360,300	1,223,175	1,228,019
Operating Profit (before amort. and except.)		281,400	546,072	859,409	744,018	758,879	703,822
Exceptionals		(199,159)	(201,532)	(266,000)	(179,000)	0	0
Other		(9,392)	8,886	(32,263)	(2,000)	0	0
Operating Profit		72,849	353,426	561,146	563,018	758,879	703,822
Net Interest		(51,607)	(53,774)	(70,623)	(53,455)	4,164	5,731
Profit Before Tax (norm)		220,401	501,184	756,523	688,563	763,044	709,552
Profit Before Tax (FRS 3)		21,242	299,652	490,523	509,563	763,044	709,552
Tax		(97,253)	(158,466)	(178,253)	(208,635)	(215,584)	(149,307)
Profit After Tax (norm)		123,148	342,718	578,270	479,928	547,459	560,246
Profit After Tax (FRS 3)		(76,011)	141,186	312,270	300,928	547,459	560,246
Net loss from discontinued operations		(4,394)	0	0	14,800	0	0
Minority interests		33,126	44,719	64,486	70,928	89,538	88,053
Net profit		(80,405)	141,186	312,270	315,728	547,459	560,246
Net attrib. to shareholders contg. businesses (norm)		90,022	297,998	513,784	409,000	457,922	472,193
Net attrib. to shareholders contg. businesses		(109,137)	96,466	247,784	230,000	457,922	472,193
Average Number of Shares Outstanding (m)		157.4	160.8	250.7	248.4	248.4	248.4
EPS - normalised (c)		57.20	185.34	204.95	164.64	184.33	190.07
EPS - normalised fully diluted (c)		56.95	181.51	203.21	163.76	183.34	189.06
EPS - (IFRS) (\$)		(0.72)	0.60	0.99	0.99	1.84	1.90
Dividend per share (c)		0	37	56	62	70	82
Gross Margin (%)		35.0	42.5	42.3	53.5	55.1	54.9
EBITDA Margin (%)		45.4	49.3	52.3	53.5	55.1	54.9
Operating Margin (before GW and except.) (%)		20.7	29.6	29.6	29.2	34.2	31.5
BALANCE SHEET							
Fixed Assets		2,330,033	5,093,409	5,404,900	5,301,598	5,429,146	5,523,626
Intangible Assets		5,498	24,851	10,000	10,000	10,000	10,000
Tangible Assets		2,254,476	3,968,746	4,980,200	4,876,898	5,004,446	5,098,926
Investments		70,059	1,099,812	414,700	414,700	414,700	414,700
Current Assets		652,871	1,168,382	1,366,000	1,631,695	1,790,720	2,022,480
Stocks		266,451	305,075	311,300	317,975	277,373	279,463
Debtors		83,836	104,545	139,900	174,486	217,482	218,856
Cash		288,186	751,563	906,200	1,309,435	1,466,065	1,694,361
Other		14,398	7,199	8,600	(170,200)	(170,200)	(170,200)
Current Liabilities		(354,931)	(661,171)	(567,100)	(649,950)	(591,931)	(598,161)
Creditors		(312,427)	(612,862)	(552,700)	(635,550)	(577,531)	(583,761)
Short term borrowings		(42,504)	(48,309)	(14,400)	(14,400)	(14,400)	(14,400)
Long Term Liabilities		(963,736)	(1,647,799)	(1,818,100)	(1,818,100)	(1,818,100)	(1,818,100)
Long term borrowings		(770,902)	(1,026,337)	(878,600)	(878,600)	(878,600)	(878,600)
Other long term liabilities		(192,834)	(621,462)	(939,500)	(939,500)	(939,500)	(939,500)
Net Assets		1,664,237	3,952,821	4,385,700	4,465,243	4,809,835	5,129,845
CASH FLOW							
Operating Cash Flow		628,617	1,046,370	1,415,306	1,431,763	1,162,762	1,230,786
Net Interest		(35,413)	(53,774)	(26,900)	(53,455)	4,164	5,731
Tax		(109,494)	(186,332)	(205,573)	(197,435)	(215,584)	(149,307)
Capex		(401,227)	(335,599)	(587,496)	(512,979)	(591,844)	(618,678)
Acquisitions/disposals		3,654	(19,000)	(4,700)	15,000	5,000	0
Financing		2,402	100,000	(89,400)	(79,725)	0	0
Dividends		(6,154)	(88,288)	(159,800)	(199,934)	(207,867)	(240,237)
Net Cash Flow		82,385	463,377	341,437	403,235	156,630	228,296
Opening net debt/(cash)		518,607	525,220	323,083	(13,200)	(416,435)	(573,065)
Other		(88,998)	(261,240)	(5,154)	0	(0)	0
Closing net debt/(cash)		525,220	323,083	(13,200)	(416,435)	(573,065)	(801,361)

Source: Company sources, Edison Investment Research. Note: Presented on a 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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