

Endeavour Mining

Ninth successive year of outperformance

Q421/FY21 results

Metals & mining

28 March 2022

Price **1,918p**

Market cap **£4,769m**

C\$1.2582/US\$, US\$1.3253/GB£

Net cash (US\$m) at end-December 2021, 98.9
excludes lease liabilities, option premium
and restricted cash

Shares in issue 248.7m

Free float 75.2%

Code EDV

Primary exchange LSE

Secondary exchange TSX, USOTC

Share price performance



% 1m 3m 12m

Abs (2.9) 16.5 N/A

Rel (local) (2.8) 17.3 N/A

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

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

Sabodala-Massawa Phase 2 DFS Q122

Lafique DFS Late Q122/early Q222

Sabodala-Massawa Phase 2 construction launch Q222

Wona underground production Q322

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research client of Edison
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Endeavour Mining's Q421/FY21 results on 17 March were reported in the context of known cost and production, which had been reported to the market on 24 January. Despite a 6.9% upgrade to our forecasts at the time, Endeavour's actual underlying adjusted net earnings, when they were released, were nevertheless still US\$10.8m (or 10.0% or US\$0.041/share) better than our prior (upgraded) expectations for the quarter.

Year end	Revenue (US\$m)	EBITDA (US\$m)	PBT* (US\$m)	Op. cash flow per share (US\$)	DPS (c)	Yield (%)
12/20	1,847.9	910.3	501.2	5.35	37	1.5
12/21	2,903.8	1,517.3	756.5	4.83	56	2.2
12/22e	2,589.1	1,446.2	902.7	5.13	63	2.5
12/23e	2,384.4	1,357.1	868.9	4.33	70	2.8

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

Karma sale

On 11 March, Endeavour announced that it had concluded the sale of its 90% interest in its non-core Karma mine to Néré Mining for a total consideration of US\$20m (±US\$5m depending on the gold price) plus a 2.5% net smelter royalty over Karma's ongoing production. The transaction is negligible relative to Endeavour's other business assets. Relative to our estimate of Karma's FY21 year-end reserves and resources, however, we nevertheless calculate that consideration of US\$20m (US\$22.2m on a 100% basis) equates to a value of US\$9.08 per Karma resource oz of gold and US\$766 per reserve oz.

Promotion to FTSE 100 index achieved

Since 21 March, Endeavour has been an active constituent of the FTSE 100 Index. According to observers of FTSE trading patterns, the promotion could result in additional demand of up to 1–2% of Endeavour's outstanding shares, with more expected from active and passive trackers.

Valuation: In excess of £30

Based on the average multiples of its gold major peers, we estimate a value for Endeavour of US\$40.48 (C\$50.93 or £30.54) per share. By contrast, using an absolute valuation methodology, whereby we discount back five years of cash flow then apply an ex-growth, ad infinitum multiple to steady-state terminal cash flows in FY26, implies a valuation of US\$36.57 (C\$46.01 or £27.59) per share if performed using a standardised discount rate of 10% or US\$59.78 (C\$75.22 or £45.11) per share if performed using a CAPM-derived (real) discount rate of 6.28%. Note that to all of these valuations, a further US\$4.30–7.45/share may also be added to reflect the value that we ultimately expect to be imparted to Endeavour via its most recent 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 70% of common valuation measures (Exhibit 9) despite its being the largest premium LSE-listed pure gold producer in the FTSE 100 Index (since 21 March).

Investment summary

Endeavour's Q421/FY21 results were reported on 17 March, within the context of known production and known all-in sustaining costs (AISC) since, on 24 January, Endeavour had provided a production and cost update for its mines, the highlights of which were:

- Strong Q421 production of 398koz, up 4% relative to Q321, while AISC remained stable at c US\$900/oz.
- Record FY21 production of 1,536koz, beating the annual guidance range of 1,365–1,495koz, at an AISC of c US\$880/oz (cf guidance of US\$850–900/oz).

As such, FY21 was the ninth consecutive year in which Endeavour has either met or exceeded its annual guidance, with all seven of its mines exceeding our prior production expectations. We updated our financial forecasts in the light of Endeavour's 24 January announcement (see our note, [Forecasts ahead of St Patrick's day results](#), published on 7 March), which resulted in a 6.9% increase in our estimate of adjusted net earnings attributable to shareholders for the quarter and a 1.2% increase for the year. In the event, Endeavour's actual underlying adjusted net earnings were approximately US\$10.8m (or 10.0% or US\$0.041/share) better than our updated expectations for the quarter.

Like-for-like comparison between actual results for Q421/FY21 was rendered difficult by three factors:

- A US\$259.4m impairment, of which US\$246.3m (95%) related to Boungou. While its reserves increased by 110koz during the year, the impairment test net asset value decreased since it was rebased mainly on reserves, while the previous plan included a resource to reserve conversion assumption and exploration upside. This change was required as a consequence of the limited exploration activities undertaken on the high-grade targets during the year owing to the security situation.
- Endeavour's decision to exclude share-based payment effects and deferred taxation effects from its calculation of adjusted net earnings in order to improve its reporting, to align itself with premium listed reporting standards and to bring itself in line with the better financial reporting standards of some of its peers.
- A number of ex post facto adjustments (mainly relating to non-cash fair value adjustments to inventory associated with the purchase price allocation of SEMAFO and Teranga as well as the listing fees associated with listing on the London Stock Exchange).

Endeavour's actual results within the context of our prior expectations for both the quarter and the full year (both on an 'as reported' and a 'pro forma' basis) are provided in the table below. In this case, for the purposes of easier comparison, calculation of Endeavour's adjusted net earnings attributable has been translated back into its previous format (ie excluding share-based payments and deferred tax effects). In future, however – and for the purposes of our forecasting – we will conform to the new protocol (eg in Exhibit 6). In addition, we have introduced an additional column for each set of results, excluding the impairment, denoted 'underlying'. On this basis, it may be seen that adjusted net earnings exceeded our prior forecast for Q421 by US\$10.8m (US\$118.8m cf US\$108.0m). In general, depreciation exceeded our prior estimate by US\$21.1m (or 11.7%), while interest expenses exceeded our prior estimate by US\$13.8m and increased on the prior quarter, which was a surprise given that Endeavour achieved a net cash position during the quarter. Nevertheless, as a consequence, our estimate of adjusted net earnings for the full year on a pro forma basis (ie assuming the acquisition of Teranga on 31 December 2020 rather than 10 February 2021) also exceeded our prior forecast by the same amount – albeit this translated into a much smaller percentage variance of just 1.9% (cf 10.0% for the quarter). Endeavour's reported full year

earnings were affected by an implied adjustment upwards to costs of US\$26.2m and an adjustment upwards to depreciation of US\$9.4m – that is to say, costs and depreciation were higher by those amounts than the sums of their individual quarters. However, these two restatements were largely offset by an almost identical in magnitude US\$37.3m upwards adjustment to ‘non-cash and other’ items plus smaller adjustments to corporate costs and ‘other’ expenses to result in adjusted net earnings attributable for the full year – on an ‘as reported’ basis – that were US\$9.1m (or 1.7%) above our prior expectation (US\$557.9m cf US\$548.8m) on a like-for-like basis.

Note that, with share-based payments and deferred tax not excluded from the calculation, adjusted net earnings attributable to shareholders for the quarter would have been US\$145.4m (or US\$0.58/share) and US\$577.2m (US\$2.40/share) for the full year, on an ‘as reported’ basis – as calculated by Endeavour.

Exhibit 1: Endeavour Mining FY21 earnings forecasts, by quarter

US\$000s (unless otherwise indicated)	Q421e	Q421a	Q421a (underlying)	FY21e (pro forma)	Est FY21a (pro forma)	Est FY21a (pro forma) (underlying)	FY21e (reported)	FY21a	FY21a (underlying)
Houndé production (koz)	77.0	77.3	77.3	292.9	293.2	293.2	292.9	293.2	293.2
Agbaou production (koz)	0	0	0	12.6	12.6	12.6	0.0	0	0
Karma production (koz)	19.8	20.5	20.5	87.0	87.7	87.7	87.0	87.7	87.7
Ity production (koz)	60.3	60.0	60.0	272.2	271.8	271.8	272.2	271.8	271.8
Boungou production (koz)	35.0	34.9	34.9	174.4	174.3	174.3	174.4	174.3	174.3
Mana production (koz)	53.5	53.8	53.8	204.2	204.5	204.5	204.2	204.5	204.5
Sabodala-Massawa	105.0	104.6	104.6	381.7	381.3	381.3	345.6	345.3	345.3
Wahgnion	46.5	47.2	47.2	164.7	165.4	165.4	146.4	147.0	147.0
Total gold produced (koz)	397.1	398.3	398.3	1,589.6	1,590.8	1,590.8	1,522.7	1,523.8	1,523.8
Total gold sold (koz)	390.0	391.0	391.0	1,635.2	1,636.2	1,636.2	1,566.7	1,566.8	1,566.8
Gold price (US\$/oz)	1,796	1,783*	1,783*	1,778*	1,775*	1,775*	1,775*	1,773*	1,773*
Mine level cash costs (US\$/oz)	644	639	639	636	635	635	633	632	632
Mine level AISC (US\$/oz)	869	865	865	855	854	854	854	853	853
Revenue									
– Gold revenue	700,506	697,174	697,174	2,907,089	2,903,756	2,903,756	2,781,432	2,778,100	2,778,100
Cost of sales									
– Operating expenses	251,049	249,921	249,921	1,086,820	1,085,692	1,085,692	1,037,792	1,062,900	1,062,900
– Royalties	44,254	44,917	44,917	181,951	182,614	182,614	175,037	175,700	175,700
Gross profit	405,204	402,336	402,336	1,638,318	1,635,450	1,635,450	1,568,604	1,539,500	1,539,500
Depreciation	(180,525)	(201,668)	(201,668)	(636,711)	(657,854)	(657,854)	(618,132)	(648,700)	(648,700)
Expenses									
– Corporate costs	(24,998)	(20,000)	(20,000)	(65,604)	(60,606)	(60,606)	(64,287)	(62,500)	(62,500)
– Impairments	0	(259,400)	0	0	(259,400)	-	0	(259,400)	-
– Acquisition etc costs	0	(992)	(992)	(28,508)	(29,500)	(29,500)	(28,508)	(29,500)	(29,500)
– Share based compensation	(1,574)	(7,425)	(7,425)	(28,130)	(33,981)	(33,981)	(26,649)	(32,500)	(32,500)
– Exploration costs	(5,625)	(5,061)	(5,061)	(24,164)	(23,600)	(23,600)	(24,164)	(23,600)	(23,600)
Total expenses	(32,197)	(292,878)	(33,478)	(146,406)	(407,087)	(147,687)	(143,608)	(407,500)	(148,100)
Earnings from operations	192,482	(92,210)	167,190	855,201	570,509	829,909	806,864	483,300	742,700
Interest income				0	0	0	0	0	0
Interest expense	(11,631)	(25,392)	(25,392)	(56,863)	(70,623)	(70,623)	(52,339)	(66,100)	(66,100)
Net interest	(11,631)	(25,392)	(25,392)	(56,863)	(70,623)	(70,623)	(52,339)	(66,100)	(66,100)
Loss on financial instruments		15,642	15,642	7,258	22,900	22,900	7,258	22,900	22,900
Other expenses		(2,051)	(2,051)	(30,212)	(32,263)	(32,263)	(16,752)	(16,000)	(16,000)
Profit before tax	180,851	(104,011)	155,389	775,385	490,523	749,923	745,031	424,100	683,500
Current income tax	53,174	39,394	39,394	219,352	205,573	205,573	210,180	196,400	196,400
Deferred income tax	0	(34,000)	(34,000)	6,680	(27,320)	(27,320)	6,680	(51,800)	(51,800)
Total tax	53,174	5,394	5,394	226,032	178,253	178,253	216,860	144,600	144,600
Effective tax rate (%)	29.4	(5.2)	3.5	29.2	36.3		29.1	34.1	21.2
Profit after tax	127,677	(109,405)	149,995	549,352	312,270	571,670	528,171	279,500	538,900
Net profit from discontinued ops.	0	0	0	0	0		(3,702)	(3,702)	(3,702)
Total net and comprehensive income	127,677	(109,405)	149,995	549,352	312,270	571,670	524,469	275,798	535,198
Minority interest	20,974	(6,559)	(6,559)	92,019	64,486	64,486	87,833	60,300	60,300
Minority interest (%)	16.4	6.0	(4.4)	16.8	20.7		16.7	21.9	11.3
Profit attributable to shareholders	106,703	(102,846)	156,554	457,333	247,784	507,184	436,636	215,498	474,898
Basic EPS from continuing ops (US\$)	0.431	-0.413	0.628	1.827	0.988	2.023	1.846	0.92	1.909
Diluted EPS from continuing ops (US\$)	0.427	-0.409	0.623	1.812	0.980	2.006	1.829	0.91	1.893
Basic EPS (US\$)	0.431	-0.413	0.628	1.827	0.988	2.023	1.824	0.90	1.894
Diluted EPS (US\$)	0.427	-0.409	0.623	1.812	0.980	2.006	1.808	0.89	1.878
Norm. basic EPS from continuing ops (US\$)	0.431	0.569	0.569	1.912	2.050	2.050	1.928	1.935	1.935
Norm. diluted EPS from continuing ops (US\$)	0.427	0.565	0.565	1.896	2.032	2.032	1.911	1.919	1.919
Adj net earnings attributable (US\$000s)	108,018	118,770	118,770	579,285	590,036	590,036	548,815	557,900	557,900
Adj net EPS from continuing ops (US\$)	0.436	0.477	0.477	2.314	2.354	2.354	2.293	2.225	2.225

Source: Endeavour Mining, Edison Investment Research. Note: Company reported basis. *Includes adjustment for Karma stream.

Items included in the reconciliation between adjusted net earnings attributable and total net and comprehensive earnings are losses from discontinued operations, deferred income tax effects, gains/losses on financial instruments, other expenses, share-based compensation 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).

On the previous basis (ie including share-based payments and deferred tax effects), Endeavour's results were well within the range of analysts' expectations both for the quarter and for the full year:

Exhibit 2: Edison adjusted net EPS from continuing operations estimates versus consensus FY21 by quarter

(US\$/share)	As reported					FY21e
	Q121	Q221	Q321	Q421	Sum Q1–Q421e	
Actual	0.503	0.727	0.612	0.477	2.319	2.225
Edison forecast				0.436	2.278	2.293
Mean consensus forecast				0.510	2.352	2.340
High consensus forecast				0.640	2.482	2.480
Low consensus forecast				0.400	2.242	2.090

Source: Refinitiv, Edison Investment Research. Note: Consensus priced 3 March 2022.

Karma sale

On 11 March, Endeavour announced that it had concluded the sale of its 90% interest in its non-core Karma mine to Néré Mining (a Burkina Faso-based consortium led by Elie Ouedraogo – a board member of both Karma and Mana and a prominent local businessman – who owns 29% of Néré).

Under the terms of the agreement, the total consideration of the transaction of US\$25m will be apportioned as follows:

- US\$10m was received prior to closing in the form of a reimbursement of historical shareholder loans.
- A deferred cash payment of US\$5m to be paid six months after closing.
- A contingent payment of up to US\$10m, payable 12 months after closing, depending on the price of gold, as follows:
 - No payment if the gold price is below US\$1,700/oz
 - A US\$5m payment if the gold price is in the range US\$1,701–1,950/oz
 - An US\$8m payment if the gold price is in the range US\$1,951–2,049/oz
 - A US\$10m payment if the gold price is in above US\$2,050/oz
- A 2.5% net smelter royalty on all ounces produced in excess of 160koz of recovered gold from 1 January 2022.

Consideration of up to US\$25m compares with a simplified version of Karma's balance sheet as at 31 December, as follows:

Exhibit 3: Simplified Karma balance sheet (31 December 2021)

Item	US\$m
Current assets	32.9
Mining interests	25.0
Other long-term assets	13.7
Total assets	71.6
Current liabilities	24.4
Other long-term liabilities	16.8
Total liabilities	41.2
Net assets	30.4
Pro rata minority interest (10%)	3.0
Net assets attributable to Endeavour	27.4

Source: Endeavour Mining

On this basis (and depending on the gold price and the valuation of Endeavour's 2.5% net smelter royalty), we infer that Endeavour may record a small loss in the order of US\$7.4m on disposal in

Q122 (based on the gold price at the time of writing). However, note that this item is not included in our estimates in Exhibit 6, below, on the basis that it is a) insignificant within the context of Endeavour's broader accounts and b) non-recurring.

Nevertheless, consideration of up to US\$25m also compares with Karma's reserves and resources statement as at end-FY20 and our forecast of its statement as at end-FY21 (net of depletion) as follows:

Exhibit 4: Karma reserves & resources statement, FY20 and estimated FY21

Resources				Reserves			
	Tonnage (Mt)	Grade (g/t)	Contained gold (koz)		Tonnage (Mt)	Grade (g/t)	Contained gold (koz)
End-FY20							
Measured	0.3	0.40	4	Proven	0.3	0.40	4
Indicated	47.7	1.24	1,894	Probable	5.2	0.93	154
Inferred	16.2	1.30	679	Possible			0
Total	64.2	1.25	2,577	Total	5.5	0.89	157
Estimated depletion FY21	5.1	0.78	129		5.1	0.78	129
Estimated end-FY21							
Measured	0.0	0.00	0	Proven	0.0	0.00	0
Indicated	42.9	1.28	1,769	Probable	0.4	2.25	29
Inferred	16.2	1.30	679	Possible			0
Total	59.1	1.29	2,448	Total	0.4	2.25	29

Source: Endeavour Mining, Edison Investment Research

On this basis, consideration of US\$20m (US\$22.2m on a 100% basis) values Karma at US\$9.08 per resource oz of gold and US\$766 per reserve oz of gold.

FY22 forecasts

In the light of its sale of Karma, Endeavour updated its production and cost guidance for FY22 as follows:

Exhibit 5: Endeavour Mining updated production and cost guidance, FY22

	Previous guidance	Updated guidance	Change
Gold production (koz)	1,400–1,500	1,315–1,400	(85)–(100)
All-in sustaining costs (US\$/oz)	890–940	880–930	(10)–(10)

Source: Endeavour Mining

In addition, we have also increased our gold price forecast for the remainder of the year, from US\$1,890/oz previously to US\$1,926/oz currently (the prevailing price at the time of writing). Note that, apart from this, our longer-term gold price forecasts remain unchanged.

As a result (and with the usual caveat around quarterly estimates), our forecast for adjusted net earnings attributable to shareholders for FY22 has decreased by 1.3%, as shown below:

Exhibit 6: Endeavour Mining FY22 forecasts

US\$000s (unless otherwise indicated)	Q122e (prior)	Q121e	Q222e (prior)	Q222e	Q322e (prior)	Q322e	Q422e (prior)	Q422	FY22e	FY22e (prior)
Houndé production (koz)	59.2	59.2	76.4	76.4	68.8	68.8	57.3	57.3	261.6	261.6
Agbaou production (koz)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Karma production (koz)	13.4	10.3	17.5	0.0	22.6	0.0	28.0	0.0	10.3	81.5
Ity production (koz)	63.6	63.6	63.6	63.6	63.2	63.2	63.2	63.2	253.5	253.5
Boungou production (koz)	36.3	36.3	35.3	35.3	28.9	28.9	30.4	30.4	130.9	130.9
Mana production (koz)	51.5	51.5	49.3	49.3	40.6	40.6	43.1	43.1	184.6	184.6
Sabodala-Massawa	85.9	85.9	85.9	85.9	98.2	98.2	98.2	98.2	368.1	368.1
Wahgnion	34.8	34.8	32.8	32.8	33.4	33.4	43.1	43.1	144.1	144.1
Total gold produced (koz)	344.8	341.7	360.9	343.4	355.6	333.0	363.1	335.1	1,353.1	1,424.3
Total gold sold (koz)	344.8	341.7	360.9	343.4	355.6	333.0	363.1	335.1	1,353.1	1,424.3
Gold price (US\$/oz)	1,855	1,877	1,890	1,926	1,890	1,926	1,890	1,926	1,914	1,882
Mine level cash costs (US\$/oz)*	782	722	685	697	711	659	738	666	686	702
Mine level AISC (US\$/oz)	910	975	796	955	808	908	839	877	929	939
Revenue										
– Gold revenue	639,671	641,133	682,101	661,326	671,991	641,306	686,269	645,344	2,589,109	2,680,032
Cost of sales										
– Operating expenses	251,521	246,616	260,952	239,384	241,568	219,450	245,891	223,223	928,673	999,932
– Royalties	40,004	40,364	43,145	41,305	42,415	39,632	43,503	39,845	161,146	169,067
Gross profit	348,147	354,153	378,004	380,637	388,008	382,224	396,875	382,277	1,499,291	1,511,033
Depreciation	(143,658)	-158,177	(151,050)	-157,638	(152,361)	-154,856	(161,562)	-160,258	-630,929	(608,631)
Expenses										
– Corporate costs	(8,276)	-8,276	(8,276)	-8,276	(8,276)	-8,276	(8,276)	-8,276	-33,104	(33,104)
– Impairments									0	0
– Acquisition etc costs									0	0
– Share based compensation									0	0
– Exploration costs	(5,000)	-5,000	(5,000)	-5,000	(5,000)	-5,000	(5,000)	-5,000	-20,000	(20,000)
Total expenses	(13,276)	-13,276	(13,276)	-13,276	(13,276)	-13,276	(13,276)	-13,276	-53,104	(53,104)
Earnings from operations	191,213	182,700	213,678	209,723	222,371	214,093	222,037	208,742	815,258	849,298
Interest income									0	0
Interest expense	(214)	3,987	10,231	14,041	24,186	27,829	38,624	41,608	87,465	72,827
Net interest	(214)	3,987	10,231	14,041	24,186	27,829	38,624	41,608	87,465	72,827
Loss on financial instruments									0	0
Other expenses									0	0
Profit before tax	190,999	186,687	223,909	223,764	246,557	241,922	260,661	250,350	902,723	922,126
Current income tax	46,474	44,519	49,934	48,917	52,128	50,648	52,018	49,650	193,735	200,554
Deferred income tax	0	0	0	0	0	0	0	0	0	0
Total tax	46,474	44,519	49,934	48,917	52,128	50,648	52,018	49,650	193,735	200,554
Effective tax rate (%)	24.3	23.8	22.3	21.9	21.1	20.9	20.0	19.8	21.5	21.7
Profit after tax	144,525	142,168	173,976	174,847	194,429	191,273	208,643	200,700	708,988	721,572
Net profit from discontinued ops.	0	0	0	0	0	0	0	0	0	0
Total net and comprehensive income	144,525	142,168	173,976	174,847	194,429	191,273	208,643	200,700	708,988	721,572
Minority interest	18,136	17,607	20,093	19,944	20,678	20,134	20,638	19,675	77,361	79,544
Minority interest (%)	12.5	12.4	11.5	11.4	10.6	10.5	9.9	9.8	10.9	11.0
Profit attributable to shareholders	126,389	124,561	153,883	154,903	173,750	171,139	188,005	181,025	631,627	642,027
Basic EPS from continuing ops (US\$)	0.512	0.502	0.624	0.623	0.705	0.688	0.762	0.728	2.541	2.602
Diluted EPS from continuing ops (US\$)	0.507	0.497	0.619	0.618	0.698	0.682	0.756	0.722	2.519	2.580
Basic EPS (US\$)	0.512	0.502	0.624	0.623	0.705	0.688	0.762	0.728	2.541	2.602
Diluted EPS (US\$)	0.507	0.497	0.619	0.618	0.698	0.682	0.756	0.722	2.519	2.580
Norm. basic EPS from cont. ops (US\$)	0.512	0.502	0.624	0.623	0.705	0.688	0.762	0.728	2.541	2.602
Norm. diluted EPS from cont. ops (US\$)	0.507	0.497	0.619	0.618	0.698	0.682	0.756	0.722	2.519	2.580
Adj net earnings attributable (US\$000s)	126,389	124,561	153,883	154,903	173,750	171,139	188,005	181,025	631,627	642,027
Adj net EPS from continuing ops (US\$)	0.512	0.502	0.624	0.623	0.705	0.688	0.762	0.728	2.541	2.602

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

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 (above) 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 discreet item distinct from operating expenses), we are continuing to show total cash costs excluding royalties.

A comparison between our quarterly and full-year forecast and consensus forecasts for FY22 is as follows:

Exhibit 7: Edison adjusted net EPS from continuing operations estimates versus consensus FY22 by quarter

(US\$/share)	Q122a	Q222a	Q322a	Q422e	Sum Q1–Q422	FY22e
Edison	0.502	0.623	0.688	0.728	2.541	2.541
Mean consensus forecast	0.47	0.52	0.47	0.49	1.95	1.91
High consensus forecast	0.58	0.62	0.70	0.76	2.66	2.60
Low consensus forecast	0.31	0.26	0.24	0.23	1.04	1.05

Source: Refinitiv, Edison Investment Research. Note: Consensus at 22 March 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. Ore at Sabodala-Massawa will be primarily sourced from the Sofia North pit, supplemented by lower-grade feed from the Sabodala pit, in H122, whereas it is intended to be sourced from the higher-grade Massawa Central and Massawa North in H222. Note that, in the case of FY22, we have not (yet) attempted to forecast any tax instalment payments, which typically inflate Endeavour's tax charge in the second quarter of any particular financial year.

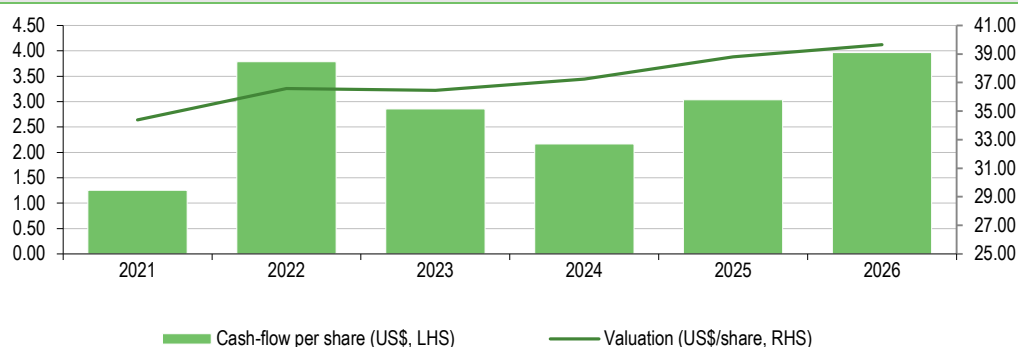
Self-evidently, one of the main assumptions behind our forecasts is there are no major deleterious effects to ongoing operations as a result of the COVID-19 pandemic. It also assumes no collateral escalation of war between Russia and Ukraine into West Africa. To date, the effect of COVID-19 on Endeavour's 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 if there are disruptions.

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 (previously six) of forecast cash flows in FY22–26 back to the start of FY22 then 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.

In this case, our estimate of cash flows in FY26 has remained, to all intents and purposes, unchanged at US\$3.96/share (cf US\$4.00/share previously), giving rise to a terminal valuation of the company at end-FY26 of US\$39.65/share (cf US\$40.00/share previously), which (in conjunction with forecast intervening cash flows) then discounts back to a valuation of US\$36.57/share as at the start of FY22 (cf US\$37.16/share previously):

Exhibit 8: Endeavour forecast valuation and cash flow per share, FY20–26e (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 2.5623% (source: Bloomberg, 22 March) cf 2.3365% previously. These two measures imply an expected real equity return of 6.28% (1.09/1.025623) and applying this to our forecast cash flows would imply a terminal valuation for Endeavour of US\$63.17/share (cf US\$61.43/share previously) and a current valuation of US\$59.78/share (cf US\$58.30/share previously).

In the meantime, Endeavour's valuation remains at a material discount to those of its peer group, as shown in Exhibit 9, 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 9: 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	5.0	5.4	5.9	4.4	4.6	5.1	2.5	2.8	3.1
Endeavour (consensus)	EDV	5.5	5.5	5.5	5.1	5.1	5.1	2.4	2.2	3.2
Majors										
Barrick	ABX	9.4	8.8	9.2	8.2	7.7	8.2	2.7	3.9	3.7
Newmont	NEM	12.6	13.0	13.0	9.6	9.9	10.2	2.8	2.8	2.8
Newcrest	NCM AU	13.3	8.7	9.8	8.4	6.9	8.0	1.1	1.7	1.3
Kinross	K	4.8	4.7	5.9	4.2	4.1	5.0	2.1	2.1	2.2
Agnico-Eagle	AEM	10.5	10.7	11.2	9.9	9.7	10.8	2.4	2.4	2.9
Eldorado	ELD	5.8	5.2	4.8	5.2	4.6	4.3	0.0	0.0	0.0
Average		9.4	8.5	9.0	7.6	7.1	7.8	1.9	2.1	2.1
Implied EDV share price (US\$)		48.28	36.79	38.80	47.25	44.15	44.83	34.06	32.73	37.41
Implied EDV share price (C\$)		60.74	46.29	48.81	59.45	55.55	56.40	42.86	41.18	47.07

Source: Edison Investment Research, Refinitiv. Note: Consensus and peers priced at 22 March 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 9 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 39 out of 54 (72%) of valuation measures if Edison forecasts are used and 38 out of 54 (70%) 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\$40.48, or C\$50.93 (or £30.54) per share.

Financials

According to its Q421/FY21 balance sheet, Endeavour had net cash of US\$13.2m at end-December, despite making US\$43.9m in share repurchases during the quarter. This compares with net debt of US\$143.6m at end-Q321, US\$147.6m at end-Q221, US\$220.2m at end-Q121 (after the completion of the Teranga acquisition and the injection of US\$200m by La Mancha) and US\$43.3m at end-FY20 (before the Teranga acquisition). This figure of US\$13.2m also includes lease liabilities of US\$51.1m and an option premium of US\$34.6m. Excluding these two items results in a net cash position of US\$98.9m. This figure also excludes US\$30.6m 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 'other financial assets'. It also differs slightly from the US\$76.2m net cash figure calculated by Endeavour and quoted in its announcements owing to the discounting, variously, of certain committed future payments to present value.

Note that, for the purposes of our financial modelling in Exhibit 10 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 10: 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	2,589,109	2,384,441	2,223,575
Cost of Sales		(884,869)	(1,061,891)	(1,675,393)	(1,142,922)	(1,027,329)	(990,738)
Gross Profit		477,252	786,003	1,228,363	1,446,187	1,357,112	1,232,838
EBITDA		618,443	910,295	1,517,263	1,446,187	1,357,112	1,232,838
Operating Profit (before amort. and except.)		281,400	546,072	859,409	815,258	861,136	749,634
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		(199,159)	(201,532)	(266,000)	0	0	0
Other		(9,392)	8,886	(32,263)	0	0	0
Operating Profit		72,849	353,426	561,146	815,258	861,136	749,634
Net Interest		(51,607)	(53,774)	(70,623)	87,465	7,762	12,807
Profit Before Tax (norm)		220,401	501,184	756,523	902,723	868,898	762,441
Profit Before Tax (FRS 3)		21,242	299,652	490,523	902,723	868,898	762,441
Tax		(97,253)	(158,466)	(178,253)	(193,735)	(203,596)	(180,659)
Profit After Tax (norm)		123,148	342,718	578,270	708,988	665,303	581,782
Profit After Tax (FRS 3)		(76,011)	141,186	312,270	708,988	665,303	581,782
Net loss from discontinued operations		(4,394)	0	0	0	0	0
Minority interests		33,126	44,719	64,486	77,361	99,670	86,568
Net profit		(80,405)	141,186	312,270	708,988	665,303	581,782
Net attrib. to shareholders contg. businesses (norm)		90,022	297,998	513,784	631,627	565,633	495,215
Net attrib. to shareholders contg. businesses		(109,137)	96,466	247,784	631,627	565,633	495,215
Average Number of Shares Outstanding (m)		157.4	160.8	250.7	248.4	248.7	248.7
EPS - normalised (c)		57.20	185.34	204.95	254.32	227.46	199.14
EPS - normalised fully diluted (c)		56.95	181.51	203.21	252.72	226.03	197.89
EPS - (IFRS) (\$)		(0.72)	0.60	0.99	2.54	2.27	1.99
Dividend per share (c)		0	37	56	63	70	80
Gross Margin (%)		35.0	42.5	42.3	55.9	56.9	55.4
EBITDA Margin (%)		45.4	49.3	52.3	55.9	56.9	55.4
Operating Margin (before GW and except.) (%)		20.7	29.6	29.6	31.5	36.1	33.7
BALANCE SHEET							
Fixed Assets		2,330,033	5,093,409	5,404,900	5,173,219	5,058,087	5,123,561
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	4,748,519	4,633,387	4,698,861
Investments		70,059	1,099,812	414,700	414,700	414,700	414,700
Current Assets		652,871	1,168,382	1,366,000	2,178,377	2,711,475	2,982,133
Stocks		266,451	305,075	311,300	323,639	298,055	277,947
Debtors		83,836	104,545	139,900	176,969	231,081	217,860
Cash		288,186	751,563	906,200	1,669,169	2,173,738	2,477,727
Other		14,398	7,199	8,600	8,600	8,600	8,600
Current Liabilities		(354,931)	(661,171)	(567,100)	(638,455)	(591,303)	(579,530)
Creditors		(312,427)	(612,862)	(552,700)	(624,055)	(576,903)	(565,130)
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	4,895,040	5,360,159	5,708,065
CASH FLOW							
Operating Cash Flow		628,617	1,046,370	1,415,306	1,468,134	1,281,430	1,254,395
Net Interest		(35,413)	(53,774)	(26,900)	87,465	7,762	12,807
Tax		(109,494)	(186,332)	(205,573)	(193,735)	(203,596)	(180,659)
Capex		(401,227)	(335,599)	(587,496)	(399,248)	(380,844)	(548,678)
Acquisitions/disposals		3,654	(19,000)	(4,700)	15,000	5,000	0
Financing		2,402	100,000	(89,400)	(38,122)	0	0
Dividends		(6,154)	(88,288)	(159,800)	(176,527)	(205,183)	(233,877)
Net Cash Flow		82,385	463,377	341,437	762,969	504,569	303,989
Opening net debt/(cash)*		518,607	525,220	323,083	(13,200)	(776,169)	(1,280,738)
Other		(88,998)	(261,240)	(5,154)	0	(0)	0
Closing net debt/(cash)*		525,220	323,083	(13,200)	(776,169)	(1,280,738)	(1,584,727)

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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