

Newmont Corporation

Building it piece by piece

Q122 results preview

Metals & mining

After a fourth quarter result that was 13.7% ahead of our expectations, we expect Newmont's financial performance to be restrained in the first two quarters of FY22, principally as a result of lingering constraints owing to the coronavirus pandemic. However, we believe that it will then pick up again strongly and, at current gold prices, we have therefore upgraded our FY22 basic adjusted net EPS forecast by 7.8% (Exhibit 6).

Year end	Revenue (US\$m)	PBT (US\$m)	EPS* (US\$)	DPS (US\$)	P/E (x)	Yield (%)
12/20	11,497	3,143	2.66	1.45	31.0	1.8
12/21	12,222	1,108	2.97	2.20	27.8	2.7
12/22e	12,962	3,682	3.01	2.20	27.4	2.7
12/23e	11,839	2,794	2.27	2.20	36.3	2.7

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

Reserves and resources and sustainability reports

Newmont's reserves and resources report – released at the same time as its FY21 results – showed that additions to reserves of 6.5Moz in FY21 amounted to 91.5% of mining depletion of 7.1Moz during the year (before the company's acquisition of Yanacocha's minorities). This exceeded its target of 80%. After its buy-out of Yanacocha's minorities, aggregate reserves and resources at Newmont increased by 12.6Moz to 208.0Moz. Subsequently, on 14 April, Newmont launched its 2021 [sustainability report](#) as part of its suite of reports on ESG practices showing, among other things, zero work-related fatalities for the third year in a row.

Valuation: Commanding the dividend heights

Using a real discount rate of 6.2%, our 'terminal' valuation of Newmont (based on updated guidance) at end-FY27 is US\$76.95/share cum-dividend (cf US\$82.38/share previously). This is close to Newmont's current share price of US\$82.59. However, note that this valuation is based on the inherently conservative assumption of zero growth in (real) cash flows beyond FY27. The valuation would increase to US\$82.59/share (ie the current share price) if the growth in real cash flows after FY27 amounts to just 0.4% per annum (ie materially below the minimum of 2.0% per annum that would be expected from the average historical annual increase in the real price of gold of 2.0% pa). Assuming 2.0% per annum real increases in cash flows beyond FY27, our valuation in FY27 increases to US\$111.60 cum-dividend and to US\$85.50/share as at the start of FY22. This valuation is also conservative in that it assumes that the long-term price of gold will decline from current levels to US\$1,524/oz in real terms by FY27 (before levelling out). If the gold price remains at current levels in real terms (US\$1,950/oz at the time of writing), our valuation would increase to US\$104.16/share cum-dividend in FY27 and to US\$81.73/share in FY22. In the meantime, in both historical and relative terms, Newmont remains materially cheap with respect to its dividend yield. Based on consensus forecasts, we calculate that Newmont's share price would have to rise by an average of 27.5% for its dividend yield to match those of its peer group. Based on our forecasts, we estimate its share price would have to rise 25.8%.

21 April 2022

Price **US\$82.59**

Market cap **US\$65,453m**

Net debt (US\$m) at end-December 2021 1,310

Shares in issue 792.5m

Free float 99.8%

Code NEM

Primary exchange NYSE

Secondary exchange TSX

Share price performance



%	1m	3m	12m
Abs	11.7	29.4	25.4
Rel (local)	11.8	30.0	16.3

52-week high/low US\$85.42 US\$53.27

Business description

Founded in 1916, Newmont Corporation is the world's leading gold company with a world-class portfolio of assets in North and South America, Australia and Africa. It is the only gold producer in the S&P 500 Index, and is widely recognised for its ESG practices and as a leader in value creation, safety and mine execution.

Next events

Q122 results	22 April
Yanacocha Sulphides decision	H222
Q222 results	July 2022
Q322 results	October 2022

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[Edison profile page](#)

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Q421 summary

In general, Newmont's mines outperformed our prior expectations in Q421, with positive variances in output in Australia, Africa and Nevada more than offsetting a negative variance in North America (owing to continued absenteeism at its Canadian mines in particular relating to lingering concerns surrounding the coronavirus pandemic), albeit at slightly higher costs. A summary of the operational highlights of the quarter relative to our prior expectations is provided in Exhibit 1. From a geographical perspective, the only continent to noticeably outperform our prior expectations in terms of costs was Australia, which demonstrated a solid recovery from the challenges surrounding the commissioning of autonomous haulage at Boddington in Q321.

Exhibit 1: Newmont Q421 operational results, actual compared to prior forecasts

Region	Production (koz)							Costs applicable to sales (US\$/oz)						
	Q121	Q221	Q321	Q421e	Q421	Variance (%)	FY21	Q121	Q221	Q321	Q421e	Q421	Variance (%)	FY21
North America	413	397	384	450	404	-10.2	1,598	736	769	800	751	883	+17.6	796
South America	174	189	188	182	182	0.0	733	791	721	958	825	860	+4.2	832
Australia	269	299	274	318	339	+6.6	1,181	750	764	788	731	724	-1.0	755
Africa	205	202	210	220	245	+11.4	862	758	763	886	678	786	+15.9	799
Nevada	303	284	308	349	377	+8.0	1,272	745	753	768	734	753	+2.6	755
Sub-total	1,364	1,371	1,364	1,519	1,547	+1.8	5,646	752	755	830	745	802	+7.7	785
Pueblo Viejo (40%)	91	78	85	79	71	-10.1	325							
Total (attributable) gold	1,455	1,449	1,449	1,598	1,618	+1.3	5,971							

Source: Newmont Corporation, Edison Investment Research. Note: Totals may not add up owing to rounding.

In financial terms, the main feature of the results was a US\$1.6bn expense relating to reclamation and remediation charges resulting from adjustments to non-operating Yanacocha sites, only about half of which was deemed 'exceptional'. However, this was itself offset by the minority's share of the charge, which resulted in adjusted net income being 13.7% above our prior forecast for the quarter (US\$624m cf US\$549m).

A full analysis of Newmont's Q421 financial performance relative to both our prior forecasts and Q321 results is provided in the exhibit below.

Exhibit 2: Newmont quarterly income statement, Q420–Q421 cf prior Edison forecast

US\$m (unless otherwise indicated)	Q420	Q121	Q221	Q321*	Q321 (reported)	Q421e*	Q421*	Q421 (reported)	Change** (%)	Variation *** (%)	Variation *** (units)
Sales	3,381	2,872	3,065	2,895	2,895	3,167	3,390	3,390	17.1	7.0	223
Costs and expenses											
– Costs applicable to sales	1,355	1,247	1,281	1,367	1,367	1,375	1,540	1,540	12.7	12.0	165
– Depreciation and amortisation	615	553	561	570	570	642	639	639	12.1	-0.5	-3
– Reclamation and remediation	250	46	57	38	117	55	752	1,626	1,878.9	1,267.3	697
– Exploration	69	35	52	60	60	75	62	62	3.3	-17.3	-13
– Advanced projects, research and development	30	31	37	40	40	43	46	46	15.0	7.0	3
– General and administrative	64	65	64	61	61	65	69	69	13.1	6.2	4
– Impairment of long-lived assets	20	0	0	0	0	0	0	0	N/A	N/A	0
– Care and maintenance	7	0	2	0	6	0	0	0	N/A	N/A	0
– Loss on assets held for sale					571		0	0	N/A	N/A	0
– Other expense, net	51	39	50	36	37	0	10	34	-72.2	N/A	10
Total	2,461	2,016	2,104	2,172	2,829	2,254	3,118	4,016	43.6	38.3	864
Other income/(expenses)											
– Gain on formation of Nevada Gold Mines	0	0									
– Gain on asset and investment sales, net	84	43	0	0	3		0	166	N/A	N/A	0
– Other income, net	3	(82)	50	23	(74)	0	(26)	19	-213.0	N/A	-26
– Interest expense, net of capitalised interest	(73)	(74)	(68)	(66)	(66)	(67)	(66)	(66)	0.0	-1.5	1
	14	(113)	(18)	(43)	(137)	(67)	(92)	119	114.0	37.3	-25
Income/(loss) before income and mining tax	934	743	943	680	(71)	846	180	(507)	-73.5	-78.7	-666
Income and mining tax benefit/(expense)	(258)	(235)	(341)	(283)	(222)	(304)	(302)	(300)	6.7	-0.7	2
Effective tax rate (%)	27.6	31.6	36.2	41.6	(312.7)	36.0	167.8	(59.2)	303.4	366.1	132
Profit after tax	676	508	602	397	(293)	541	(122)	(807)	-130.7	-122.6	-663
Equity income/(loss) of affiliates	70	50	49	39	39	33	28	28	-28.2	-15.2	-5
Net income/(loss) from continuing operations	746	558	651	436	(254)	574	(94)	(779)	-121.6	-116.4	-668
Net income/(loss) from discontinued operations	18	21	10	11	11		15	15	36.4	N/A	15
Net income/(loss)	764	579	661	447	(243)	574	(79)	(764)	-117.7	-113.8	-653
Minority interest	(60)	20	11	(47)	(246)	25	(718)	(718)	1,427.7	-2,972.0	-743
Minority interest (%)	(7.9)	3.5	1.7	(10.5)	(101.2)	4.3	908.9	94.0	-8,756.2	21,037.2	905
Net income/(loss) attributable to stockholders	824	559	650	494	3	549	639	(46)	29.4	16.4	90
Adjustments to net income	32	35	20	11	480	0	(15)	670	-236.4	N/A	-15
Adjusted net income	856	594	670	483	483	549	624	624	29.2	13.7	75
Net income/(loss) per common share (US\$)											
Basic											
– Continuing operations	1.005	0.672	0.799	0.605	(0.010)	0.688	0.785	(0.077)	29.8	14.1	0.097
– Discontinued operations	0.022	0.026	0.012	0.014	0.010	0.000	0.019	0.019	35.7	N/A	0.019
– Total	1.027	0.698	0.811	0.618	0.000	0.688	0.804	(0.058)	30.1	16.9	0.116
Diluted											
– Continuing operations	1.002	0.671	0.797	0.604	(0.010)	0.687	0.783	(0.077)	29.6	14.0	0.096
– Discontinued operations	0.022	0.026	0.012	0.014	0.010	0.000	0.019	0.019	35.7	N/A	0.019
– Total	1.025	0.697	0.809	0.618	0.000	0.687	0.802	(0.058)	29.8	16.7	0.115
Basic adjusted net income per share (US\$)	1.067	0.742	0.836	0.605	0.605	0.688	0.785	0.785	29.8	14.1	0.097
Diluted adjusted net income per share (US\$)	1.065	0.741	0.834	0.604	0.604	0.687	0.783	0.783	29.6	14.0	0.096
DPS (US\$/share)	0.550	0.550	0.550	0.550	0.550	0.550	0.550	0.550	0.0	0.0	0.000

Source: Newmont Corporation, Edison Investment Research. Note: *Estimated underlying excluding exceptional items. **Q421 vs Q321. ***Q421 vs Q421e.

Yanacocha Sulphides

Since the end of the year, Newmont has acquired the 48.65% interest in the Yanacocha Sulphides project that it did not previously own in two transactions:

- On 8 February, the company announced that it had entered into a definitive purchase agreement to acquire Buenaventura's 43.65% interest in Minera Yanacocha for US\$300m plus contingent payments of up to a further US\$100m, in part tied to metal prices. Simultaneously, Newmont also transferred its interest in the La Zanja joint venture to Buenaventura in exchange for royalties on any future production from La Zanja. It also contributed US\$45m to Buenaventura to cover future closure costs at La Zanja.
- On 12 April, Newmont announced that it had acquired the remaining 5% interest in Yanacocha that was outstanding from Sumitomo Corporation for US\$48m such that its interest in the project is now 100%; this transaction is expected to close in Q222.

Consistent with the company's district consolidation strategy, the acquisition enhances Newmont's ownership of world-class assets, giving it control of the Yanacocha district ahead of its full funds development decision later this year. In the meantime, the company has confirmed that it is to invest US\$0.5bn into the project in FY22.

As its name implies, the Yanacocha Sulphides project will develop the first phase of Yanacocha's sulphide deposits, including an integrated processing circuit incorporating an autoclave. After a three-year development period (estimated FY23–25), the project is expected to add c 525koz gold equivalent per annum (in the ratio 45% Cu by value, 45% Au and 10% Ag) for the first five full years of production (FY27–31) at an all-in sustaining cost (AISC) of US\$700–800/oz and an initial capital investment of c US\$2.1bn. The first phase of the project will focus on developing the Yanacocha Verde and Chaquicocha deposits to extend Yanacocha's operations beyond 2040, with the second and third phases having the potential to extend the mine's life for multiple decades thereafter. Among other things, the Yanacocha sulphides project will increase Newmont's copper output, supporting the world's transition to a green economy.

After the development of the Yanacocha Sulphides project (and Ahafo North and Tanami Expansion 2, which have already been sanctioned), Newmont has a material pipeline of other potential projects for development, including Coffee, Akyem underground, Oberon (Tanami), the Sabajo extension at Merian, Galore Creek, Norte Abierto, Nueva Union, Apensu underground at Ahafo, Saddle North in Canada and Cerro Negro district expansions.

Medium- to long-term outlook

Ahead of its Q421/FY21 results, on 2 December, Newmont presented its medium- to long-term production [outlook to investors](#). Unlike previous years, the company's outlook for FY22 in particular assumed a US\$1,800/oz gold price for both costs applicable to sales (CAS) and AISC to reflect higher costs from inflation, royalties and production taxes. In 2022, a further 5% cost escalation was also incorporated into direct operating cost assumptions to reflect labour, energy, material and supplies pricing. The FY22 and longer-term outlook also assumes a US\$30/oz impact from production taxes and royalties attributable to higher gold prices.

A comparison of Newmont's guidance with both its prior (December 2020) equivalent guidance and Edison's (updated) production and cost assumptions for the period FY22–26 is provided in the table below:

Exhibit 3: Edison longer-term assumptions cf Newmont guidance*

	FY22	FY23	FY24	FY25	FY26
Edison current					
Production (Moz)	6,278	6,325	6,961	6,982	6,192
Cost applicable to sales (US\$/oz)	809	796	751	748	802
Newmont guidance*					
Production (Moz)	6.2	6.0-6.6	6.2-6.8	6.2-6.8	6.2-6.8
Cost applicable to sales (US\$/oz)	820	740-840	700-800	700-800	700-800
Variance (%)					
Production (%)	+1.3	In range	+2.4	+2.7	-0.1
Cost applicable to sales (%)	-1.3	In range	In range	In range	+0.3
Newmont previous guidance**					
Production (Moz)	6.2-6.7	6.2-6.7	6.5-7.0	6.5-7.0	
Cost applicable to sales (US\$/oz)	650-750	625-725	600-700	600-700	
Guidance change (%)					
Production (mid-point)	-3.9	-2.3	-3.7	-3.7	
Cost applicable to sales (mid-point)	+17.1	+17.0	+15.4	+15.4	

Source: Newmont, Edison Investment Research. Note: *From 2 December 2021. **From 8 December 2020.

At the time of its acquisition of the Buenaventura stake in Yanacocha, Newmont updated its estimate of future attributable development capital guidance to account for the sulphides project, but noted that, 'All other guidance metrics remain unchanged from long-term outlook as announced on December 2, 2021.' Within this context, we estimate that Yanacocha will produce 225koz of gold in FY22 (on a consolidated basis), which will now translate into an attributable 211koz, rather than the 116koz that would otherwise have been expected prior to Newmont's acquisition of the minority interests of Buenaventura and Sumitomo. Similarly, we estimate that Yanacocha will produce 215koz and 143koz gold in FY24 and FY25, respectively, which we therefore estimate will have the effect of enhancing group attributable production in those years by 105koz and 70koz relative to the situation if Newmont had not acquired the associated minority interests. Even without correction for these enhancements, we believe that the variances noted in Exhibit 6 in Edison's attributable production forecasts for those years relative to Newmont's guidance is immaterial.

As with previous guidance, Newmont's outlook assumes that operations will continue without major COVID-19 related interruptions. To this end, the company continues to maintain wide-ranging protective measures for its workforce and neighbouring communities, including screening, physical distancing, deep cleaning and shielding for at-risk individuals. Together, these measures are expected to add c US\$10/oz to AISC. If at any point the company determines that continuing operations pose an increased risk to its workforce or host communities, however, it reserves the right to reduce operational activities to the point of care and maintenance and the management of critical environmental systems alone.

In addition to revising our financial forecasts to reflect Newmont's updated medium-term guidance, we have also updated our longer-term production assumptions to reflect Barrick's 10-year production targets at Nevada Gold Mines (NGM), as set out in its [2021 Investor Day](#) presentation. One aspect of NGM's performance is of particular interest to investors, which is that in only one of the past 12 quarters has the open-pit material mined at NGM exceeded the FY21 reserve grade reported by Newmont. While the opposite is true for underground material, it nevertheless remains the case that, on average, the blended grade of material mined (and processed) in each of the past 12 quarters has been below the operation's reserve grade in FY21 and below its reserve grade in FY20 in all but one quarter. Exhibit 4, below, serves to illustrate the point:

Exhibit 4: NGM mined and processed grade of reserve and resource grades, Q421 and FY21

	Open pits	Underground	Stockpiles	Average
Q421 mined grade (g/t)*	0.65	9.86		1.89
Q421 processed grade (g/t)*				1.90
FY21 reserve grade (g/t)**	1.26	8.90	2.33	3.00
FY21 resource grade (g/t)**	0.93	6.29	-	1.50
FY21 reserve & resource grade (g/t)***	1.03	7.69	2.33	2.06

Source: Newmont, Barrick. Note: *Reported by Barrick. **Reported by Newmont. ***Calculated by Edison.

There may be a number of reasons for this, including geology, mine sequencing and/or commercial imperatives. For example, Barrick may be deliberately taking advantage of the gold price environment to mine and process lower-grade material. This contrasts with Newmont's reserves, which are calculated at a conservatively assumed gold price of just US\$1,200/oz, which has the effect of increasing the grade of the material categorised as reserves (albeit at the expense of tonnage). However, one of the effects of this relatively low-grade mining is that, all other things being equal (and excluding ongoing exploration), the grade of the residual reserve material left unmined at the end of each successive year must increase. To some extent, this is evidenced by the fact that the reserve grade of material at NGM increased by 0.26g/t (or 9.5%) in FY21 relative to FY20. One of the potential consequences of this fact, however, is that it may have a material (upwards) effect on mining margins if the operation ever returns to mining reserve-grade ore (all other things being equal).

Q122 and FY22 forecasts by quarter

As in FY21, in FY22 Newmont expects both (higher) production and (lower) costs to be weighted towards the second half of the year – approximately in the ratio 47:53 – mainly as a result of ongoing disruptions relating to worker mobility and supply chains as a result of the coronavirus pandemic in North America, Australian and, to some extent, Africa as well.

In the light of Newmont's Q421 results as well as its updated mine guidance and Barrick's Q1 production update (dated 14 April 2022), we have therefore calculated the following operational forecasts for the company's geographical regions for FY22:

Exhibit 5: Newmont Q122e-Q422e operational estimates

Region	Production (koz)					Costs applicable to sales (US\$/oz)				
	Q122	Q222	Q322	Q422	FY22	Q122	Q222	Q322	Q422	FY22
North America	346	349	401	403	1,500	865	865	812	810	836
South America	166	181	235	238	820	989	991	772	777	867
Australia	319	320	381	381	1,400	771	771	649	649	705
Africa	248	248	277	277	1,050	866	866	775	775	818
Nevada	287	313	313	313	1,225	898	825	825	825	842
Sub-total	1,367	1,410	1,606	1,612	5,995	868	854	764	764	809
Pueblo Viejo (40%)	69	71	71	71	283					
Total (attributable) gold	1,436	1,481	1,677	1,683	6,278					

Source: Newmont Corporation, Edison Investment Research. Note: Totals may not add up owing to rounding.

Assuming a gold price of US\$1,950/oz for the remainder of the year (cf US\$1,819/oz for the full year, previously) and an effective tax rate for the year of 30–34%, this operational performance translates into financial forecasts for Newmont for FY22 as follows:

Exhibit 6: Newmont quarterly income statement, Q121–Q422e

US\$m (unless otherwise indicated)	Q121	Q221	Q321	Q421	Q122e	Q222e	Q322e	Q422e	FY22e	FY22e (prior)
Sales	2,872	3,065	2,895	3,390	2,898	3,092	3,470	3,501	12,962	12,317
Costs and expenses										
– Costs applicable to sales	1,247	1,281	1,367	1,540	1,388	1,395	1,421	1,425	5,629	5,304
– Depreciation and amortisation	553	561	570	639	561	585	658	670	2,473	2,545
– Reclamation and remediation	46	57	117	1,626	43	43	43	43	172	174
– Exploration	35	52	60	62	70	70	70	70	280	260
– Advanced projects, research and development	31	37	40	46	43	43	43	43	170	146
– General and administrative	65	64	61	69	65	65	65	65	260	260
– Impairment of long-lived assets	0	0	0	0	0	0	0	0	0	0
– Care and maintenance	0	2	6	0	0	0	0	0	0	0
– Loss on assets held for sale			571	0						
– Other expense, net	39	50	37	34	18	18	18	18	70	0
Total	2,016	2,104	2,829	4,016	2,186	2,218	2,317	2,333	9,054	8,688
Other income/(expenses)										
– Gain on formation of Nevada Gold Mines	0								0	0
– Gain on asset and investment sales, net	43	0	3	166					0	0
– Other income, net	(82)	50	(74)	19	0	0	0	0	0	0
– Interest expense, net of capitalised interest	(74)	(68)	(66)	(66)	(60)	(62)	(60)	(44)	(225)	(152)
	(113)	(18)	(137)	119	(60)	(62)	(60)	(44)	(225)	(152)
Income/(loss) before income and mining tax	743	943	(71)	(507)	652	812	1,094	1,125	3,682	3,476
Income and mining tax benefit/(expense)	(235)	(341)	(222)	(300)	(209)	(315)	(405)	(414)	(1,342)	(1,277)
Effective tax rate (%)	31.6	36.2	(312.7)	(59.2)	32.0	32.0	32.0	32.0	36.5	36.7
Profit after tax	508	602	(293)	(807)	443	497	688	711	2,340	2,199
Equity income/(loss) of affiliates	50	49	39	28	30	34	33	33	130	134
Net income/(loss) from continuing operations	558	651	(254)	(779)	473	531	721	744	2,470	2,332
Net income/(loss) from discontinued operations	21	10	11	15					0	0
Net income/(loss)	579	661	(243)	(764)	473	531	721	744	2,470	2,332
Minority interest	20	11	(246)	(718)	11	11	22	22	65	101
Ditto (%)	3.5	1.7	(101.2)	94.0	2.3	2.0	3.0	2.9	2.6	4.3
Net income/(loss) attributable to stockholders	559	650	3	(46)	463	521	700	722	2,405	2,231
Adjustments to net income	35	20	480	670	0	0	0	0	0	0
Adjusted net income	594	670	483	624	463	521	700	722	2,405	2,231
Net income/(loss) per common share (US\$)										
Basic										
– Continuing operations	0.672	0.799	(0.010)	(0.077)	0.579	0.652	0.876	0.904	3.011	2.793
– Discontinued operations	0.026	0.012	0.010	0.019	0.000	0.000	0.000	0.000	0.000	0.000
– Total	0.698	0.811	0.000	(0.058)	0.579	0.652	0.876	0.904	3.011	2.793
Diluted										
– Continuing operations	0.671	0.797	(0.010)	(0.077)	0.575	0.647	0.870	0.898	2.990	2.774
– Discontinued operations	0.026	0.012	0.010	0.019	0.000	0.000	0.000	0.000	0.000	0.000
– Total	0.697	0.809	0.000	(0.058)	0.575	0.647	0.870	0.898	2.990	2.774
Basic adjusted net income per share (US\$)	0.742	0.836	0.605	0.785	0.579	0.652	0.876	0.904	3.011	2.793
Diluted adjusted net income per share (US\$)	0.741	0.834	0.604	0.783	0.575	0.647	0.870	0.898	2.990	2.774
DPS (US\$/share)	0.550	0.550	0.550	0.550	0.550	0.550	0.550	0.550	2.200	2.200

Source: Newmont Corporation, Edison Investment Research

This basic adjusted EPS forecast of US\$3.011/share (vs US\$2.793/share previously) for FY22 compares to the market consensus, by quarter, as follows:

Exhibit 7: FY22 basic adjusted EPS forecast, Edison versus consensus (US\$/share)

	Q122e	Q222e	Q322e	Q422e	Sum Q1–Q422e	FY22e
Edison forecast	0.579	0.652	0.876	0.904	3.011	3.011
Consensus forecast	0.72	0.87	0.92	0.90	3.41	3.35
High	0.78	1.15	1.18	1.17	4.28	4.27
Low	0.63	0.70	0.76	0.76	2.85	2.81

Source: Edison Investment Research, Refinitiv (21 April 2022)

Dividend

Newmont's dividend for Q421 was maintained at US\$0.55/share. At the time of its Q320 results in October 2020, Newmont unveiled a new dividend framework whereby it formally rebased its dividend to a 'base' pay-out of US\$1.00/share (or US\$0.25/share per quarter) at a gold price of US\$1,200/oz, but also stated explicitly that it would return 40–60% of incremental attributable free cash flow that it generated above a gold price of US\$1,200/oz to shareholders. Under the new framework, Newmont will augment the 'base' pay-out in increments of US\$0.60–0.90/share per year (or US\$0.15–0.225/share per quarter), evaluated in gold price increments of US\$300/oz for gold prices above US\$1,200/oz, with the goal of targeting 40–60% of incremental free cash flow above a gold price of US\$1,200/oz returned to shareholders. Thus, a (sustainable) gold price at US\$1,800/oz should (on this basis) result in a quarterly dividend of US\$0.55/share, whereas a gold price below that level could result in one of US\$0.40/share. However, it is worth noting that Newmont affords itself a degree of latitude in the level of the ultimate pay-out in that, should it decide to pay out nearer 60% of incremental attributable free cash flow to shareholders that it generates above a US\$1,200/oz gold price, rather than 40%, then there is scope for the quarterly dividend to remain at the higher level even if the gold price dips below the US\$1,800/oz level.

Valuation

Our approach to the valuation of Newmont has remained unchanged since our initiation note (see [The sustainable leader](#), published on 9 February 2021) and readers are directed to this note for a fuller explanation of the methodologies involved. The following is an update of our valuation in light of Q421 financial results, our updated forecasts for FY22 and our longer-term assumption changes.

Absolute valuation and sensitivities

Newmont is a multi-asset company that has shown a willingness and desire to trade assets in the past to maintain production, reduce costs and maximise shareholder returns. As a result, rather than our customary method of discounting maximum potential dividends over the life of operations back to FY22, in the case of Newmont, we have opted to discount forecast dividends back over six years from the start of FY22, then apply an ex-growth terminal multiple to forecast cash flows in that year (ie FY27) based on the appropriate discount rate. In the normal course of events, we would exclude exploration expenditure from such a calculation on the basis that it is a discretionary investment. In the case of Newmont, however, we have included it in our estimate of future cash flows on the grounds that it will be a critical component of ongoing business performance in its ability to continually expand and extend the lives of the company's assets via exploration.

In this case, in the light of Newmont's updated cost and production guidance (see Exhibit 3), our estimate of Newmont's 'terminal' pre-financing cash flow in FY27 has declined by 19.2%, from US\$5.30/share in FY26 previously, to US\$4.28/share in FY27 currently. On this basis, applying a (real) discount rate of 6.2% (calculated from a nominal expected equity return of 9% and increased long-term inflation expectations of 2.6162% cf 2.4158% previously, as defined by the US 30-year breakeven inflation rate – source: Bloomberg, 21 April), our terminal valuation of the company at end-FY27 is US\$76.95/share cum-dividend (cf US\$82.38/share previously). This is close to Newmont's current share price of US\$82.59. However, note that this valuation is based on the inherently conservative assumption of zero growth in (real) cash flows beyond FY27. The valuation would increase to US\$82.59/share (ie the current share price) if growth in real cash flows after FY27 amounts to just 0.4% per annum (ie materially below the minimum of 2.0% per annum that would be expected from the average historical annual increase in the real price of gold of 2.0% pa). Assuming 2.0% per annum real increases in cash flows beyond FY27, our valuation in FY27 increases to US\$111.60 cum-dividend and to US\$85.50/share as at the start of FY22.

It should also be noted that our valuation is inherently conservative in that it assumes that the long-term price of gold will decline from current levels to US\$1,524/oz in real terms by FY27 (before levelling out). If the gold price remains at current levels in real terms (US\$1,950/oz at the time of writing), our valuation increases to US\$104.16/share cum-dividend in FY27 and to US\$81.73/share currently in FY22 (with the added assumption that mining at NGM does not then revert to the reserve grade in that year on account of the relatively high sustained level of the gold price).

Note that this (absolute) analysis inherently excludes any value to Newmont from its other development assets, such as Coffee, Galore Creek, Conga, Norte Abierto and Nueva Union, which together represent combined reserves and resources of 53.94Moz attributable to Newmont.

Relative Newmont valuation

Newmont's valuation on a series of commonly used measures, relative to its peer group of the 10 largest publicly quoted senior gold producers, is as follows.

Exhibit 8: Newmont valuation relative to peers

Company	Ticker	P/E (x)			P/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	Year 1	Year 2	Year 3
Newmont (Edison)	NEM	27.4	36.3	40.1	14.4	14.5	13.6	10.5	12.4	11.4	2.7	2.7	1.9
Newmont (consensus)	NEM	25.5	26.1	27.2	13.4	13.1	12.9	10.5	10.4	10.6	2.5	2.5	2.2
Barrick	ABX	22.0	20.2	21.1	9.6	8.9	9.2	8.5	7.7	8.0	2.6	3.8	3.9
AngloGold	ANGJ	11.0	8.9	10.9	7.4	6.4	6.1	5.3	4.4	4.9	1.2	2.0	2.0
Polyus	PLZL MM	11.1	11.1	8.6	8.3	7.1	7.2	7.5	7.3	6.8	2.8	4.4	3.8
Gold Fields	GFI	14.7	13.6	14.0	8.3	8.1	7.3	6.5	5.9	5.8	2.3	2.5	2.5
Kinross	K	12.4	12.1	16.2	5.1	4.9	5.8	4.6	4.4	5.1	2.0	2.0	2.0
Agnico-Eagle	AEM	26.9	26.1	31.1	10.9	10.8	11.0	9.8	9.7	10.4	2.2	2.2	2.3
Newcrest	NCM AU	20.0	16.1	20.7	14.5	9.2	10.4	9.3	7.3	8.5	1.0	1.8	1.7
Harmony	HARJ	10.7	7.9	10.6	6.4	4.4	5.2	4.9	4.0	5.4	0.7	1.1	2.4
Endeavour (consensus)	EDV	14.4	14.3	12.6	5.7	6.0	5.6	5.3	5.5	5.2	2.3	2.6	3.0
Average (excl NEM)		15.9	14.5	16.2	8.5	7.3	7.5	6.9	6.2	6.7	1.9	2.5	2.6

Source: Edison Investment Research, Refinitiv. Note: Consensus and peers priced on 21 April 2022.

From the table above, it can also be seen that while Newmont continues to command a premium rating relative to its peer group on most valuation measures, it remains materially cheap with respect to its dividend yield, despite the fact that its shares have risen by 45.5% since the time of our last note (see [Q321 results in line with prior expectations](#), published on 10 November 2021). Based on consensus forecasts, we estimate that Newmont's share price would have to rise by an average of 27.5% for its dividend yield to match those of its peer group. Based on our forecasts, we estimate its share price would have to rise 25.8%.

As before, one further observation concerning the comparability of the above measures is merited. Given its policy of proportionately consolidating its interest in NGM and that it owns 100% interests in the majority of its remaining mining operations (with the notable exception of Merian), estimates of cash flow in particular are also close to estimates of cash flow attributable to shareholders (Newmont estimates that 99.8% of free cash flow was attributable to the company in FY21). This is in contrast to a number of its peers, where earnings and cash flow from assets not 100%-owned tend to be fully consolidated and therefore may not so easily approximate cash flow attributable to shareholders, making direct comparison using these measures either difficult or, potentially, misleading.

Historical valuation

Based on Newmont's average historical P/E ratio of 23.9x current year earnings over the past nine years, from FY13 to FY21, and its average historical yield of 2.0% over the same timeframe, a summary of our updated valuation of the company over 16 measures of value over the next four years is as follows:

Exhibit 9: Newmont valuation summary (US\$/share in years shown)

Basis of valuation		FY22e	FY23e	FY24e	FY25e
Historical	Share price implied by Edison EPS forecast (US\$/share)	71.88	54.28	49.10	37.87
Historical	Share price implied by Edison DPS forecast (US\$/share)	109.98	109.98	79.99	79.99
Historical	Share price implied by consensus EPS forecast (US\$/share)	77.58	76.39	73.52	73.28
Historical	Share price implied by consensus DPS forecast (US\$/share)	108.48	104.98	98.48	102.48
Average (US\$/share)		91.98	86.41	75.27	73.41

Source: Edison Investment Research (underlying consensus data: Refinitiv, 21 April 2022).

Reserves and resources

In addition to its financial results, on 24 February, Newmont also announced the results of its annual resource and reserve estimation. Full details of the updated reserves and resources statement and of the changes in the categorisations of reserves and resources, by asset, are available on Newmont's [website](#). However, a brief summary is provided below:

- Despite 7.1Moz in attributable depletion, aggregate reserves and resources declined by just 1.1Moz on a like-for-like basis (ie excluding the subsequent Yanacocha transactions with Buenaventura and Sumitomo).
- Additions to reserves of 6.5Moz amounted to 91.5% of mining depletion of 7.1Moz during the year (before the Yanacocha transactions), exceeding Newmont's target of 80%.
- Over 90% of gold reserves are in top-tier jurisdictions, with 36% of the total in North America, 33% in South America, 19% in Australia and 12% in Africa.
- Net reserve increases (ie after depletion and revisions) were recorded at Ahafo, Nevada Gold Mines, Éléonore and Merian; gross reserve increases (ie before depletion and revisions) were also recorded at Tanami and Cerro Negro.
- Significant exposure to other metals includes copper with 15.1bn lbs (6.8m metric tonnes) in reserves, 17.8bn lbs (8.1Mt) in measured and indicated resources and 8.6bn lbs (3.9Mt) in inferred resources.

The following table summarises the year-on-year changes in Newmont's attributable resources and reserves, by asset. Readers should note that, ordinarily, Newmont reports its resources exclusive of reserves. In this case, however, we have aggregated reserves with resources to provide an indication of the full mineral inventory attributable to the company.

Exhibit 10: Newmont attributable resources and reserves, by asset, FY21 versus FY20

Asset	Category	Reserves & resources (FY20)			Reserves & resources (FY21)			Change (units)		
		Tonnes (kt)	Grade (g/t)	Contained gold (koz)	Tonnes (kt)	Grade (g/t)	Contained gold (koz)	Tonnes (kt)	Grade (g/t)	Contained gold (koz)
CC&V	Total	319,200	0.47	4,820	208,100	0.47	3,150	-111,100	0.00	-1,670
Musselwhite	Total	14,400	5.49	2,540	16,400	5.01	2,640	2,000	-0.48	100
Porcupine	Total	211,600	1.51	10,290	205,800	1.49	9,880	-5,800	-0.02	-410
Éléonore	Total	13,300	5.05	2,160	17,000	5.09	2,780	3,700	0.03	620
Penasquito	Total	815,500	0.44	11,430	659,800	0.44	9,270	-155,700	0.00	-2,160
Noche Buena	Total	30,000	0.36	350	22,600	0.36	260	-7,400	-0.01	-90
Sandman	Total	0	0.00	0	0	0.00	0	0	0.00	0
Coffee	Total	62,300	1.18	2,370	62,300	1.18	2,370	0	0.00	0
Galore Creek	Total	650,900	0.25	5,300	650,900	0.25	5,300	0	0.00	0
Conga*	Total	474,700	0.59	8,970	474,700	0.59	8,970	0	0.00	0
Yanacocha*	Total	275,500	0.86	7,650	250,000	0.90	7,220	-25,500	0.03	-430
Merian	Total	185,800	1.07	6,410	167,200	1.16	6,260	-18,600	0.09	-150
Cerro Negro	Total	20,700	7.63	5,080	19,900	7.49	4,790	-800	-0.15	-290
Pueblo Viejo	Total	174,400	2.03	11,380	170,400	1.99	10,900	-4,000	-0.04	-480
Nueva Union	Total	704,000	0.46	10,490	704,000	0.46	10,490	0	0.00	0
Norte Abierto	Total	1,642,600	0.51	26,800	1,642,500	0.51	26,810	-100	0.00	10
Aqua Rica	Total	419,200	0.16	2,210	419,200	0.16	2,210	0	0.00	0
Alumbrera	Total	0	0.00	0	0	0.00	0	0	0.00	0
Boddington	Total	836,800	0.60	16,240	838,300	0.61	16,390	1,500	0.00	150
Tanami	Total	76,900	4.07	10,070	80,400	3.84	9,920	3,500	-0.24	-150
Ahafo	Total	163,200	1.95	10,230	173,300	1.99	11,080	10,100	0.04	850
Ahafo North	Total	62,500	2.24	4,500	69,300	2.15	4,800	6,800	-0.09	300
Akyem	Total	63,200	1.70	3,460	56,100	1.80	3,250	-7,100	0.10	-210
Nevada	Total	464,600	2.19	32,680	536,500	2.06	35,570	71,900	-0.13	2,890
Total	Measured & proven	1,323,300	0.97	41,390	1,267,500	0.96	39,070	-55,800	-0.01	-2,320
Total	Indicated & probable	4,841,900	0.79	122,490	4,681,300	0.81	122,040	-160,600	0.02	-450
Total	Inferred	1,516,100	0.65	31,550	1,495,900	0.69	33,200	-20,200	0.04	1,650
Total	Total	7,681,300	0.79	195,430	7,444,700	0.81	194,310	-236,600	0.02	-1,120

Source: Newmont, Edison Investment Research. Note: *Shown at 51.35% attributable interest (ie prior to Buenaventura and Sumitomo transactions).

Inevitably, Newmont's exploration activities were adversely affected by the COVID-19 pandemic, which required it, among other things, to prioritise drilling programmes in existing operations owing to travel restrictions. This constraint, in particular, affected its ability to progress greenfields exploration. Nevertheless, it was still able to achieve its target of replacing two-thirds of mining depletion 'via the drill bit'.

In FY22, Newmont's attributable exploration expenditure for managed operations is expected to be c US\$250m with a focus on extending mine life, developing districts and discovering new opportunities in the most favourable jurisdictions. Hence, 80% of its investment will be dedicated to near-mine expansion programmes and the remaining 20% allocated to the advancement of greenfield projects. In addition, Newmont's share of exploration investment for its non-managed joint ventures is expected to total c US\$45m. Geographically, the company expects to make approximately 38% of its investment in North America, 23% in South America, 17% in Australia and 22% in Africa and other locations.

The exploration challenge in the long term

As Newmont sees it, the challenge in discovering the next generation of mines is to be able to identify deeper, so-called 'blind' deposits that are under cover, rather than those originally discovered from outcrops (readers are directed towards Newmont's 2021 [Exploration update presentation](#) for detailed information on this strategy). Its philosophy towards exploration is therefore to understand completely the geological systems in which it has a presence on both a regional and district scale, a goal that it believes cannot be achieved by operating a decentralised model. Immediate examples of domains with such multi-million ounce endowments include (but are



not limited to) the Tintina Province in the Yukon, the Golden Triangle in British Columbia, the Carlin Trend, the Guiana Shield, the Superior Province in Canada, the Yilgarn, the West African Craton, the Nubian Shield and the Deseado Massif in Chile/Argentina, where, in addition to reserve expansion potential, Newmont's existing presence also makes them attractive from the perspective of offering synergies with existing operations. In this context, it is worth noting that c 80% of Newmont's reserves are located within easy trucking distance of an existing operating site and are therefore able to contribute relatively easily to low-cost, value-focused production for minimal investment.

Exhibit 11: Financial summary

Accounts: US GAAP, Yr end: December, USD: Millions		2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E
Income statement									
Total revenues		7,253	9,740	11,497	12,222	12,962	11,839	12,023	11,664
Cost of sales		(4,093)	(5,195)	(5,014)	(5,435)	(5,629)	(5,482)	(5,777)	(5,786)
Gross profit		3,160	4,545	6,483	6,787	7,333	6,357	6,247	5,878
SG&A (expenses)		(244)	(313)	(269)	(259)	(260)	(260)	(260)	(260)
R&D costs		(350)	(415)	(309)	(363)	(450)	(450)	0	0
Other income/(expense)		(406)	(253)	(831)	(2,101)	(242)	(242)	(83)	(83)
Exceptionals and adjustments	Exceptionals	(424)	2,220	214	(2,258)	0	0	0	0
Depreciation and amortisation		(1,215)	(1,960)	(2,300)	(2,323)	(2,473)	(2,587)	(3,236)	(3,451)
Reported EBIT		945	3,994	3,451	1,382	3,907	2,817	2,667	2,084
Finance income/(expense)		(207)	(301)	(308)	(274)	(225)	(24)	(103)	1
Reported PBT		738	3,693	3,143	1,108	3,682	2,794	2,565	2,086
Income tax expense (includes exceptionals)		(419)	(737)	(515)	(932)	(1,212)	(949)	(860)	(765)
Reported net income		380	2,884	2,791	233	2,470	1,845	1,705	1,320
Basic average number of shares, m		533	735	804	799	799	799	799	799
Basic EPS (US\$/share)		0.64	3.82	3.52	1.46	3.01	2.27	2.06	1.59
Adjusted EBITDA		2,584	3,734	5,537	5,963	6,381	5,404	5,904	5,535
Adjusted EBIT		1,369	1,774	3,237	3,640	3,907	2,817	2,667	2,084
Adjusted PBT		1,162	1,473	2,929	3,366	3,682	2,794	2,565	2,086
Adjusted EPS (US\$/share)		1.35	1.32	2.66	2.97	3.01	2.27	2.06	1.59
Adjusted diluted EPS (US\$/share)		1.34	1.32	2.66	2.96	2.99	2.26	2.04	1.58
Balance sheet									
Property, plant and equipment		12,258	25,276	24,281	24,124	24,046	23,859	22,822	20,872
Goodwill		58	2,674	2,771	2,771	2,771	2,771	2,771	2,771
Other non-current assets		3,122	5,752	5,812	5,973	5,973	5,973	5,973	5,973
Total non-current assets		15,438	33,702	32,864	32,868	32,790	32,603	31,566	29,616
Cash and equivalents		3,397	2,243	5,540	4,992	4,427	4,369	5,683	7,564
Inventories		630	1,014	963	930	1,211	1,106	1,124	1,090
Trade and other receivables		254	373	449	337	391	357	362	352
Other current assets		996	2,642	1,553	1,437	1,437	1,437	1,437	1,437
Total current assets		5,277	6,272	8,505	7,696	7,466	7,270	8,606	10,442
Non-current loans and borrowings		3,608	6,734	6,045	6,109	5,617	5,203	5,203	5,203
Other non-current liabilities		3,808	8,438	8,076	9,940	9,920	9,900	9,791	9,682
Total non-current liabilities		7,416	15,172	14,121	16,049	15,537	15,103	14,994	14,885
Trade and other payables		303	539	493	518	507	494	521	522
Current loans and borrowings		653	100	657	193	193	193	193	193
Other current liabilities		831	1,746	2,219	1,943	1,943	1,943	1,943	1,943
Total current liabilities		1,787	2,385	3,369	2,654	2,643	2,630	2,657	2,658
Equity attributable to company		10,502	21,420	23,008	22,022	22,670	22,729	23,094	23,083
Non-controlling interest		1,010	997	871	(161)	(595)	(590)	(572)	(569)
Cashflow statement									
Profit for the year		380	2,884	2,791	233	2,470	1,845	1,705	1,320
Taxation expenses		386	832	704	1,098	1,342	1,101	984	838
Net finance expenses		207	301	308	274	225	24	103	(1)
Depreciation and amortisation		1,215	1,960	2,300	2,323	2,473	2,587	3,236	3,451
Share based payments		76	97	72	72	0	0	0	0
Other adjustments		749	(2,131)	(654)	2,277	172	172	83	83
Movements in working capital		(743)	(309)	295	(541)	(538)	(67)	(188)	(146)
Interest paid / received		(207)	(301)	(308)	(274)	(225)	(24)	(103)	1
Income taxes paid		(236)	(498)	(926)	(1,207)	(1,342)	(1,101)	(984)	(838)
Cash from operations (CFO)		1,827	2,866	4,882	4,279	4,577	4,537	4,836	4,708
Capex		(1,032)	(1,463)	(1,302)	(1,653)	(2,395)	(2,400)	(2,200)	(1,500)
Acquisitions & disposals net		(98)	224	1,463	(50)	(493)	0	0	0
Other investing activities		(47)	41	65	(15)	0	0	0	0
Cash used in investing activities (CFIA)		(1,177)	(1,226)	91	(1,868)	(2,888)	(2,400)	(2,200)	(1,500)
Net proceeds from issue of shares		(98)	(479)	(521)	(525)	0	0	0	0
Movements in debt		0	(1,186)	(175)	(390)	(492)	(414)	0	0
Dividends paid		(301)	(889)	(834)	(1,757)	(1,805)	(1,785)	(1,326)	(1,331)
Other financing activities		(56)	(223)	(150)	(286)	42	4	4	4
Cash from financing activities (CFF)		(455)	(2,777)	(1,680)	(2,958)	(2,255)	(2,195)	(1,322)	(1,328)
Currency translation differences and other		(4)	(3)	6	(8)	0	0	0	0
Increase/(decrease) in cash and equivalents		191	(1,140)	3,299	(555)	(565)	(57)	1,314	1,880
Cash and equivalents at end of period		3,489	2,349	5,648	5,093	4,528	4,470	5,784	7,665
Net (debt) cash		(864)	(4,591)	(1,162)	(1,310)	(1,383)	(1,027)	287	2,168
Movement in net (debt) cash over period		(864)	(3,727)	3,429	(148)	(73)	357	1,314	1,880

Source: Company sources, Edison Investment Research

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