 

TDV Portfolio Update: Newmont

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Newmont Raises Annual Dividend 79% to $1 per share, Sleeping Giant Awakens

In our last News & Exploration Update, we mentioned that "*maybe, just maybe, the sleeping giant we gave up on in the last cycle (Newmont) will do what Goldcorp's management groups didn't - mainly to go through the pain of divesting its non productive and non core assets*".

Newmont Goldcorp (NEM:NYSE, NGT: TSX, Mcap US$35 Bln) is doing that now, starting with the recent sale of Goldcorp's flagship Red Lake mine to **Evolution Mining (EVN.AX, MCap A$6.8 Bln)** for $375 million in cash plus an additional $100 million in contingent payments.

A few days later, on December 2nd, NEM announced a commitment to sell its 19.9% interest in **Continental Gold (CNL.TO, MCap $1.1B)** to China-based **Zijin Mining (2899.HK, MCap HKD129B)** for US$260 million. Zijin issued an all cash offer to buy out Continental for C$5.5 per share and Newmont proposes to vote in favour of the deal. Newmont originally bought into CNL at C$4 per share in May 2017.

And just last week, Newmont said it closed the sale of its 50% interest in Kalgoorlie Consolidated Gold Mines (KCGM) to Australia's **Northern Star Resources (NST.AX, MCap A$7.7B)** for $800 million.

Barrick, Newmont's erstwhile JV partner in KCGM, had earlier sold its 50% share to **Saracen Mineral Holdings (SAR.AX, MCap A$3B)** for $750 million.

The 3 transactions above will generate $1.4 billion in cash in the fourth quarter before operating cash flow and other dispositions, including its Origin Gold shares for almost $200 million, bringing its working capital position up to around $5 billion. In the beginning of December, NEM announced a $1 billion share buyback program. Part of the proceeds will go in this direction. Over the course of the month, the company bought back 12.4 million shares at an average price of $40.8 per share, returning $506 million to shareholders.

NGT has also been paying its debt down. Although it still is carrying a long term debt at around $6.1 billion, these transactions will help pay it down. As a result of the cash increase, and rising gold price environment, the company today increased its annual dividend to $1 per share, payable as 25 cents on a quarterly basis.

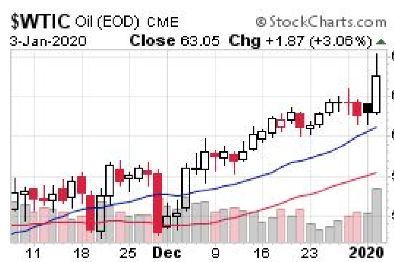
It has been holding back as other miners have been raising dividends promising to pay back its debt first, so this is a positive sign that management is confident in its improving fundamentals. At a price of $43.08/share, its dividend represents a 2.3% yield. For comparison sake, the S&P 500 has a dividend yield of 1.77%.

In 2020, Newmont is expected to produce approx. 6.4 million gold ounces across 15 mines, at an AISC of $975/oz. At $1600 gold, that works out to an operating cash flow of roughly $4 billion, or nearly $4.90 per share. At my forecasted average $1750 gold price for 2020, those numbers increase to ~$5 billion and $6 per share. So the company should have no trouble servicing its $6.1B debt load while continuing to invest in its growth projects, such as the Tanami Expansion 2 in Australia, Subika Underground in Ghana, Cerro Negro in Argentina, Musselwhite in Canada, and their other expenditures related to the Nevada Gold Mines JV.

Newmont continues to position itself as a sound blue chip anchor and foundation for the TDV portfolio.

[To see the suggested TDV portfolio, go to “Member’s Area” of the site, and scroll down to near the bottom.]

Soaring War Premium Forces Early Breakout in Gold



The USD price of gold has broken past its summer highs at 1550, which I didn’t expect until the US dollar turned over, which was *en route* before Trump took out a powerful Iranian general in a pre emptive attack that throws a wrench in my outlook. I don’t trust break outs brought about by events like this, and usually the war premiums deflate quickly if there is no escalation in the immediate aftermath. The power of this move in gold prices alongside the moves in oil and the defense issues indicates that an escalation is a likely outcome, and that measures by both sides will be taken in one way or another. The US dollar often firms up in the reaction to these types of events, although its strength doesn’t necessarily sustain. If this escalates, I remain bullish on gold but it does not change my view on the US dollar because the economics are way too bearish for it.

However, in the short term they could move in the same direction. The miners aren’t keeping step with gold either, probably because they are a bit ahead of it too, just as gold prices are now out in front of where they should be in this story - i.e., out in front of the US dollar reversal, the stock market reversal, and commodity revival. Even today it gapped over silver, and silver hasn’t confirmed the higher high we saw in gold prices.

For months I’ve felt that gold would consolidate a bit more while the other commodities would start revving up on a US dollar rout. But this story has changed a little. Now we have a bit of a blow off in gold and I would defer any further buying of the stock portfolio until we see more of a pullback. I don’t like to buy into events when everyone else is buying. But I’m not bearish enough to recommend taking profits. And I’m very bullish in the long run. Right now the things that are happening, from the Fed's reflation to the geopolitical situation, are basically confirming our macro strategies. I wouldn't view them as a buy signal, at least not an entry point.

I'll let you know when I see a buyable pullback.

As far as the Iranian deal goes, I'm not a foreign policy expert, but my take is that escalation does not necessarily mean war. Escalation is likely, war may still be avoided. The Iranians have more to lose from it.

Right now the Americans look like the bad guys because Trump decided to act without tipping anyone off, and has yet to convince anyone of his evidence that the general was plotting an attack against Americans.

Should that change, and if Americans got behind it, then look out, but right now a lot depends on the extent of retaliation, and the political dynamics that surround it in the months ahead.

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