



Newcrest Mining (TSX:NCM) Earnings Report: Below Expectations

Description

Mining stocks are [shining lately](#), like the rebound of oil stocks in 2021. While share prices dropped in the last five days, energy (+37.87%) and materials (+11.82%) sectors remain TSX's top two performers year to date. **Barrick Gold**, **Yamana Gold**, and **B2Gold** continue to show resiliency amid the global headwinds.

However, Melbourne-based **Newcrest Mining** (TSX:NCM) appears to be the most exciting prospect for investors seeking positions in [haven assets](#). The \$22.42 billion gold and copper mining company reported weak results for the first half of fiscal 2022, yet market analysts are bullish and recommend staying the course.

Negative free cash flow

Newcrest has producing mines in Canada, Australia, and Papua New Guinea. Also, besides the TSX, the mining stock trades on the Australian Securities Exchange (ASX) and the PNG Exchange Markets (PNGX). In the six months ended December 31, 2022, total gold and copper production declined 20% and 27%, respectively, versus the same period in fiscal 2021.

Mat Collings, a research analyst at Morgans Australia, said lower production leads to lower earnings. Newcrest's revenue and profit (statutory and underlying) fell 21% and 46% compared to H1 fiscal 2021. Notably, free cash flow dropped 169% year over year to -US\$303 million.

Surprisingly, the mining stock is up 10.91% year to date, notwithstanding the disappointing earnings results. According to Collings, the financial results broadly align with consensus estimates. He also noted the dividend payment for the period, despite the negative free cash flow. Newcrest trades at \$24.90 per share and pays a 1.93% dividend.

Profitable growth agenda

Newcrest Managing director and CEO Sandeep Biswas remained upbeat. He said, "We have taken a

big step forward in our [profitable growth](#) agenda during the first half of FY22.” Biswas added that the strong balance sheet and net debt of US\$469 million were well within management’s financial policy targets.

As of year-end 2021, the company had significant liquidity, US\$3.2 billion in cash, and committed undrawn bank facilities.

On March 9, 2022, Newcrest completed the acquisition of Pretium Resources. The prized catch owns Brucejack, a tier-one, large-scale, long-life, low-cost mine, and its location is in the highly prospective Golden Triangle region of British Columbia. With the addition of Brucejack, Newcrest now owns six tier-one assets.

Biswas said, “Newcrest’s base case gold production is expected to remain strong until at least 2030, and we have a range of further upside opportunities being progressed across the portfolio.” Because of the enhanced production profile, management expects a significant reduction in all-in sustaining costs, and it should make Newcrest unique in the industry.

Apart from the immediate increase in gold production and cash flows, Newcrest expects to realize synergy benefits between US\$12 million to US\$16 million annually.

Long-term hold

Collings recommended an add rating for the Australian gold major. He believes that Newcrest is well positioned to perform going forward. Its competitive advantages are the portfolio of large, long-life mines with a geographic spread across three jurisdictions. Moreover, expect management to focus on driving down operating costs.

Since Newcrest aims to pull down costs from US\$1,100 per ounce today by 36% in 2025 and 41% in 2028, margins should increase by more than 50%. Being the lowest-cost, million-ounce producer in the industry, the unhedged gold producer should deliver competitive, if not superior, returns in the long term.

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