EDISON

Endeavour Mining

The second five-year plan

Exploration update, refinancing, Q3 preview

Metals & mining

Endeavour will announce its Q321 results on the morning of 11 November and, post quarter end, we are largely reiterating our forecasts for Q321, with the exception of a minute adjustment to the gold price (from US$1,792/oz to US$1,790/oz – see Exhibit 5). In the meantime, Endeavour has announced an ambitious five-year exploration programme to discover 15.0–20.0Moz in the indicated category of resources, while also refinancing its credit lines.

Year end	Revenue (US$m)	EBITDA (US$m)	PBT* (US$m)	Operating cash flow per share (US$)	DPS (c)	Yield (%)
12/19	1,362.1	618.4	220.4	3.30	0	N/A
12/20	1,847.9	910.3	501.2	5.35	37	1.5
12/21e	2,711.5	1,363.5	693.2	3.64	56	2.2
12/22e	2,495.1	1,424.0	885.1	4.88	60	2.4

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Exploration could add net US$2.69–5.84/share in value

A pro rata performance relative to its first five-year exploration plan would result in Endeavour discovering c 12.75Moz by October 2026, with the expectation that it would discover a further 3.75Moz by the end of that year to take the total to 16.5Moz (ie 10% above the lower exploration target boundary limit). At an upper limit cost of US$400m (US$80m pa over five years) or US$1.61/share, we estimate that this could add US$1,070–1,354m (or US$4.30–7.45/share) in value to Endeavour's shares (gross of costs – see pages 2–3 for details and methodology).

Debt refinanced

On 1 October, Endeavour announced the launch of a US$500m bond as well as a new US$500m revolving credit facility (RCF), among other things, in order to extend its debt maturities relative to existing arrangements (see page 4).

Valuation: At least US$32.50 plus exploration

Our 'base case' valuation of Endeavour remains broadly unchanged relative to our last note (Q2 outperforms ahead of likely Q3 index inclusion, published on 18 August 2021). Based on the average multiples of its gold major peers, we estimate a valuation for Endeavour of US$32.50 (C$40.13 or £23.68) per share. By contrast, using an absolute valuation methodology, whereby we discount back six years of cash flow and then apply an ex-growth, ad infinitum multiple to steady-state terminal cash flows in FY26, implies a valuation of US$34.62 (C$42.74 or £25.22) per share if performed using a standardised discount rate of 10% or US$55.84 (C$68.94 or £40.68) per share if performed using a CAPM-derived (real) discount rate of 6.47%. 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 above). Otherwise, it is trading at a discount to the average multiples of its peers on at least 68% of common valuation measures despite being the largest premium LSE-listed pure gold producer, included in the FTSE 250 index (see Exhibit 9).

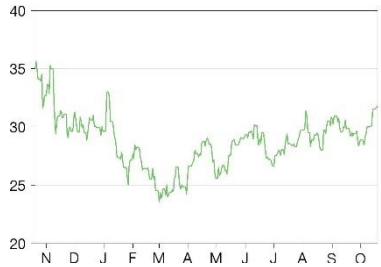
20 October 2021

Price	**C$31.49**
Market cap	**C$7,842m**
	C$1.2346/US$, US$1.3727/£
Net debt (US$m) at end-June 2021*	52.3

*Excludes lease liabilities, option premium & restricted cash.

Shares in issue (thousands)	249,016
Free float	75.2%
Code	EDV
Primary exchange	LSE
Secondary exchange	TSX, US OTC

Share price performance



%	1m	3m	12m
Abs	6.5	11.6	(8.4)
Rel (local)	3.5	4.4	(29.3)
52-week high/low		C$35.66	C$23.58

Business description

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

Next events

Q321 results	11 November 2021
Sabodala-Massawa Phase 2 DFS	Q421
Fetekro DFS	Q421
Q421/FY21 results	February/March 2021

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Edison profile page

Endeavour Mining is a research client of Edison Investment Research Limited.

Exploration's second five-year plan

On 30 September, Endeavour announced a new five-year exploration discovery target of 15.0–20.0Moz of gold in the indicated category of resources at an average cost of less than $25/oz. Full details of Endeavour's announcement are included in its news release. A summary of the target, on a mine by mine basis, is as follows:

Exhibit 1: Endeavour Mining five-year measured & indicated (M&I) resource discovery target

Mine	FY21e milled grade (g/t)	Measured & Indicated resources*			5yr M&I resource discovery target			Percentage increase/uplift		
		Tonnage (Mt)	Grade (g/t)	Contained gold (Moz)	Tonnage (Mt)	Grade (g/t)	Contained gold (Moz)	Tonnage (%)	Grade (%)	Contained gold (%)
Ity	1.64	77.1	1.52	3.8	47.0–54.0	2.00–3.00	3.5–4.5	61.0–70.0	31.6–97.4	92.1–118.4
Houndé	2.04	82.0	1.74	4.6	25.0–67.0	1.40–5.00	3.0–4.0	30.5–81.7	-19.5–187.4	65.2–87.0
Sabodala-Massawa	2.90	102.1	2.02	6.6	24.0–48.0	1.50–3.50	2.3–2.7	23.5–47.0	-25.7–73.3	34.8–40.9
Wahgnion	1.47	44.2	1.51	2.2	21.0–39.0	1.20–3.00	1.5–2.0	47.5–88.2	-20.5–98.7	68.2–90.9
Fetekro	N/A	32.0	2.40	2.5	21.0–28.0	1.80–2.00	1.2–1.8	65.6–87.5	-25.0--16.7	48.0–72.0
Boungou	4.58	14.4	3.32	1.5	19.0–21.0	1.50–2.50	1.0–1.5	131.9–145.8	-54.8--24.7	66.7–100.0
Mana	2.57	45.2	2.07	3.0	12.0–24.0	1.30–4.00	1.0–1.5	26.5–53.1	-37.2–93.2	33.3–50.0
Sub-total		**397.0**	**1.90**	**24.2**	**169.0–281.0**	**1.49–3.31**	**13.5–18.0**	**42.6–70.8**	**-21.2–74.7**	**55.8–74.4**
Greenfield properties		-	-	-	18.0–49.0	0.95–3.50	1.5–2.0	N/A	N/A	N/A
Total		**397.0**	**1.90**	**24.2**	**187.0–330.0**	**1.41–3.33**	**15.0–20.0**	**47.1–83.1**	**-25.4–75.5**	**62.0–82.6**

Source: Endeavour Mining, Edison Investment Research. Note: *Resources are shown inclusive of reserves on a 100% basis as at 31 December 2020.

In general, Endeavour's aims remain to continue to extend the lives of its core assets beyond its 10-year target. In addition, it is targeting the discovery of at least one more new standalone project via greenfields exploration. It also confirmed that it expects to discover at least another 2.5Moz of indicated resources in the remainder of FY21 (which forms part of its 2016–21 target of discovering an additional 10.0–15.0Moz gold) to add to the 8.5Moz already discovered.

By their nature, the targets outlined in Endeavour's announcement are conceptual and there is no guarantee that exploration will delineate resources of this size. Nevertheless, a number of features of the table are noteworthy:

- The overall target of 15.0–20.0Moz was generated from a multi-screened and filtered estimate of 70 targets on the basis of a statistical probability of occurrence (PoO) analysis of a type more typically associated with the oil and gas, rather than the mining, industry.
- If successful, the five-year exploration target would effectively deliver Endeavour's ancillary target of proving a >10Moz resource endowment (inclusive of historical production) at its flagship mines of Sabodala-Massawa, Houndé and Ity, thereby confirming them as Tier 1 assets.
- For the majority of mines, the lower boundary of the targeted grade is below the equivalent existing grade and the upper boundary is above the equivalent existing grade. For the two highest grade mines however (Fetekro and Boungou), both the upper and lower targeted boundaries are below the equivalent existing grade, possibly indicating that management perceives the potential to develop these as higher volume, lower grade, lower cost operations relative to their current configuration.
- In all but one case (the exception being Boungou), the targeted discovery grade range encompasses – or is above (in the case of Ity) – the grade of material currently being processed at the mines (as defined by the 'FY21e milled grade' column in the table).
- Partly as a result of its targeted discovery grade range being above that of the material currently being milled at the mine, Ity (as measured by the size of the exploration target) is perceived by Endeavour as offering the greatest prospectivity of all of its mines and the greatest potential to increase resources in both absolute (ie ounces) and percentage terms.

- To date, in its FY16–21 exploration plan, Endeavour has discovered 8.5Moz out of a target of 10.0–15.0Moz and expects to announce a further 2.5Moz discovered by the end of the year. A pro rata performance (relative to the lower limit of the exploration target) in the FY16–21 exploration plan would see it having discovered c 12.75Moz by October 2026, with the expectation that it would discover a further 3.75Moz by the end of 2026 to take the total to 16.5Moz (ie 10% above the lower exploration target boundary limit).

Potential value of exploration target

Three methods present themselves to determine the value (or potential value) of Endeavour's five-year exploration programme:

Value at cost of discovery

At its most simple, the valuation of the resources discovered could be deemed to be the same as the investment required to discover them. In this case, Endeavour is looking to discover 15.0–20.0Moz in the indicated category at a cost of discovery of less than US$25/oz, implying a valuation for the programme of US$375–400m before costs depending on the ultimate level of investment and the final level of resources discovered.

Pre-investment value of average Endeavour resources

Endeavour's current enterprise value is US$6.5bn, which implies a market-based valuation per attributable resource ounce of US$199.49/oz. To achieve that valuation however, the company was required to make an investment of US$3.9bn (Edison estimate, end-FY21) or US$106.79 into each of its ounces – implying, among other things, a pre-investment valuation of Endeavour's resources of US$92.70/oz. On this basis (which may be appropriate, given that the vast majority of Endeavour's targeted resources are near-mine and therefore comparable to existing resources), we would calculate a value for the company's exploration programme of US$1,391–1,854m, or US$5.59–7.45/share (cf a cost of US$375–400m, or US$1.51–1.61/share, to achieve).

Comparison with first five-year plan

To date, in Endeavour's 2016–2021 exploration plan, it has delineated 8.5Moz of new resources with a further 2.5Moz anticipated to be discovered by the company before the year end. Of these 8.5Moz, 7.4Moz (or 87%) have been at three assets, where it has been possible to rapidly integrate a portion of the resources into mine plans, from which it is possible to make an estimate of the tangible value added to Endeavour, as follows:

Exhibit 2: Tangible value derived to date from 2016–2021 exploration programme

Asset	Resource delineated to date (Moz)	Resources added to mine plan (koz)	Resources added as % of resources delineated	Value added* (US$m)	Value added per resource ounce delineated (US$/oz)	Value added per ounce mined (US$/oz)
Houndé	2.6	668	25.7	155.5	59.81	232.78
Ity	2.3	194	8.4	85.4	37.13	440.21
Fetekro	2.5	1,986	78.3	383.2	151.10	193.00
Totals	**7.4**	**2,847**	**38.3**	**624.1**	**83.94**	**219.21**

Source: Edison Investment Research, Endeavour Mining. *Post-tax, attributable (Edison estimate) with the exception of Fetekro which is attributable percentage of NPV_5 of US$479m.

Pro rata to this performance, in its second five-year exploration plan, we may expect Endeavour to have delineated 12.75Moz by October 2026, with the expectation that it would discover a further 3.75Moz by the end of the year to take the total to 16.5Moz (ie 10% above the lower exploration target boundary limit). Of these 12.75Moz, we might expect 38.3%, or 4.88Moz to be rapidly incorporated into existing mine plans and to add US$1,070m (or US$4.30/share) in attributable value to the company cf a cost to achieve this value of US$375–400m (ie a value uplift of US$670–695m, or US$2.69–2.79/share).

Note that, in this particular scenario, valuation upside continues to exist in the form of additional ounces being discovered and/or additional ounces being rapidly incorporated into Endeavour's mines' mine plans.

Debt refinancing

On 1 October, Endeavour announced the launch of a US$500m offering of fixed rate senior notes as well as a new US$500m revolving credit facility (RCF). Interest on the notes is to be paid semi-annually at a rate equal to 5.00% per annum and the notes will mature on 14 October 2026. The proceeds will be used to (i) repay all amounts outstanding under the group's US$370m bridge term loan facility (currently attracting interest at a rate of 2.25%), which was used to retire higher cost debt facilities acquired with Teranga; (ii) repay the US$130m drawn under the group's existing revolving credit facility (Libor + 2.95–3.95%); and (iii) pay fees and expenses etc.

As part of the bond process, Endeavour sought issuer ratings from S&P and Fitch, who filed their issuer ratings as follows:

- S&P rating: BB- stable
- Fitch rating: BB stable

In the meantime, the new RCF was reported to have received strong support from the syndicate of banks involved. The aggregate coupon rate of the new RCF will be between 2.40–3.40% depending on Endeavour's leverage. However, the company expects the facility to remain undrawn as of the issue date (albeit with a commitment fee payable on the undrawn portion of 0.84%).

In addition to repaying the existing bridge facility and drawn portion of the RCF, the new financing arrangements will:

- Diversify Endeavour's funding sources and unlock a new investor base,
- Extend the maturities of its existing debt structure from 2023 to 2025 for the RCF and 2026 for the bond, and
- Enhance its capital markets profile as a first entry into the ratings space and the bond market.

FY21 guidance versus forecasts

Historically, Endeavour has a good record of meeting its production and cost guidance targets and FY20 was the eighth year in succession in which the company achieved its production cost and AISC targets. Currently, Endeavour's production and cost guidance for each of its mines for FY21 is as follows:

Exhibit 3: Endeavour's production cost and AISC guidance, by mine, FY21

	Production (koz)	AISC (US$/oz)
Mine	**FY21e guidance**	**FY21e guidance**
Houndé	240–260	855–905
Karma	80–90	1,220–1,300
Ity CIL	230–250	800–850
Mana	170–190	975–1,050
Boungou	180–200	690–740
Sabodala-Massawa	310–330	690–740
Wahgnion	140–155	940–990
Continuing operations	**1,350–1,475**	**840–890**
Agbaou	15–20	1,050–1,125
Group production	**1,365–1,495**	**850–900**

Source: Endeavour Mining, Edison Investment Research

Readers should note that Endeavour's guidance includes production from Sabodala-Massawa and Wahgnion from 10 February onwards only. They should also note that, for the purposes of our forecasts (below) we have left Agbaou (which was sold by Endeavour in Q121) fully consolidated into Endeavour's 'pro forma' accounts. For those who wish to deconsolidate it, Agbaou's profit and loss for the period in which it was under Endeavour ownership in Q121 is reproduced below. All told, however, we would note that its contribution to Endeavour's bottom line was, to all intents and purposes, immaterial during this period.

Exhibit 4: Agbaou profit and loss, Q121 (US$000s unless otherwise indicated)

	Q121
Revenue	25,426
Operating costs	(14,250)
Depreciation & depletion	0
Royalties	(1,418)
Other income/(expenses)	80
Loss on disposal	(13,540)
Earnings/(loss) before tax	(3,702)
Deferred and current income tax expense	0
Net comprehensive earnings/(loss)	(3,702)
Minority interest	1,466
Comprehensive earnings attributable to EDV shareholders	(5,168)
Basic EPS (US$/share)	(0.025)
Diluted EPS (US$/share)	(0.025)

Source: Endeavour Mining

In the meantime, we understand it is not Endeavour's intention, at least for the time being, to reflect Karma as an asset held for sale (despite its now being classified as 'non-core'). With these provisos, our updated forecasts for Endeavour for the remainder of FY21 and in the wake of the end of the Q321 quarter, on both an 'as reported' and 'pro forma' basis are as follows:

Exhibit 5: Endeavour Mining FY21 earnings forecasts, by quarter

US$000s (unless otherwise indicated)	Q121 (reported)	Est Q121 (pro forma)	Q221a	Q321e (prior)	Q321e (current)	Q421e (prior)	Q421e (current)	FY21 (pro forma)	FY21e (reported)
Houndé production (koz)	66.1	66.1	79.6	57.9	57.9	55.9	55.9	259.5	259.5
Agbaou production (koz)	-	12.6	0	0	0	0	0	12.6	-
Karma production (koz)	21.6	21.6	25.1	16.8	16.8	18.3	18.3	81.7	81.7
Ity production (koz)	70.9	70.9	79.5	50.4	50.4	51.6	51.6	252.3	252.3
Boungou production (koz)	59.7	59.7	38.8	42.8	42.8	44.3	44.3	185.7	185.7
Mana production (koz)	52.4	52.4	49.2	43.2	43.2	45.3	45.3	190.2	190.2
Sabodala-Massawa	38.9	75.0	95.9	83.0	83.0	85.8	85.8	339.7	303.6
Wahgnion	24.7	43.0	41.0	34.0	34.0	43.3	43.3	161.3	143.0
Total gold produced (koz)	334.3	401.2	409.0	328.2	328.2	344.6	344.6	1,483.0	1,416.1
Total gold sold (koz)	363.5	432.0	420.8	328.2	328.2	344.6	344.6	1,525.5	1,457.1
Gold price (US$/oz)	1,749*	1,763	1,791*	1,792	1790	1,787	1,768	1,777*	1,774*
Mine level cash costs (US$/oz)	794**	643	625	737	737	738	738	680	678
Mine level AISC (US$/oz)	837	818	828	1,017	1,017	989	988	902	911
Revenue									
– Gold revenue	635,792	761,448	753,427	588,154	587,523	615,745	609,142	2,711,540	2,585,884
Cost of sales									
– Operating expenses	251,112	300,140	278,161	241,929	241,929	254,215	254,215	1,074,445	1,025,417
– Royalties	44,366	51,280	43,908	35,947	35,909	37,682	37,278	168,375	161,461
Gross profit	340,314	410,028	431,358	310,278	309,685	323,848	317,649	1,468,721	1,399,006
Depreciation	(122,611)	(141,190)	(158,382)	(142,633)	(142,619)	(152,971)	(152,817)	(595,008)	(576,429)
Expenses									
– Corporate costs	(11,409)	(12,726)	(15,890)	(8,276)	(8,276)	(8,276)	(8,276)	(45,168)	(43,851)
– Impairments		0	0	0	0	0	0	0	0
– Acquisition etc costs	(12,160)	(12,160)	(14,544)	0	0	0	0	(26,704)	(26,704)
– Share based compensation	(7,955)	(9,436)	(9,839)	(6,907)	(6,907)	(6,907)	(6,907)	(33,089)	(31,608)
– Exploration costs	(9,810)	(9,810)	(5,874)	(5,625)	(5,625)	(5,625)	(5,625)	(26,934)	(26,934)
Total expenses	(41,334)	(44,132)	(46,147)	(20,808)	(20,808)	(20,808)	(20,808)	(131,895)	(129,097)
Earnings from operations	176,369	224,707	226,829	146,837	146,258	150,069	144,024	741,818	693,480
Interest income								0	0
Interest expense	(12,318)	(16,841)	(13,694)	(9,152)	(9,152)	(1,633)	(8,773)	(48,460)	(43,937)
Net interest	(12,318)	(16,841)	(13,694)	(9,152)	(9,152)	(1,633)	(8,773)	(48,460)	(43,937)
Loss on financial instruments	42,077	42,077	(14,807)					27,270	27,270
Other expenses	(6,290)	(19,750)	(7082)					(26,832)	(13,372)
Profit before tax	199,838	230,192	191,246	137,686	137,106	148,436	135,251	693,796	663,441
Current income tax	72,148	81,321	44,463	36,611	36,497	36,351	35,162	197,442	188,270
Deferred income tax	8,688	8,688	(2,166)	0	0	0	0	6,522	6,522
Total tax	80,836	90,009	42,297	36,611	36,497	36,351	35,162	203,964	194,792
Effective tax rate (%)	40.5	39.1	22.1	26.6	26.6	24.5	26.0	29.4	29.4
Profit after tax	119,002	140,183	148,949	101,075	100,610	112,084	100,089	489,831	468,650
Net profit from discontinued ops.	(3,702)	0	0	0	0	0	0	0	(3,702)
Total net and comprehensive income	115,300	140,183	148,949	101,075	100,610	112,084	100,089	489,831	464,948
Minority interest	25,733	29,919	22,170	14,368	14,319	14,722	14,201	80,609	76,423
Minority interest (%)	22.3	21.3	14.9	14.2	14.2	13.1	14.2	16.5	16.4
Profit attributable to shareholders	89,567	110,264	126,779	86,706	86,291	97,362	85,887	409,222	388,525
Basic EPS from continuing ops (US$)	0.455	0.437	0.504	0.347	0.346	0.390	0.345	1.634	1.644
Diluted EPS from continuing ops (US$)	0.453	0.434	0.500	0.345	0.344	0.387	0.343	1.623	1.632
Basic EPS (US$)	0.431	0.437	0.504	0.347	0.346	0.390	0.345	1.634	1.622
Diluted EPS (US$)	0.428	0.434	0.500	0.345	0.344	0.387	0.343	1.623	1.611
Norm. basic EPS from continuing ops (US$)		0.318	0.620	0.347	0.346	0.390	0.345	1.632	1.635
Norm. diluted EPS from continuing ops (US$)		0.317	0.616	0.345	0.344	0.387	0.343	1.621	1.624
Adj net earnings attributable (US$000s)	104,686	135,156	183,147	92,631	92,215	103,362	91,814	502,333	471,863
Adj net EPS from continuing ops (US$)	0.503	0.535	0.727	0.371	0.370	0.414	0.369	2.006	1.970

Source: Endeavour Mining, Edison Investment Research. Note: Company reported basis. *Includes adjustment for Karma stream. **As reported, including royalty payments (Edison calculates US$629/oz excluding royalty payments).

As before, 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).

Notwithstanding the detailed appearance of our forecasts, readers are cautioned that forecasting on a quarterly basis for mining companies in general is prone to large variations between actual and forecast numbers. As such, the exhibits both above and below should be regarded as indicative, rather than prescriptive, particularly with respect to individual quarters. With this caveat (especially in relation to deferred tax and the minority interest), a comparison between our FY21 adjusted net EPS from continuing operations estimates and consensus estimates, by quarter, is as follows:

Exhibit 6: Edison adjusted net EPS from continuing operations estimates vs consensus FY21 by quarter (US$)

(US$/share)	As reported	Pro forma				
	Q121a	Q221a	Q321e	Q421e	Sum Q1–Q421e	FY21e
Edison forecast*	*0.535	0.727	0.370	0.369	2.001	2.006
Mean consensus forecast	0.503	0.727	0.44	0.57	2.24	2.26
High consensus forecast	0.503	0.727	0.50	0.77	2.50	2.65
Low consensus forecast	0.503	0.727	0.37	0.43	2.03	1.67

Source: Refinitiv, Edison Investment Research. Note: *As per Exhibit 5 on a pro forma basis. Consensus priced 15 October 2021.

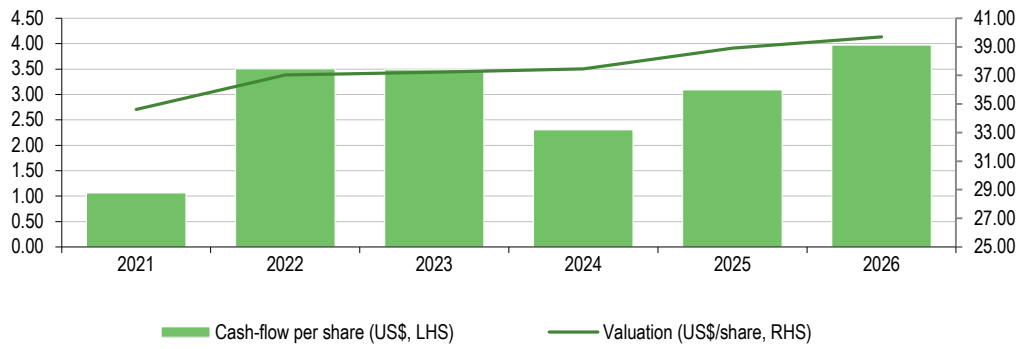
Self-evidently, one of the main assumptions behind our forecasts is that there are no major deleterious effects to ongoing operations as a result of the COVID-19 pandemic. To date, the effect of COVID-19 on Endeavour's operations in West Africa has proved to be negligible and is expected to remain so. Nevertheless, Endeavour has mitigated future risks as far as possible by both 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 also by preparing multiple different levels in its pits from which to produce, thereby affording it operational flexibility in the event of 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 and Agbaou in FY20 and the acquisition of SEMAFO in FY20 and Teranga in FY21). Historically, rather than our customary method of discounting maximum potential dividends over the life of operations back to FY21, in the case of Endeavour, we have instead opted to discount six years of forecast cash flows in FY21–26 back to the start of FY21 and then to apply an ex-growth terminal multiple of 10x (consistent with using a standardised discount rate of 10%) to forecast cash flows in that year (ie FY26). In the normal course of events, exploration expenditure would be excluded from such a calculation on the basis that it is an investment. In the case of Endeavour, however, it has been included on the grounds that it is a critical component of ongoing business performance in its ability to continually expand and extend resources and, ultimately, reserves and, thereby, the lives of its mines.

In this case, our estimate of cash flows in FY26 has fallen by 2.5% to US$3.97/share (cf US$4.07/share previously), albeit almost exclusively as a consequence of an assumed increase in Endeavour's exploration budget from c US$35–40m originally in its first five-year exploration programme (to discover 10.0–15.0Moz at a cost of c US$15/oz) to US$80m pa in its second (see above). This estimated cash flow of US$3.97/share gives rise to a terminal valuation of the company at end-FY26 of US$39.70/share (cf US$40.67/share previously), which (in conjunction with forecast intervening cash flows) then discounts back to a valuation of US$34.62/share (cf US$35.46/share previously) at the start of FY21, as shown in the graph below (albeit with the proviso that the additional exploration expenditure could/should, for a cost of US$400m, or US$1.61/share, add c US$4.30–7.45/share in value to Endeavour's shares).

Exhibit 7: Endeavour current forecast valuation and cash flow per share, FY21–26e (US$/share)



Source: Edison Investment Research

Given its elevation into the ranks of the world's foremost producers of gold, however, we believe that Endeavour can increasingly attract lower cost finance and, as such, a 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 currently expecting 2.3727% inflation (cf 2.2069% previously). These two measures imply an expected real equity return of 6.47% (1.09/1.023727) and applying this to our forecast cash flows would imply a terminal valuation for Endeavour of US$61.33/share (cf US$61.19/share previously) and a current valuation of US$55.84/share (cf US$55.59/share previously). Readers should note that, given its beta of 0.54 (source: Refinitiv, 18 October 2021), even this (real) discount rate of 6.47% is likely to be conservative.

In the meantime, Endeavour's valuation remains at a material discount to those of its newly acquired peer group, as shown in Exhibit 8, 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), is as follows:

Exhibit 8: 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	7.0	5.2	4.8	4.8	*4.6	*3.4	2.2	2.4	3.0
Endeavour (consensus)	EDV	5.6	5.0	5.1	4.9	4.6	5.1	2.1	2.4	2.2
Majors										
Barrick	ABX	7.1	6.7	6.6	6.5	6.1	6.1	3.7	1.7	2.2
Newmont	NEM	9.2	8.7	9.4	7.2	7.0	7.6	3.8	3.9	3.8
Newcrest	NCM AU	9.2	8.5	9.7	7.2	6.9	7.9	1.5	1.5	1.3
Kinross	K	6.1	3.8	3.6	5.4	3.5	3.1	2.0	2.0	1.9
Agnico-Eagle	AEM	8.5	8.1	8.3	7.8	6.6	6.5	2.5	2.5	2.5
Eldorado	ELD	5.6	4.6	4.5	4.6	3.9	3.8	0.0	0.0	0.0
Average		**7.6**	**6.7**	**7.0**	**6.4**	**5.7**	**5.8**	**2.2**	**1.9**	**1.9**
Implied EDV share price (US$)		**27.76**	**32.81**	**34.15**	**34.72**	**34.47**	**36.52**	**24.82**	**31.10**	**36.17**
Implied EDV share price (C$)		**34.28**	**40.50**	**42.17**	**42.86**	**42.56**	**45.09**	**30.64**	**38.39**	**44.65**

Source: Edison Investment Research, Refinitiv. Note: *Forecast EV. Consensus and peers priced at 18 October 2021.

Of note is the fact that Endeavour's valuation is materially cheaper than the averages of the majors on all but one of the measures shown in Exhibit 8 regardless of whether Edison or consensus forecasts are used (the exception being year 1 yield). On an individual basis, it is cheaper than its

senior gold mining peers on at least 38 out of 54 (70% of) valuation measures if Edison forecasts are used and, similarly, 37 out of 54 (68%) if consensus forecasts are used. Reverse engineered, the average valuation measures of its peers imply an average share price for Endeavour of US$32.50, or C$40.13 per share.

Financials

According to its Q221 balance sheet, Endeavour had net debt of US$147.6m. This compares with net debt of US$220.2m as at end-Q121 after the completion of the Teranga acquisition and the injection of US$200m by La Mancha and with net debt of US$43.3m as at end-FY20 (pre the Teranga acquisition). This figure of US$147.6m includes lease liabilities of US$50.7m and an option premium of US$44.6m. Excluding these two results in a net debt position of just US$52.3m, or just 1.3% of the company's balance sheet equity of US$4,441.7m at end-Q221. Note that this figure of US$52.3m also excludes US$29.7m held in the form of 'restricted cash' in 'other financial assets'. It also differs slightly from the figure of US$77.1m quoted elsewhere in Endeavour's announcements owing to the discounting, variously, of certain committed future payments to present value.

Note that, for the purposes of our financial modelling (see Exhibit 9, below) and for simplicity's sake, we have assumed the consolidation of Endeavour's and Teranga's balance sheets took place retrospectively on 31 December 2020. In this case, we estimate that Endeavour would have consolidated c US$242.6m in net debt on its balance sheet and c US$349.2m in gross debt as a consequence of its Teranga acquisition (as at end-December). As such, on a pro forma basis, we estimate Endeavour would have had US$323.1m in net debt on its balance sheet at end-FY20, which we calculate would have equated to a gearing (net debt/equity) ratio of just 8.8% and a leverage (net debt/[net debt+equity]) ratio of 8.1% on the group's enlarged equity base (see Exhibit 9, below).

Exhibit 9: Financial summary

US$'000s	2019	2020	2021e	2022e	2023e
December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	1,362,121	1,847,894	2,711,540	2,495,073	2,384,441
Cost of Sales	(884,869)	(1,061,891)	(1,374,715)	(1,071,099)	(1,027,329)
Gross Profit	477,252	786,003	1,336,826	1,423,974	1,357,112
EBITDA	618,443	910,295	1,363,530	1,423,974	1,357,112
Operating Profit (before amort. and except.)	281,400	546,072	768,522	898,210	883,558
Exceptionals	(199,159)	(201,532)	566	0	0
Other	(9,392)	8,886	(26,832)	0	0
Operating Profit	72,849	353,426	742,256	898,210	883,558
Net Interest	(51,607)	(53,774)	(48,460)	(13,107)	5,643
Profit Before Tax (norm)	220,401	501,184	693,230	885,102	889,202
Profit Before Tax (FRS 3)	21,242	299,652	693,796	885,102	889,202
Tax	(97,253)	(158,466)	(203,964)	(169,039)	(158,380)
Profit After Tax (norm)	123,148	342,718	489,265	716,063	730,821
Profit After Tax (FRS 3)	(76,011)	141,186	489,831	716,063	730,821
Net loss from discontinued operations	(4,394)	0	0	0	0
Minority interests	33,126	44,719	80,609	107,500	105,620
Net profit	(80,405)	141,186	489,831	716,063	730,821
Net attrib. to shareholders contg. businesses (norm)	90,022	297,998	408,656	608,563	625,201
Net attrib.to shareholders contg. businesses	(109,137)	96,466	409,222	608,563	625,201
Average Number of Shares Outstanding (m)	157.4	160.8	250.5	249.0	249.0
EPS - normalised (c)	57.20	185.34	163.15	244.39	251.07
EPS - normalised fully diluted (c)	56.95	181.51	162.09	237.06	243.54
EPS - (IFRS) ($)	(0.72)	0.60	1.63	2.44	2.51
Dividend per share (c)	0	37	56	60	70
Gross Margin (%)	35.0	42.5	49.3	57.1	56.9
EBITDA Margin (%)	45.4	49.3	50.3	57.1	56.9
Operating Margin (before GW and except.) (%)	20.7	29.6	28.3	36.0	37.1
BALANCE SHEET					
Fixed Assets	2,330,033	5,093,409	5,072,408	4,917,425	4,796,538
Intangible Assets	5,498	24,851	24,851	24,851	24,851
Tangible Assets	2,254,476	3,968,746	3,947,745	3,792,762	3,671,875
Investments	70,059	1,099,812	1,099,812	1,099,812	1,099,812
Current Assets	652,871	1,168,382	1,656,129	2,292,116	2,923,724
Stocks	266,451	305,075	521,450	479,822	458,546
Debtors	83,836	104,545	248,410	230,619	221,525
Cash	288,186	751,563	851,799	1,547,206	2,209,183
Other	14,398	7,199	34,469	34,469	34,469
Current Liabilities	(354,931)	(661,171)	(745,128)	(646,595)	(631,679)
Creditors	(312,427)	(612,862)	(696,819)	(598,286)	(583,370)
Short term borrowings	(42,504)	(48,309)	(48,309)	(48,309)	(48,309)
Long Term Liabilities	(963,736)	(1,647,799)	(1,556,027)	(1,556,027)	(1,556,027)
Long term borrowings	(770,902)	(1,026,337)	(934,565)	(934,565)	(934,565)
Other long term liabilities	(192,834)	(621,462)	(621,462)	(621,462)	(621,462)
Net Assets	1,664,237	3,952,821	4,427,382	5,006,918	5,532,556
CASH FLOW					
Operating Cash Flow	628,617	1,046,370	1,110,011	1,384,862	1,372,564
Net Interest	(35,413)	(53,774)	(48,460)	(13,107)	5,643
Tax	(109,494)	(186,332)	(197,442)	(169,039)	(158,380)
Capex	(401,227)	(335,599)	(574,007)	(370,782)	(352,667)
Acquisitions/disposals	3,654	(19,000)	20,000	40,000	0
Financing	2,402	100,000	47,604	0	0
Dividends	(6,154)	(88,288)	(165,697)	(176,527)	(205,183)
Net Cash Flow	82,385	463,377	192,008	695,407	661,977
Opening net debt/(cash)*	518,607	525,220	323,083	131,075	(564,332)
Other	(88,998)	(261,240)	0	0	0
Closing net debt/(cash)*	525,220	323,083	131,074	(564,332)	(1,226,309)

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

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