

# Endeavour Mining

Yield hits 4%

Q222 results analysis

Metals and mining

8 August 2022

**Price** **1660p**

**Market cap** **£4,124m**

C\$1.2858/US\$, US\$1.2064/£

Net cash (US\$m) at end-June 2022, 232.6  
excludes lease liabilities, option premium  
and restricted cash

Shares in issue 248.4m

Free float 75.2%

Code EDV

Primary exchange LSE

Secondary exchange TSX, USOTC

## Share price performance



% 1m 3m 12m

Abs 2.9 (16.5) (5.4)

Rel (local) (3.3) (15.8) (5.9)

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 six 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

Lafigue DFS Q322

Sabodala-Massawa Phase 2 construction launch Mid-2022

Wona underground production Q322

H122 dividend paid 28 September 2022

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Endeavour's Q222 results were better than our expectations. Production for the quarter was 345koz (cf our expectation of 322koz) at an all-in sustaining cost (AISC) of US\$954/oz (cf US\$995/oz) to result in revenue of US\$629.6m (cf US\$600.8m), adjusted EBITDA of US\$329m (cf US\$305m) and adjusted EPS of 45c/share (cf 38c/share). Given that Edison's expectations were close to consensus, it similarly outperformed the consensus. As a result of its strong H122 performance (702koz produced from continuing operations at an AISC of US\$900/oz), the company increased its interim dividend by 43% to US\$100m (or US\$0.40/share) and increased its minimum FY22 committed dividend by US\$50m (or 33%), from US\$150m to US\$200m (or US\$0.80/share) to put the company on a prospective dividend yield of 4.0% with additional shareholder gains available in the form of its share buyback programme.

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	1.8
12/21	2,903.8	1,517.3	756.5	4.83	56	2.8
12/22e	2,492.8	1,326.6	644.1	4.86	80	4.0
12/23e	2,219.0	1,223.2	764.4	3.86	82	4.1

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

## On track to hit guidance

Most of Endeavour's outperformance could be attributed to higher production at Ity, Hounde and Mana and lower corporate costs. After producing, 702koz at an AISC of US\$900/oz in H122, Endeavour reiterated its guidance for FY22 of production of 1,315–1,400koz at an AISC of US\$890–930/oz. Higher quarterly costs could generally be attributed to increased proportions of fresh rock mining at deeper horizons at Boungou, Sabodala-Massawa and Wahgnion and stripping and scheduling ahead of West Africa's rainy season in Q3. Countering this, Endeavour benefited from in-country fuel pricing mechanisms, long-term supply contracts and local currency weakness versus the US dollar.

## Valuation: Holding steady at US\$35.54/share

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\$35.54 (C\$45.70 or £29.46) per share if performed using a 10% discount rate (cf US\$35.88 previously) or US\$57.15 (C\$73.48 or £47.37) per share if performed using a CAPM-derived (real) discount rate of 6.59% (based on inflation expectations of 2.26% derived from US 30-year break-evens). 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, Endeavour is trading at a discount to the average multiples of its peers on at least 57% of common valuation measures, regardless of whether Edison or consensus forecasts are used, despite being the largest premium LSE-listed pure gold producer in the FTSE 100 Index.

## Q222 results and analysis

A summary of Endeavour's Q222 results is provided in the table below, showing both its headline results and its underlying results, excluding most of the major adjusting items:

**Exhibit 1: Endeavour Mining Q222 results cf prior expectations and Q122**

US\$000s (unless otherwise indicated)	Q421a (underlying)	Q122a	Q122a (underlying)	Q222e	Q222	Q222a (underlying)	Change ***(%)	Variance ****(%)	Variance ****(units)
Houndé production (koz)	77.3	73.1	73.1	76.4	87.0	87	19.0	13.9	10.6
Karma production (koz)	20.5	0.0	10.2	0.0	0.0	0	-100.0	0.0	0.0
Ity production (koz)	60.0	72.4	72.4	67.8	76.9	76.9	6.2	13.4	9.1
Boungou production (koz)	34.9	33.8	33.8	26.0	27.0	27	-20.1	3.8	1.0
Mana production (koz)	53.8	52.6	52.6	49.3	54.8	54.8	4.2	11.2	5.5
Sabodala-Massawa	104.6	96.3	96.3	75.4	72.9	72.9	-24.3	-3.3	-2.5
Wahgnion	47.2	28.9	28.9	27.5	26.5	26.5	-8.3	-3.6	-1.0
Total gold produced (koz)	398.3	357.1	367.3	322.3	345.1	345.1	-6.0	7.1	22.8
Total gold sold (koz)	391.0	359.1	369.2	322.3	343.7	343.7	-6.9	6.6	21.4
Gold price (US\$/oz)	1,783*	1,911	1,904*	1,873	*1,832	*1,832	-3.8	-2.2	-41
Mine level cash costs (US\$/oz)**	639	609	629	722	713	713	13.4	-1.2	-9
Mine level AISC (US\$/oz)	865	809	828	995	934	934	12.8	-6.1	-61
<b>Revenue</b>									
– Gold revenue	697,174	686,200	703,400	600,831	629,600	629,600	-10.5	4.8	28,769
<b>Cost of sales</b>									
– Operating expenses	249,921	217,500	232,200	232,879	251,200	251,200	8.2	7.9	18,321
– Royalties	44,917	41,000	42,700	36,657	38,100	38,100	-10.8	3.9	1,443
Gross profit	402,336	427,700	428,500	331,295	340,300	340,300	-20.6	2.7	9,005
Depreciation	(201,668)	(152,000)	(153,900)	(136,452)	(139,800)	(139,800)	-9.2	2.5	-3,348
<b>Expenses</b>									
– Corporate costs	(20,000)	(14,000)	(14,000)	(15,000)	(6,800)	(6,800)	-51.4	-54.7	8,200
– Impairments	0	0	0				N/A	0.0	0
– Acquisition etc costs	(992)	(200)			(1,300)		N/A	0.0	0
– Share based compensation	(7,425)	(7,700)	(7,700)	(6,607)	(3,100)	(3,100)	-59.7	-53.1	3,507
– Exploration costs	(5,061)	(7,100)	(7,100)	(5,000)	(8,000)	(8,000)	12.7	60.0	-3,000
Total expenses	(33,478)	(29,000)	(28,800)	(26,607)	(19,200)	(17,900)	-37.8	-32.7	8,707
Earnings from operations	167,190	246,700	245,800	168,237	181,300	182,600	-25.7	8.5	14,363
Interest income							N/A	N/A	0
Interest expense	(25,392)	(15,200)	(15,200)	(14,373)	(16,500)	(16,500)	8.6	14.8	-2,127
Net interest	(25,392)	(15,200)	(15,200)	(14,373)	(16,500)	(16,500)	8.6	14.8	-2,127
Loss on financial instruments	15,642	(178,800)			106,800		N/A	N/A	0
Other expenses	(2,051)	(2,000)			(10,600)		N/A	N/A	0
Profit before tax	155,389	50,700	230,600	153,864	261,000	166,100	-28.0	8.0	12,236
Current income tax	39,394	74,700	77,800	42,260	64,700	64,700	-16.8	53.1	22,440
Deferred income tax	(34,000)	11,200	11,200	0	(8,200)	(8,200)	-173.2	N/A	-8,200
Total tax	5,394	85,900	89,000	42,260	56,500	56,500	-36.5	33.7	14,240
Effective tax rate (%)	3.5	(169.4)	38.6	27.5	21.6	34.0	-11.9	23.7	6.5
Profit after tax	149,995	(35,200)	141,600	111,604	204,500	109,600	-22.6	-1.8	-2,004
Net profit from discontinued ops.	0	14,800		0	0	0	N/A	N/A	0
Total net and comprehensive income	149,995	(20,400)	141,600	111,604	204,500	109,600	-22.6	-1.8	-2,004
Minority interest	(6,559)	21,800	22,600	17,580	15,100	15,100	-33.2	-14.1	-2,480
Minority interest (%)	(4.4)	(106.9)	16.0	15.8	7.4	13.8	-13.9	-12.8	-2.0
Profit attributable to shareholders	156,554	(42,200)	119,000	94,023	189,400	94,500	-20.6	0.5	477
Basic EPS from continuing ops (US\$)	0.628	(0.23)	0.48	0.378	0.76	0.38	-20.8	0.6	0.002
Diluted EPS from continuing ops (US\$)	0.623	(0.23)	0.48	0.376	0.76	0.38	-21.0	0.9	0.003
Basic EPS (US\$)	0.628	(0.17)	0.48	0.378	0.76	0.38	-20.8	0.6	0.002
Diluted EPS (US\$)	0.623	(0.17)	0.48	0.376	0.76	0.38	-21.0	0.9	0.003
Norm. basic EPS from cont. ops (US\$)	0.569	0.49	0.48	0.378	0.34	0.38	-20.8	0.6	0.002
Norm. diluted EPS from cont. ops (US\$)	0.565	0.49	0.48	0.376	0.34	0.38	-21.0	0.9	0.003
Adj net earnings attributable (US\$000s)	118,770	122,300	122,300	94,023	111,300	111,300	-9.0	18.4	17,277
Adj net EPS from continuing ops (US\$)	0.477	0.49	0.49	0.378	0.45	0.45	-8.2	19.0	0.072

Source: Endeavour Mining, Edison Investment Research. Note: \*Includes Karma and Sabodala-Massawa streams. \*\*Excludes royalty costs. \*\*\*Q222 (underlying) cf Q122 (underlying). \*\*\*\*Q222 (underlying) cf Q222e.

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). In the case of Q222, Endeavour's results were distorted by an exceptional gain on financial instruments of US\$106.8m (largely unrealised gains on forward contracts) and an increase in 'other' expenses to US\$10.6m. For the purposes of like-for-like comparison, therefore, these two items have been excluded from the column entitled 'Q222 (underlying)' in Exhibit 1, above.

Within this context, gold produced and sold was 7% ahead of our forecasts (as in Q122), with the outperformance accounted for by Hounde, Ity and Mana. This outperformance in production led to a positive variance of US\$28.8m (or 4.8%) in revenue, relative to our prior expectations, that was partially offset by a US\$19.7m (or 7.3%) negative variation in costs and royalties to result in a gross profit that was US\$9.0m (or 2.7%) ahead of our prior forecast. This was augmented by lower corporate costs, such that the variance had become US\$12.2m (positive) at the pre-tax level, but was then largely negated by a US\$14.2m negative variation in the tax charge to result in post-tax profits that were within US\$2m of our forecasts and (after a lower minority interest) earnings that were within US\$0.5m (or 0.5%) of them. The 19.0% outperformance of adjusted net earnings was then attributable to 'non-cash, tax and other adjustments' and the minority interest therein.

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)	Q122	Q222e	Q222	Variance (%)
Edison	0.49	0.378	0.45	+19.0
Mean consensus forecast	0.49	0.39	0.45	+15.4
High consensus forecast	0.49	0.44	0.45	+2.3
Low consensus forecast	0.49	0.33	0.45	+36.4

Source: Refinitiv, Edison Investment Research. Note: Consensus as at 2 August 2022.

Readers are 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 in Exhibits 1 and 3 excluding royalties.

## FY22 forecasts

Endeavour maintained its production and cost guidance for FY22 (made in the aftermath of its sale of the Karma mine in February) of 1,315–1,400koz at an AISC of US\$890–930/oz. In addition to incorporating its Q222 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\$1,812/oz previously to US\$1,776/oz currently (the prevailing price at the time of writing). 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 Q222 results is now as follows:

**Exhibit 3: Endeavour Mining FY22 forecasts, by quarter**

US\$000s (unless otherwise indicated)	Q122	Q222	Q322e (prior)	Q322e	Q422e (prior)	Q422	FY22e	FY22e (prior)
Houndé production (koz)	73.1	87.0	68.8	68.8	57.3	57.3	286.1	275.5
Karma production (koz)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ity production (koz)	72.4	76.9	63.2	63.2	63.2	63.2	275.6	266.5
Bougou production (koz)	33.8	27.0	29.9	29.9	30.4	30.4	121.1	120.1
Mana production (koz)	52.6	54.8	40.6	40.6	43.1	43.1	191.0	185.6
Sabodala-Massawa	96.3	72.9	98.2	98.2	98.2	98.2	365.5	368.0
Wahgnion	28.9	26.5	33.4	33.4	43.1	43.1	131.9	132.9
Total gold produced (koz)	357.1	345.1	334.0	334.0	335.1	335.1	***1,381.6	***1,358.8
Total gold sold (koz)	359.1	343.7	334.0	334.0	335.1	335.1	***1,382.0	***1,360.6
Gold price (US\$/oz)	1,911	*1,832	1,812	1,763	1,812	1,776	*1,816	*1,844
Mine level cash costs (US\$/oz)**	609	713	643	661	655	672	668	661
Mine level AISC (US\$/oz)	809	934	888	925	855	893	893	889
Revenue								
– Gold revenue	686,200	629,600	601,626	585,515	603,488	591,498	2,492,813	2,492,144
Cost of sales								
– Operating expenses	217,500	251,200	214,932	220,798	219,448	225,314	914,812	884,759
– Royalties	41,000	38,100	36,420	36,082	36,434	36,362	151,544	150,511
Gross profit	427,700	340,300	350,273	328,635	347,605	329,822	1,426,457	1,456,874
Depreciation	(152,000)	(139,800)	(152,725)	(155,267)	(160,934)	(164,341)	(611,408)	(602,111)
Expenses								
– Corporate costs	(14,000)	(6,800)	(15,000)	(15,000)	(15,000)	(15,000)	(50,800)	(59,000)
– Impairments	0						0	0
– Acquisition etc costs	(200)	(1,300)					(1,500)	(200)
– Share based compensation	(7,700)	(3,100)	(6,999)	(6,507)	(6,999)	(6,635)	(23,941)	(28,304)
– Exploration costs	(7,100)	(8,000)	(5,000)	(5,000)	(5,000)	(5,000)	(25,100)	(22,100)
Total expenses	(29,000)	(19,200)	(26,999)	(26,507)	(26,999)	(26,635)	(101,341)	(109,604)
Earnings from operations	246,700	181,300	170,550	146,861	159,673	138,847	713,708	745,159
Interest income							0	0
Interest expense	(15,200)	(16,500)	(13,036)	(13,579)	(11,411)	(13,253)	(58,532)	(54,019)
Net interest	(15,200)	(16,500)	(13,036)	(13,579)	(11,411)	(13,253)	(58,532)	(54,019)
Loss on financial instruments	(178,800)	106,800					(72,000)	(178,800)
Other expenses	(2,000)	(10,600)					(12,600)	(2,000)
Profit before tax	50,700	261,000	157,514	133,282	148,262	125,593	570,575	510,340
Current income tax	74,700	64,700	43,296	38,004	41,079	36,452	213,855	201,335
Deferred income tax	11,200	(8,200)	0	0	0	0	3,000	11,200
Total tax	85,900	56,500	43,296	38,004	41,079	36,452	216,855	212,535
Effective tax rate (%)	(169.4)	21.6	27.5	28.5	27.7	29.0	38.0	41.6
Profit after tax	(35,200)	204,500	114,218	95,278	107,183	89,142	353,720	297,805
Net profit from discontinued ops.	14,800	0	0	0	0	0	14,800	14,800
Total net and comprehensive income	(20,400)	204,500	114,218	95,278	107,183	89,142	368,520	312,605
Minority interest	21,800	15,100	17,347	15,437	16,435	14,786	67,124	73,162
Minority interest (%)	(106.9)	7.4	15.2	16.2	15.3	16.6	18.2	23.4
Profit attributable to shareholders	(42,200)	189,400	96,872	79,841	90,748	74,356	301,397	239,443
Basic EPS from continuing ops (US\$)	(0.23)	0.76	0.390	0.321	0.365	0.299	1.154	0.904
Diluted EPS from continuing ops (US\$)	(0.23)	0.76	0.388	0.321	0.363	0.299	1.151	0.899
Basic EPS (US\$)	(0.17)	0.76	0.390	0.321	0.365	0.299	1.213	0.964
Diluted EPS (US\$)	(0.17)	0.76	0.388	0.321	0.363	0.299	1.210	0.959
Norm. basic EPS from cont. ops (US\$)	0.49	0.34	0.390	0.321	0.365	0.299	1.450	1.625
Norm. diluted EPS from cont. ops (US\$)	0.49	0.34	0.388	0.321	0.363	0.299	1.446	1.616
Adj net earnings attributable (US\$000s)	122,300	111,300	96,872	79,841	90,748	74,356	387,797	403,943
Adj net EPS from continuing ops (US\$)	0.49	0.45	0.390	0.321	0.365	0.299	1.561	1.626

Source: Endeavour Mining, Edison Investment Research. Note: \*Includes Karma and Sabodala-Massawa streams. \*\*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.

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

**Exhibit 4: Edison adjusted net EPS from continuing operations estimates cf consensus FY22 by quarter**

(US\$/share)	Q122	Q222	Q322e	Q422e	Sum Q1–Q422e	FY22e
Edison	0.493	0.448	0.321	0.299	1.561	1.561
Mean consensus forecast	0.49	0.45	0.41	0.46	1.81	1.71
High consensus forecast	0.49	0.45	0.54	0.69	2.17	2.05
Low consensus forecast	0.49	0.45	0.24	0.36	1.54	1.03

Source: Refinitiv, Edison Investment Research. Note: Consensus at 8 August 2022.

Although we are forecasting a decline in profitability in Q3 (being the quarter historically most susceptible to disruption from the seasonal rains in West Africa), in this case, the decline may be attributed to recent moves in the gold price, rather than production, as we are expecting a material increase in production at Sabodala-Massawa in Q322 and H222. Mining activities commenced at both the Massawa Central Zone and Massawa North Zone pits in H122 and are expected to continue for the remainder of the year, with supplemental mining from the Sofia North and Sabodala pits. At the same time, the Bambaraya satellite pit is being accelerated to provide an additional ore source in the latter part of H222, while there is a greater focus on waste extraction at the Massawa Central and North Zones pits. As a result, mined and processed grades are therefore expected to increase in the second half of the year, while mill throughput and recovery rates are expected to remain fairly constant.

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. We also assume 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 maximum operational flexibility in the future.

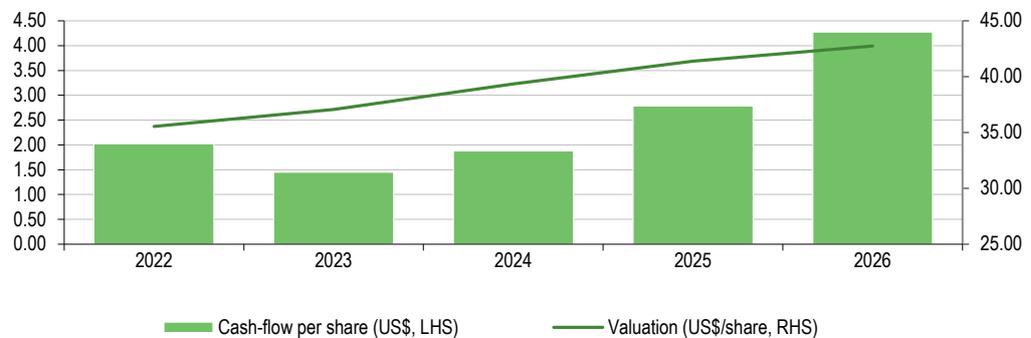
## Valuation

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.

In the wake of Q222 results, our estimate of cash flows in FY26 has remained almost unchanged at US\$4.27/share (cf US\$4.28/share previously), which implies a terminal valuation of the company at

end-FY26 of US\$42.75/share (cf US\$42.78/share previously) if calculated using a discount rate of 10%. In conjunction with forecast intervening cash flows, this terminal valuation then discounts back to a present valuation of US\$35.54/share (cf US\$35.96/share previously) at the start of FY22, as follows:

**Exhibit 5: 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. In this case, long-term nominal equity returns have been 9% and 30-year break-evens are expecting an inflation rate of 2.2625% (source: Bloomberg, 5 August) cf 2.2757% previously. These two measures imply an expected real equity return of 6.59% (1.09/1.022757) and applying this to our forecast cash flows would imply a terminal valuation for Endeavour of US\$64.88/share (cf US\$65.06/share previously) and a current valuation of US\$57.15/share (cf US\$57.64/share previously).

In the meantime, Endeavour's valuation remains at a material discount to those of its peer group, as shown in Exhibit 6, 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 6: 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	4.3	6.0	4.6	3.7	4.1	4.0	4.0	4.1	4.7
Endeavour (consensus)	EDV	4.4	4.8	4.5	4.1	4.4	4.2	3.1	3.4	3.5
<b>Majors</b>										
Barrick	ABX	6.6	6.0	5.9	6.0	5.6	5.4	4.5	5.7	5.6
Newmont	NEM	8.1	8.1	8.2	6.8	6.6	6.6	5.0	4.9	4.5
Newcrest	NCM AU	9.4	6.7	7.2	6.2	5.3	5.9	1.8	1.7	1.9
Kinross	K	3.4	3.1	3.4	4.2	3.6	4.0	3.6	3.5	3.6
Agnico-Eagle	AEM	7.8	7.6	7.9	7.1	6.8	6.9	3.7	3.7	3.7
Eldorado	ELD	3.8	2.8	2.6	3.2	2.8	2.5	0.0	0.0	0.0
<b>Average</b>		<b>6.5</b>	<b>5.7</b>	<b>5.8</b>	<b>5.6</b>	<b>5.1</b>	<b>5.2</b>	<b>3.1</b>	<b>3.2</b>	<b>3.2</b>
<b>Implied EDV share price (US\$)</b>		<b>30.72</b>	<b>21.63</b>	<b>25.45</b>	<b>30.79</b>	<b>26.65</b>	<b>28.19</b>	<b>25.99</b>	<b>25.23</b>	<b>29.48</b>
<b>Implied EDV share price (C\$)</b>		<b>39.50</b>	<b>27.82</b>	<b>32.73</b>	<b>39.59</b>	<b>34.26</b>	<b>36.24</b>	<b>33.42</b>	<b>32.45</b>	<b>37.91</b>

Source: Edison Investment Research, Refinitiv. Note: Consensus and peers priced at 8 August 2022.

Of note is the fact that, almost without exception, Endeavour's valuation is materially cheaper than the averages of the majors on all of the measures shown in Exhibit 6 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 37 out of 54 (68%) valuation measures if Edison forecasts are used and 31 out of 54 (57%) 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\$27.13, or C\$34.88 (or £22.49), per share.

## Financials: Net cash of US\$0.653/share

According to its Q222 balance sheet, Endeavour had net cash of US\$162.1m as at end-June, after US\$6.7m in share repurchases during the quarter. This net cash figure compares with net cash and debt figures at the end of recent, comparable quarters as follows:

Exhibit 7: Endeavour Mining net cash/(debt)*								
	Q420	Q121	Q221	Q321	Q421	Q122	Q222	Total
Net cash/(debt) (US\$m)	(43.3)	(220.2)	(147.6)	(143.6)	13.2	82.7	162.1	
Change (US\$m)		(176.9)	72.6	4.0	156.8	69.5	79.4	
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	6.7	175.8
<b>Underlying net cash/(debt) change pre-shareholder returns (US\$m)</b>		<b>(116.9)</b>	<b>132.1</b>	<b>138.4</b>	<b>200.7</b>	<b>169.9</b>	<b>86.1</b>	
Comment		Pre-Teranga acquisition	Post-Teranga acquisition					

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

This figure of US\$162.1m includes lease liabilities of US\$49.6m and an option premium of US\$20.9m, which, if excluded, would result in an alternative net cash position of US\$232.6m. This is equivalent to, but differs slightly from, the US\$216.8m 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\$33.9m 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 8 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%.

**Exhibit 8: Financial summary**

	US\$'000s	2019	2020	2021	2022e	2023e	2024e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		1,362,121	1,847,894	2,903,756	2,492,813	2,218,986	2,235,703
Cost of Sales		(884,869)	(1,061,891)	(1,675,393)	(1,167,697)	(995,810)	(1,007,684)
Gross Profit		477,252	786,003	1,228,363	1,325,116	1,223,175	1,228,019
EBITDA		618,443	910,295	1,517,263	1,326,616	1,223,175	1,228,019
Operating Profit (before amort. and except.)		281,400	546,072	859,409	715,208	761,714	707,316
Exceptionals		(199,159)	(201,532)	(266,000)	(73,500)	0	0
Other		(9,392)	8,886	(32,263)	(12,600)	0	0
Operating Profit		72,849	353,426	561,146	629,108	761,714	707,316
Net Interest		(51,607)	(53,774)	(70,623)	(58,532)	2,725	3,890
Profit Before Tax (norm)		220,401	501,184	756,523	644,075	764,439	711,207
Profit Before Tax (FRS 3)		21,242	299,652	490,523	570,575	764,439	711,207
Tax		(97,253)	(158,466)	(178,253)	(216,855)	(216,607)	(149,734)
Profit After Tax (norm)		123,148	342,718	578,270	427,220	547,833	561,473
Profit After Tax (FRS 3)		(76,011)	141,186	312,270	353,720	547,833	561,473
Net loss from discontinued operations		(4,394)	0	0	14,800	0	0
Minority interests		33,126	44,719	64,486	67,124	89,696	88,338
Net profit		(80,405)	141,186	312,270	368,520	547,833	561,473
Net attrib. to shareholders contg. businesses (norm)		90,022	297,998	513,784	360,097	458,137	473,135
Net attrib. to shareholders contg. businesses		(109,137)	96,466	247,784	286,597	458,137	473,135
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	144.97	184.44	190.48
EPS - normalised fully diluted (c)		56.95	181.51	203.21	144.31	183.60	189.61
EPS - (IFRS) (\$)		(0.72)	0.60	0.99	1.21	1.84	1.90
Dividend per share (c)		0	37	56	80	82	94
Gross Margin (%)		35.0	42.5	42.3	53.2	55.1	54.9
EBITDA Margin (%)		45.4	49.3	52.3	53.2	55.1	54.9
Operating Margin (before GW and except.) (%)		20.7	29.6	29.6	28.7	34.3	31.6
<b>BALANCE SHEET</b>							
Fixed Assets		2,330,033	5,093,409	5,404,900	5,324,581	5,454,964	5,552,938
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	4,899,881	5,030,264	5,128,238
Investments		70,059	1,099,812	414,700	414,700	414,700	414,700
Current Assets		652,871	1,168,382	1,366,000	1,585,416	1,713,479	1,904,665
Stocks		266,451	305,075	311,300	311,602	277,373	279,463
Debtors		83,836	104,545	139,900	171,693	217,482	218,856
Cash		288,186	751,563	906,200	1,165,522	1,282,024	1,469,746
Other		14,398	7,199	8,600	(63,400)	(63,400)	(63,400)
Current Liabilities		(354,931)	(661,171)	(567,100)	(635,151)	(583,731)	(589,961)
Creditors		(312,427)	(612,862)	(552,700)	(620,751)	(569,331)	(575,561)
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	4,456,745	4,766,612	5,049,542
<b>CASH FLOW</b>							
Operating Cash Flow		628,617	1,046,370	1,415,306	1,384,215	1,160,193	1,230,786
Net Interest		(35,413)	(53,774)	(26,900)	(58,532)	2,725	3,890
Tax		(109,494)	(186,332)	(205,573)	(213,855)	(216,607)	(149,734)
Capex		(401,227)	(335,599)	(587,496)	(531,089)	(591,844)	(618,678)
Acquisitions/disposals		3,654	(19,000)	(4,700)	15,000	5,000	0
Financing		2,402	100,000	(89,400)	(93,450)	0	0
Dividends		(6,154)	(88,288)	(159,800)	(242,966)	(242,966)	(278,543)
Net Cash Flow		82,385	463,377	341,437	259,322	116,502	187,722
Opening net debt/(cash)		518,607	525,220	323,083	(13,200)	(272,522)	(389,024)
Other		(88,998)	(261,240)	(5,154)	0	0	0
Closing net debt/(cash)		525,220	323,083	(13,200)	(272,522)	(389,024)	(576,746)

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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