Endeavour Mining

Q221 results

Q2 outperforms ahead of likely Q3 index inclusion

Metals & mining

At US$0.727/share, Endeavour's net adjusted EPS, released on 4 August, was unequivocally above both Edison's and the top end of the range of analysts' forecasts (of US$0.43–0.65/share) for Q221 (source: Refinitiv, 3 August 2021). Teranga's assets were reported to have integrated well into the group structure and all seven of its operating mines hit their stride together, as a result of which the company is on target to achieve the top end of its production guidance range of 1,350–1,475koz for the year (see Exhibit 4). An above par interim dividend also suggests a full-year payout above the minimum guided level. Results in Q321 will almost inevitably be adversely affected by the seasonal rains in West Africa. We have now adjusted our forecasts for Endeavour for the remainder of the year in the light of Q221 results (see Exhibit 6), ahead of likely FTSE and MSCI index inclusion in September after MSCI Russell confirmed that it had passed liquidity tests for a company listed in its country of incorporation.

Year end	Revenue (US$m)	EBITDA (US$m)	PBT* (US$m)	Op. cash flow per share (US$)	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	1.6
12/21e	2,718.8	1,370.3	707.0	3.65	56	2.4
12/22e	2,495.1	1,417.0	881.2	4.85	60	2.6

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

Operational outperformance; subdued cost pressures

Five reasons could be invoked to explain Endeavour's Q221 outperformance, namely 1) higher open pit ore tonnes mined at generally lower stripping ratios, 2) higher tonnes processed, 3) appreciably higher gold grades processed at Houndé, Karma and Ity, 4) lower than expected sustaining capex and 5) lower royalty rates at Houndé, Karma and Mana. Having delineating 84% of its five-year target of 10–15Moz resources after only four years, Endeavour expects to announce a further 2.5Moz resources in the indicated category in the near future. In the meantime, it reports few or no inflationary pressures in its cost base (not least owing to the renegotiation of contracts on the takeovers of Teranga and SEMAFO).

Valuation: Solid at a 53% premium to the share price

Our valuation of Endeavour remains substantially unchanged relative to our last note (Picking up the crown, published on 14 June 2021). Based on the average multiples of its gold major peers, we estimate a valuation for Endeavour of US$31.60 (C$39.85 or £22.98) 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$35.46 (C$44.72 or £25.79) per share if performed using a standardised discount rate of 10% or US$55.59 (C$70.10 or £40.43) per share if performed using a CAPM-derived discount rate of 6.65%. Otherwise, it is trading at a discount to the average multiples of its peers on at least 70% of common valuation measures (see Exhibit 9) despite being the largest premium LSE-listed pure gold producer, probably eligible for FTSE index inclusion later this year.

18 August 2021

Price	**C$29.32**
Market cap	**C$7,321m**

C$1.2611/US$, US$1.3750/£

Net debt (US$m) at end-June 2021*	52.3

*Excludes lease liabilities, option premium & restricted cash.

Shares in issue	249.7m
Free float	75.2%
Code	EDV
Primary exchange	LSE
Secondary exchange	TSX, US OTC

Share price performance

%	1m	3m	12m
Abs	2.6	2.1	(19.7)
Rel (local)	0.7	(2.3)	(34.3)
52-week high/low		C$38.85	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

Updated five-year exploration strategy	Q321
Potential FTSE index inclusion	20 September 2021
Sabodala-Massawa Phase 2 DFS	Q421
Fetekro DFS	Q421

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Edison profile page

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Q221 results

A full analysis of Endeavour's Q221 results relative to our prior forecasts is provided below:

Exhibit 1: Endeavour Mining Q221a cf prior forecasts (as reported and estimated pro forma)

US$000s (unless otherwise indicated)	Actual	Est Q121a	Q221e	Q221a	Change*		Variance**	
	Q121a	(pro forma)			(%)	(units)	(%)	(units)
Houndé production (koz)	66.1	66.1	57.7	79.6	20.4	13.5	38.0	21.9
Agbaou production (koz)		12.6	0	0	-100.0	-12.6	0.0	0.0
Karma production (koz)	21.6	21.6	20.0	25.1	16.2	3.5	25.5	5.1
Ity production (koz)	70.9	70.9	48.8	79.5	12.1	8.6	62.9	30.7
Boungou production (koz)	59.7	59.7	39.8	38.8	-35.0	-20.9	-2.5	-1.0
Mana production (koz)	52.4	52.4	43.6	49.2	-6.1	-3.2	12.8	5.6
Sabodala-Massawa	38.9	75.0	87.1	95.9	27.9	20.9	10.1	8.8
Wahgnion	24.7	43.0	38.0	41.0	-4.7	-2.0	7.9	3.0
Total gold produced (koz)	334.3	401.2	335.1	409.0	1.9	7.8	22.1	73.9
Total gold sold (koz)	363.5	432.0	335.1	420.8	-2.6	-11.2	25.6	85.7
Gold price (US$/oz)	1,749***	1,763***	1,825	1,791***	1.6	28	-1.9	-34
Mine level cash costs (US$/oz)	794****	643	716	625	-2.8	-18	-12.7	-91
Mine level AISC (US$/oz)	837	818	998	828	1.2	10	-17.0	-170
Revenue								
– Gold revenue	635,792	761,448	611,471	753,427	-1.1	-8,021	23.2	141,956
Cost of sales								
– Operating expenses	251,112	300,140	239,928	278,161	-7.3	-21,979	15.9	38,233
– Royalties	44,366	51,280	42,279	43,908	-14.4	-7,372	3.9	1,629
Gross profit	340,314	410,028	329,264	431,358	5.2	21,330	31.0	102,094
Depreciation	(122,611)	(141,190)	(128,254)	(158,382)	12.2	-17,192	23.5	-30,128
Expenses								
– Corporate costs	(11,409)	(12,726)	(11,168)	(15,890)	24.9	-3,164	42.3	-4,722
– Impairments		0	0	0	0	0	0	0
– Acquisition etc costs	(12,160)	(12,160)	0	(14,544)	19.6	-2,384	N/A	-14,544
– Share based compensation	(7,955)	(9,436)	(6,907)	(9,839)	4.3	-403	42.4	-2,932
– Exploration costs	(9,810)	(9,810)	(5,625)	(5,874)	-40.1	3,936	4.4	-249
Total expenses	(41,334)	(44,132)	(23,700)	(46,147)	4.6	-2,015	94.7	-22,447
Earnings from operations	176,369	224,707	177,310	226,829	0.9	2,122	27.9	49,519
Interest income								
Interest expense	(12,318)	(16,841)	(9,469)	(13,694)	-18.7	3,147	44.6	-4,225
Net interest	(12,318)	(16,841)	(9,469)	(13,694)	-18.7	3,147	44.6	-4,225
Loss on financial instruments	42,077	42,077		(14,807)	-135.2	-56,884	N/A	-14,807
Other expenses	(6,290)	(19,750)		(7082)	-64.1	12,668	N/A	-7,082
Profit before tax	199,838	230,192	167,840	191,246	-16.9	-38,946	13.9	23,406
Current income tax	72,148	81,321	42,842	44,463	-45.3	-36,858	3.8	1,621
Deferred income tax	8,688	8,688	0	(2,166)	-124.9	-10,854	N/A	-2,166
Total tax	80,836	90,009	42,842	42,297	-53.0	-47,712	-1.3	-545
Effective tax rate (%)	40.5	39.1	25.5	22.1	-43.5	-17.0	-13.3	-3.4
Profit after tax	119,002	140,183	124,998	148,949	6.3	8,766	19.2	23,951
Net profit from discontinued ops.	(3,702)	0	0	0	0	0	0	0
Total net and comprehensive income	115,300	140,183	124,998	148,949	6.3	8,766	19.2	23,951
Minority interest	25,733	29,919	17,422	22,170	-25.9	-7,749	27.3	4,748
Minority interest (%)	22.3	21.3	13.9	14.9	-30.0	-6.4	7.2	1.0
Profit attributable to shareholders	89,567	110,264	107,577	126,779	15.0	16,515	17.8	19,202
Basic EPS from continuing ops (US$)	0.455	0.437	0.426	0.504	15.3	0.067	18.3	0.078
Diluted EPS from continuing ops (US$)	0.453	0.434	0.424	0.500	15.2	0.066	17.9	0.076
Basic EPS (US$)	0.431	0.437	0.426	0.504	15.3	0.067	18.3	0.078
Diluted EPS (US$)	0.428	0.434	0.424	0.500	15.2	0.066	17.9	0.076
Norm. basic EPS from cont. ops (US$)		0.318	0.426	0.620	95.0	0.302	45.5	0.194
Norm. diluted EPS from cont. ops (US$)		0.317	0.424	0.616	94.3	0.299	45.3	0.192
Adj net earnings attributable (US$000s)	104,686	135,156	113,521	183,147	35.5	47,991	61.3	69,626
Adj net EPS from continuing ops (US$)	0.503	0.535	0.449	0.727	35.9	0.192	61.9	0.278

Source: Endeavour Mining, Edison Investment Research. Note: Q121 results as reported. *Q221a cf Est Q121a (pro forma). **Q221a cf Q221e. ***Includes adjustment for Karma stream. ****Includes royalty payments.

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). Readers are reminded that Endeavour changed its definition of cash costs in Q420 to include royalties. The decision was made so Endeavour may be more consistent in reporting within the context of its peer group. For reasons of comparability with past results, however, as well as ease of forecasting (given that royalties are reported as a discreet item distinct from operating expenses), we (at least for the moment) are continuing to show total cash costs excluding royalties unless specifically indicated otherwise (eg the 'Actual' Q121a column in Exhibit 1, above).

Quarter-on-quarter comparisons for Endeavour's results in Q220 are inevitably exaggerated by the fact that the company had completed neither its acquisition of SEMAFO at the start of Q220 nor its acquisition of Teranga at the start of Q121. In addition to Endeavour's actual reported Q121 results (in the 'Actual Q121a' column), therefore, we have also attempted to provide our best estimate for Q121 results on a pro forma basis (ie on the assumption that the takeover of Teranga had occurred on 31 December 2020 and that Sabodala-Massawa and Wahgnion had therefore contributed to Endeavour's profit & loss account for the full three-month period, rather than merely the part-period since 10 February). To construct these notional pro forma Q121 results estimates, we made a number of assumptions, chief among them being that the over-sale of gold relative to production occurring in the period since 10 February was also presumed to exist in the period from 1 January – that is to say, there was no corresponding under-sale from 1 January until 10 February. Otherwise, we assumed the unit costs that prevailed from 10 February until 31 March also prevailed during the full three-month period and that both sustaining capital and non-sustaining capital costs were incurred in the entire period pro rata to the costs incurred in the 10 February to 31 March one. Finally, we treated taxation independently for both Sabodala-Massawa and Wahgnion and added what we believed to have been the tax payable in the period from 1 January to 10 February for both mines to what was otherwise disclosed as paid by the group for the three months. For earnings per share calculations, we assumed the quarter-end number of shares in issue of 252.6m shares prevailed over the entire period. The results of this process are provided in the column entitled 'Est Q121a pro forma' in Exhibit 1.

On a pro forma basis, therefore, it can be seen that Endeavour's actual operational performance in Q221 was similar to our estimate of its performance in Q121 (column marked 'Est Q121a pro forma in Exhibit 1, above). Production and revenue in both periods were broadly the same. While headline profit after tax in Q221 was only 6.3% higher than in 'Est Q121a pro forma', however, Endeavour's underlying performance was materially better, with the adjusted net EPS level increasing by 35.9% as a result of a decline in earnings attributable to minority interests from 20.8% to 12.1% and after adjustment for more one-off, exceptional losses incurred in Q221 (eg losses on financial instruments).

Relative to our prior expectations for Q221, however, Endeavour's results were significantly better. Whereas we had expected Endeavour's overall performance to moderate in Q221, gold produced and sold was more than 20% higher than our prior forecast at the same time as unit costs (expressed in US dollars per ounce sold) declined. Whereas revenues were 23.2% higher than our prior forecast therefore, operating expenses were only 15.9% higher, leading to a 31.0% positive variance in gross profits. Moreover, US$15.3m of the US$38.2m variance in operating expenses could be attributed to non-cash operating expenses relating to the reversal in the period of the fair value adjustment of inventory on hand at the acquisition date, especially at Sabodala-Massawa (note: these costs are automatically excluded in the calculation of adjusted net earnings from continuing operations attributable to shareholders). Depreciation was higher than our expectations as well. In part, this mirrored the extent to which production was also greater (given that Endeavour depreciates on a 'units of production' basis). However, there were also notably higher than expected depreciation charges relating to Sabodala-Massawa and Wahgnion (ie the assets acquired with Teranga) as well. Corporate costs were also higher, albeit these were artificially inflated by a US$5.4m charge relating to the expenses of Endeavour's LSE listing. Had these been excluded (as they are in the calculation of adjusted net earnings), then underlying corporate costs were also actually lower than our prior expectations, at US$10.5m. As a result of the inclusion of certain one-off exceptional items, such as losses from financial instruments (which Edison anyway declines to attempt to forecast), the positive variance in actual results relative to our prior expectations was constrained to 13.9%. If these one-off, exceptional losses are excluded, however, then the variance in actual compared to expected results increases to a material 61.9% (adjusted net EPS from continuing operations). Readers should note that this performance follows a first quarter in which Endeavour also produced c 20% more gold than we had expected and sold c 30% more, which similarly drove a positive variance of 14.8% in adjusted net earnings attributable to shareholders on a pro forma basis (see our note Endeavour Mining: Showing its mettle as well as its metal, published on 28 May 2021).

As well as exceeding our forecast, at US$0.727/share, actual adjusted net EPS for the quarter also comfortably outperformed the consensus analysts' forecast of US$0.54/share as well as the top end of the range of expectations, of US$0.65/share:

Exhibit 2: Actual Q221 adjusted net EPS from continuing operations vs prior consensus estimate (US$/share)

(US$/share)	Q121a	Q221a
Actual	0.50	0.73
Mean consensus forecast	N/A	0.54
High consensus forecast	N/A	0.65
Low consensus forecast	N/A	0.43

Source: Refinitiv, Edison Investment Research. Note: Consensus priced 3 August 2021.

Full details of each mine's operational performance and outlook are available in Endeavour's press release. As per Exhibit 1, output from each of the company's nine mines exceeded our expectations, with the exception of Boungou by a small amount. Financially, each of them performed in line with, or outperformed, our expectations, with the exceptions of Boungou and, again by a small amount, Sabodala-Massawa and Wahgnion – although these last two both experienced material non-cash operating expenses relating to the reversal in the period of the fair value adjustment of inventory on hand at the acquisition date, without which they would have outperformed our expectations, financially speaking.

Exhibit 3: EDV assets' actual cf forecast earnings from mine operations, by mine (US$m)

Mine	Actual	Prior forecast	Variance	
	(US$m)	(US$m)	(%)	US$m
Houndé	68.3	44.6	+53.1	+23.7
Karma	4.0	1.8	+122.2	+2.2
Ity	70.8	35.6	+98.9	+35.2
Boungou	15.8	19.5	-19.0	-3.7
Mana	29.8	13.9	+114.4	+15.9
Sabodala-Massawa	68.3	69.0	-1.0	-0.7
Wahgnion	19.0	19.2	-1.0	-0.2
Total	**276.0**	**203.6**	**+35.6**	**+72.4**

Source: Edison Investment Research, Endeavour Mining.

While a number of factors can be invoked to explain both the operational and financial outperformance of Endeavour's mines relative to our prior expectations, in general, it may be reduced to five main factors:

- higher open pit ore tonnes mined at generally lower stripping ratios;
- higher tonnes milled/stacked/processed (except, by a fraction, at Sabodala-Massawa);
- markedly higher average gold grades milled/stacked/processed at Houndé, Karma and Ity;

- lower than expected sustaining capex (except at Boungou); and
- selectively lower royalty rates at Houndé, Karma and Mana.

Shareholder returns

Dividend

As disclosed on 7 June 2021, Endeavour has implemented a shareholder returns programme that is composed of a minimum progressive dividend that may be supplemented with additional dividends and buybacks, providing the prevailing gold price remains above US$1,500/oz and Endeavour's net debt/adjusted EBITDA ratio remains below 0.5. The minimum progressive dividend policy has a target of distributing at least US$500m to shareholders over the next three years. To date, minimum dividends have been indicated at US$125m, US$150m and US$175m for FY21, FY22, and FY23, respectively, payable semi-annually (cf a maiden FY20 dividend of US$60m). At the half-year stage, however, Endeavour has declared an interim dividend of US$70m (or US$0.28/share) – ie 12% above the level that might be expected pro rata with its minimum guided level of US$125m for the full year), causing us, among other things, to increase our forecast dividend for the full year, from US$0.50/share to US$0.56/share. The ex-dividend date for the interim dividend will be 9 September 2021 and the record date will be 10 September 2021. The dividend will be paid on or about 28 September 2021.

Share buyback

In tandem with its FY20 results, on 18 March 2021, Endeavour announced a normal course issuer bid (NCIB) or share buyback programme to supplement its policy of augmenting shareholder returns. The NCIB commenced on 22 March and will end on 21 March 2022 and will allow Endeavour to buy up to 12.2m ordinary shares, or approximately 5% of its total issued and outstanding ordinary shares at the time of the announcement, whereupon the purchased shares will be cancelled. At Endeavour's current share price of C$29.32 (US$23.25), the NCIB is worth, in total, c US$280m and compares extremely favourably with its FY20 dividend payout of US$60.3m and our forecast of its payout in FY21 of US$139.1m. Combined, the NCIB and FY21e dividend distribution together represent c US$419.3m in aggregate returns to shareholders – equivalent to a dividend yield of 7.2% – in FY21.

Note that, owing to the inherent uncertainty surrounding whether purchases are made and at what price under the NCIB, we have not attempted to include potential future share buybacks in our financial forecasts in Exhibit 10, below, but only historical ones. To date in FY21, we estimate that Endeavour has repurchased a total of 3.4m shares at an average price of US$22.27 (C$28.08), resulting in total cash outflows of C$97.8m, or US$77.5m.

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.

In the wake of Q121 results, Endeavour reiterated production and cost guidance for each of its mines for FY21, as shown in Exhibit 4.

Exhibit 4: Endeavour 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 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 5: 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 Q221 results, by quarter, on both an 'as reported' and 'pro forma' basis are as follows:

Exhibit 6: Endeavour Mining FY21 earnings forecasts, by quarter

US$000s (unless otherwise indicated)	Q121 (reported)	Est Q121a (pro forma)	Q221a	Q321e (prior)	Q321e (current)	Q421e (prior)	Q421e (current)	FY21 (pro forma)	FY21e (reported)
Houndé production (koz)	66.1	66.1	79.6	57.7	57.9	74.5	55.9	259.5	259.5
Agbaou production (koz)	-	12.6	0	0	0	0	0	12.6	-
Karma production (koz)	21.6	21.6	25.1	16.4	16.8	23.6	18.3	81.7	81.7
Ity production (koz)	70.9	70.9	79.5	48.9	50.4	74.7	51.6	252.3	252.3
Boungou production (koz)	59.7	59.7	38.8	40.8	42.8	51.5	44.3	185.7	185.7
Mana production (koz)	52.4	52.4	49.2	41.8	43.2	49.0	45.3	190.2	190.2
Sabodala-Massawa	38.9	75.0	95.9	81.0	83.0	101.9	85.8	339.7	303.6
Wahgnion	24.7	43.0	41.0	39.9	34.0	39.7	43.3	161.3	143.0
Total gold produced (koz)	334.3	401.2	409.0	326.5	328.2	415.0	344.6	1,483.0	1,416.1
Total gold sold (koz)	363.5	432.0	420.8	326.5	328.2	415.0	344.6	1,525.5	1,457.1
Gold price (US$/oz)	1,749*	1,763	1,791*	1,868	1,792	1,868	1,787	*1,782	*1,779
Mine level cash costs (US$/oz)	**794	643	625	794	737	689	738	680	678
Mine level AISC (US$/oz)	837	818	828	1,091	1,017	910	989	902	911
Revenue									
– Gold revenue	635,792	761,448	753,427	609,976	588,154	775,206	615,745	2,718,774	2,593,118
Cost of sales									
– Operating expenses	251,112	300,140	278,161	259,313	241,929	285,787	254,215	1,074,445	1,025,417
– Royalties	44,366	51,280	43,908	42,172	35,947	53,336	37,682	168,818	161,903
Gross profit	340,314	410,028	431,358	308,490	310,278	436,084	323,848	1,475,512	1,405,798
Depreciation	(122,611)	(141,190)	(158,382)	(126,920)	(142,633)	(153,885)	(152,971)	(595,175)	(576,596)
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	160,762	146,837	261,390	150,069	748,442	700,104
Interest income								0	0
Interest expense	(12,318)	(16,841)	(13,694)	(3,420)	(9,152)	1,229	(1,633)	(41,320)	(36,797)
Net interest	(12,318)	(16,841)	(13,694)	(3,420)	(9,152)	1,229	(1,633)	(41,320)	(36,797)
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	157,342	137,686	262,619	148,436	707,560	677,205
Current income tax	72,148	81,321	44,463	38,271	36,611	60,614	36,351	198,746	189,573
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	38,271	36,611	60,614	36,351	205,268	196,095
Effective tax rate (%)	40.5	39.1	22.1	24.3	26.6	23.1	24.5	29.0	29.0
Profit after tax	119,002	140,183	148,949	119,070	101,075	202,005	112,084	502,291	481,110
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	119,070	101,075	202,005	112,084	502,291	477,408
Minority interest	25,733	29,919	22,170	15,675	14,368	24,948	14,722	81,180	76,994
Minority interest (%)	22.3	21.3	14.9	13.2	14.2	12.4	13.1	16.2	16.1
Profit attributable to shareholders	89,567	110,264	126,779	103,395	86,706	177,057	97,362	421,112	400,414
Basic EPS from continuing ops (US$)	0.455	0.437	0.504	0.409	0.347	0.701	0.390	1.679	1.690
Diluted EPS from continuing ops (US$)	0.453	0.434	0.500	0.407	0.345	0.698	0.387	1.668	1.678
Basic EPS (US$)	0.431	0.437	0.504	0.409	0.347	0.701	0.390	1.679	1.668
Diluted EPS (US$)	0.428	0.434	0.500	0.407	0.345	0.698	0.387	1.668	1.657
Norm. basic EPS from continuing ops (US$)		0.318	0.620	0.409	0.347	0.701	0.390	1.677	1.681
Norm. diluted EPS from continuing ops (US$)		0.317	0.616	0.407	0.345	0.698	0.387	1.666	1.670
Adj net earnings attributable (US$000s)	104,686	135,156	183,147	109,393	92,631	183,111	103,362	514,296	483,826
Adj net EPS from continuing ops (US$)	0.503	0.535	0.727	0.433	0.371	0.725	0.414	2.050	2.015

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).

The net result of these changes (including a 4.3% decrease in our forecast gold price for the remainder of the year, from US$1,868/oz to US$1,787/oz) is a modest 4.3% decrease in adjusted net EPS from continuing operations, from US$2.143/share to US$2.050/share (on a pro forma basis – see our notes, Showing its mettle as well as its metal and Picking up the crown, published on 28 May 2021 and 14 June 2021, respectively, for direct comparison) and a similar 4.7%

decrease in adjusted net EPS from continuing operations, from US$2.115/share to US$2.015/share (on an 'as reported' basis).

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 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, a comparison between our FY21 adjusted net EPS from continuing operations estimates and consensus estimates, by quarter, is as follows:

Exhibit 7: 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	0.371	0.414	2.047	2.050
Mean consensus forecast	0.503	0.727	0.500	0.620	2.350	2.340
High consensus forecast	0.503	0.727	0.780	1.010	3.020	2.840
Low consensus forecast	0.503	0.727	0.400	0.470	2.100	1.870

Source: Refinitiv, Edison Investment Research. Note: *As per Exhibits 1 and 6 on a pro forma basis. Consensus priced 18 August 2021.

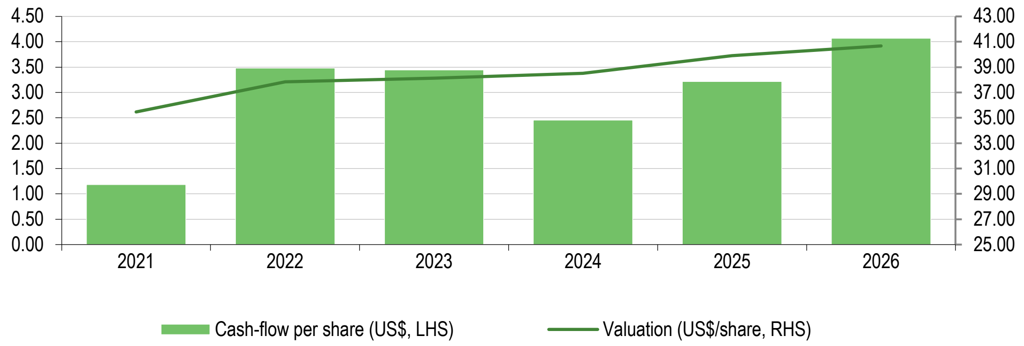
Self-evidently, one of the main assumptions behind our forecasts is that there are no major deleterious effects to ongoing operations as a result of the COVID-19 pandemic. To date, the effect of COVID-19 on Endeavour's operations in West Africa has proved to be negligible and is expected to remain so. 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 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 have been excluded from such a calculation on the basis that it is an investment. In the case of Endeavour, however, it was included on the grounds that it was a critical component of ongoing business performance in its ability to continually expand and extend the lives of its mines.

In this case, our estimate of cash flows in FY26 is barely changed at US$4.07/share (cf US$4.03/share previously), giving rise to a terminal valuation of the company at end-FY26 of US$40.67/share (cf US$40.30/share previously), which (in conjunction with forecast intervening cash flows) then discounts back to a valuation of US$35.46/share (cf US$35.88/share previously) at the start of FY21, as shown in the graph below.

Exhibit 8: Endeavour current forecast valuation and cash flow per share, FY20–26e (US$/share)



Source: Edison Investment Research

Given its elevation into the ranks of the world's foremost producers of gold, however, we believe 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 2.2069% inflation. These two measures imply an expected real equity return of 6.65% (1.09/1.022069) and applying this to our forecast cash flows would imply a terminal valuation for Endeavour of US$61.19/share (cf US$61.76/share previously) and a current valuation of US$55.59/share (cf US$56.96/share previously). Readers should note that, given its beta of 0.49 (source: Refinitiv, 18 August 2021), even this (real) discount rate of 6.65% 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 9, below.

Relative Endeavour valuation

Endeavour's valuation on a series of commonly used measures, relative to a selection of gold mining majors (the ranks of which it has now joined since its takeovers of SEMAFO and Teranga have been completed), is as follows:

Exhibit 9: Endeavour valuation relative to peers

Company	Ticker	Price/cash flow (x)			EV/EBITDA (x)			Yield (%)		
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Endeavour (Edison)	EDV	6.4	4.8	4.9	4.5	4.2	3.4	2.4	2.6	3.0
Endeavour (consensus)	EDV	5.0	4.5	4.8	4.5	4.2	4.6	2.2	2.6	2.4
Majors										
Barrick	ABX	7.2	7.0	6.8	6.5	6.3	6.3	3.7	1.7	2.1
Newmont	NEM	9.2	8.9	9.6	7.2	7.2	7.8	3.7	3.7	3.6
Newcrest	NCM AU	7.6	7.7	7.7	6.6	6.5	6.9	1.9	1.9	1.8
Kinross	K	5.8	3.6	3.5	5.2	3.3	3.1	2.0	2.0	1.9
Agnico-Eagle	AEM	8.6	8.2	8.3	7.9	7.1	7.3	2.4	2.4	2.4
Eldorado	ELD	4.5	3.9	3.8	4.0	3.4	3.3	0.0	0.0	0.0
Average		**7.2**	**6.5**	**6.6**	**6.2**	**5.6**	**5.8**	**2.3**	**1.9**	**2.0**
Implied EDV share price (US$)		**26.12**	**31.60**	**31.93**	**33.77**	**34.27**	**36.11**	**24.39**	**30.79**	**35.46**
Implied EDV share price (C$)		**32.94**	**39.85**	**40.27**	**42.59**	**43.21**	**45.54**	**30.75**	**38.83**	**44.71**

Source: Edison Investment Research, Refinitiv. Note: *Forecast EV. Consensus and peers priced at 18 August 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 9 if consensus forecasts are used and all of them if Edison forecasts are used. 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, 38 out of 54 (70%) if consensus forecasts are used. Reverse engineered, the average valuation measures of its peers imply an average share price for Endeavour of US$31.60, or C$39.86 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 10, 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 10, below).

Exhibit 10: Financial summary

US$'000s	2019	2020	2021e	2022e	2023e
December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	1,362,121	1,847,894	2,718,774	2,495,073	2,384,441
Cost of Sales	(884,869)	(1,061,891)	(1,375,157)	(1,078,033)	(1,034,263)
Gross Profit	477,252	786,003	1,343,617	1,417,040	1,350,178
EBITDA	618,443	910,295	1,370,321	1,417,040	1,350,178
Operating Profit (before amort. and except.)	281,400	546,072	775,146	891,276	876,624
Intangible Amortisation	0	0	0	0	0
Exceptionals	(199,159)	(201,532)	566	0	0
Other	(9,392)	8,886	(26,832)	0	0
Operating Profit	72,849	353,426	748,880	891,276	876,624
Net Interest	(51,607)	(53,774)	(41,320)	(10,068)	5,928
Profit Before Tax (norm)	220,401	501,184	706,994	881,207	882,553
Profit Before Tax (FRS 3)	21,242	299,652	707,560	881,207	882,553
Tax	(97,253)	(158,466)	(205,268)	(169,039)	(158,380)
Profit After Tax (norm)	123,148	342,718	501,725	712,168	724,172
Profit After Tax (FRS 3)	(76,011)	141,186	502,291	712,168	724,172
Net loss from discontinued operations	(4,394)	0	0	0	0
Minority interests	33,126	44,719	81,180	107,500	105,620
Net profit	(80,405)	141,186	502,291	712,168	724,172
Net attrib. to shareholders contg. businesses (norm)	90,022	297,998	420,546	604,668	618,552
Net attrib.to shareholders contg. businesses	(109,137)	96,466	421,112	604,668	618,552
Average Number of Shares Outstanding (m)	157.4	160.8	250.8	249.9	249.9
EPS - normalised (c)	57.20	185.34	167.65	242.01	247.57
EPS - normalised fully diluted (c)	56.95	181.51	166.56	234.78	240.17
EPS - (IFRS) ($)	(0.72)	0.60	1.68	2.42	2.48
Dividend per share (c)	0	37	56	60	70
Gross Margin (%)	35.0	42.5	49.4	56.8	56.6
EBITDA Margin (%)	45.4	49.3	50.4	56.8	56.6
Operating Margin (before GW and except.) (%)	20.7	29.6	28.5	35.7	36.8
BALANCE SHEET					
Fixed Assets	2,330,033	5,093,409	5,072,240	4,917,257	4,796,371
Intangible Assets	5,498	24,851	24,851	24,851	24,851
Tangible Assets	2,254,476	3,968,746	3,947,578	3,792,595	3,671,708
Investments	70,059	1,099,812	1,099,812	1,099,812	1,099,812
Current Assets	652,871	1,168,382	1,688,505	2,320,596	2,945,556
Stocks	266,451	305,075	522,841	479,822	458,546
Debtors	83,836	104,545	249,005	230,619	221,525
Cash	288,186	751,563	882,189	1,575,687	2,231,015
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	4,459,590	5,035,232	5,554,221
CASH FLOW					
Operating Cash Flow	628,617	1,046,370	1,114,817	1,379,914	1,365,630
Net Interest	(35,413)	(53,774)	(41,320)	(10,068)	5,928
Tax	(109,494)	(186,332)	(198,746)	(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	67,352	0	0
Dividends	(6,154)	(88,288)	(165,697)	(176,527)	(205,183)
Net Cash Flow	82,385	463,377	222,398	693,498	655,328
Opening net debt/(cash)	518,607	525,220	323,083	100,685	(592,813)
HP finance leases initiated	0	0	0	0	0
Other	(88,998)	(261,240)	0	0	0
Closing net debt/(cash)	525,220	323,083	100,684	(592,813)	(1,248,141)

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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