

Coeur Mining Summary

Date of report: Nov 6, 2020
Stock: Coeur Mining (CDE)
Sector: Materials
Subsector: Mining

P/E ratio for CDE: 69.91
Forward P/E ratio for industry: 21.50
Price target: \$6.33
Current price: \$7.69

Recommendation: SELL



Company Summary

Coeur Mining, Inc. is a well-diversified growing precious metals producer with five operations in North America. Coeur's wholly-owned operations include the Palmarejo gold-silver complex in Mexico, the Rochester silver-gold mine in Nevada, the Kensington gold mine in Alaska, the Wharf gold mine in South Dakota and the Silvertip silver-zinc-lead mine in British Columbia. In addition, the Company has interests in several precious metals exploration projects throughout North America. Coeur's headquarters are located in Chicago, IL.

Industry Outlook

The operations most adversely affected by the pandemic are underground mines in regions where currencies have not depreciated against the dollar like Australia, China, and the United States, or operations with a higher share of costs denominated in US dollars, because of falling fossil fuel/energy prices and gas being tied with the US dollar. Over the short term, the mining companies that most successfully avoid or contain the spread of the virus throughout their operations while maintaining production levels will emerge with a stronger cash position as they take advantage of high price levels and strong margins. In the longer term, the strong price of gold provides a window for mergers and acquisitions to consolidate the industry, because the acquisition price per ounce of resources and reserves of an operating gold mine is far below the current spot price. That offers high rates of return.

All of Coeur's active mines continue to operate. Each site has developed rigorous screening, education and modifications to work procedures to limit COVID-19 exposure and transmission. Coeur has not encountered any significant delays in the shipment and sales of their ore or concentrates. Critical supply chain elements have also been evaluated with no material disruptions experienced to date. We remain in close contact with our critical vendors, customers and transportation providers and establishing alternative back-up arrangements to mitigate the impact of any disruptions related to COVID19.

Cash Flow History & Forecasts

Our earnings forecast for Coeur Mining was completed using the same methodology as our previous Stock Valuation 2 calculations for forecasting quarterly earnings out to YE2020. We compared the recent Q3 earnings report with our previous calculations to determine any adjustments that needed to be made to our forecasting assumptions. Coeur recently posted their highest quarterly financial results in nearly a decade and experienced a stronger rebounding from COVID-19 production contraction than initially anticipated.

|  | | | | | | | | | |
|---|----------------|-----------------|------------------|---------------|------------------|------------------|------------------|------------------|------------------|
| Income Statement | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| Revenue | 709,598 | 625,904 | 711,502 | 770,742 | 832,401 | 898,994 | 1,033,843 | 1,116,550 | 1,205,874 |
| COSTS AND EXPENSES | | | | | | | | | |
| Amortization | 146,549 | 128,473 | 178,876 | 170,872 | 183,128 | 197,779 | 227,445 | 245,641 | 265,292 |
| General and administrative | 33,616 | 31,345 | 34,493 | 44,895 | 41,620 | 44,950 | 51,692 | 55,827 | 60,294 |
| Impairment of Long-Lived Assets Held-for-use | - | - | 250,814 | 56,430 | - | - | - | - | - |
| Pre-development, reclamation, and other | 18,936 | 20,043 | 18,421 | 478,066 | 416,201 | 449,497 | 29,154 | 31,487 | 34,006 |
| Other expenses | 470,571 | 466,347 | 573,708 | 122,847 | 494,020 | 533,542 | 613,573 | 662,659 | 715,671 |
| Total costs and expenses | 669,672 | 646,208 | 1,056,312 | 873,111 | 1,134,969 | 1,225,767 | 921,865 | 995,614 | ##### |
| OTHER INCOME (EXPENSE), NET | | | | | | | | | |
| Loss on debt extinguishments | (9,342) | - | (1,281) | (3,583) | - | - | - | - | - |
| Fair value adjustments, net, pretax | (864) | 3,638 | 16,030 | (28,156) | - | - | - | - | - |
| Interest expense, net of capitalized interest | (16,440) | (24,364) | (24,771) | (2,429) | (972) | (13,795) | (13,266) | (11,047) | (8,302) |
| Other, net | 26,643 | (24,705) | (3,193) | (34,168) | (972) | (13,795) | (13,266) | (11,047) | (8,302) |
| Total other income (expense), net | (3) | (45,431) | (13,215) | 9,926 | (12,181) | (15,225) | (7,674) | (6,288) | (10,342) |
| Total | 39,923 | (65,735) | (358,025) | (10,772) | (98,652) | (133,296) | (150,186) | (98,227) | (120,090) |
| Income and mining tax (expense) benefit | (28,998) | 16,780 | 11,129 | 1,847 | 190 | 7,486 | 5,163 | 3,671 | 4,128 |
| Income (loss) from continuing operations | 10,925 | (48,955) | (346,896) | 16,618 | 17,199.42 | 17,801.40 | 19,581.54 | 21,539.70 | 23,693.67 |
| Income (loss) from discontinued operations | (12,244) | 550 | 5,693 | - | - | - | - | - | - |
| NET INCOME (LOSS) | (1,319) | (48,405) | (341,203) | 16,618 | 17,199.42 | 17,801.40 | 19,581.54 | 21,539.70 | 23,693.67 |
| Revenue Growth (y/y) | | -12% | 14% | 8% | 8% | 8% | 15% | 8% | 8% |
| Amortization as % of Revenue | 20.7% | 20.5% | 25.1% | 22.2% | 22% | 22% | 22% | 22% | 22% |
| SG&A as % of Revenue | 4.7% | 5.0% | 4.8% | 5.8% | 5% | 5% | 5% | 5% | 5% |
| Pre-development as % of Revenue | 2.67% | 3.20% | 2.59% | 62.03% | 50.00% | 50.00% | 2.82% | 2.82% | 2.82% |
| Total costs & expenses as % of revenue | 94% | 103% | 148% | 113% | 120% | 105% | 105% | 105% | 105% |
| Other expenses as % of Revenue | 66% | 75% | 81% | 16% | 59% | 59% | 59% | 59% | 59% |

Valuation

In our Valuation calculations for Coeur, we used a long-term growth rate of 3.50% and referred to www.yardeni.com for the most current Industry Forward P/E ratio in order to come up with a discount rate (Cost of Equity) of 8.15%. Capital Expenditures, Change to Net Working Capital, and Change to Debt for 2020 through 2024 were all calculated using rolling averages for the year-over-year changes from YE2016 through YE2019.

| Valuation | | | | | | |
|--|----------------|-----------|-----------|----------|----------|----------------|
| Year | 2020 | 2021 | 2022 | 2023 | 2024 | |
| Net Income | 16,618 | 17,199 | 17,801 | 19,582 | 21,540 | |
| Add: Depreciation and amortization | 170,872 | 183,128 | 197,779 | 227,445 | 245,641 | |
| Less: CapEx | (125,764) | (122,108) | (86,535) | (61,325) | (43,459) | |
| Less: Change in NWC | (91,456) | (97,500) | (101,824) | (96,927) | (98,751) | |
| Less: Change in Debt | (24,500) | (6,837) | (41,957) | (24,431) | (24,408) | Terminal Value |
| FCFE | (54,230) | (26,117) | (14,736) | 64,344 | 100,563 | 2,237,775 |
| Sum of Discount FCFE | 30,875 | | | | | |
| Discounted Terminal Value | 1,512,378 | | | | | |
| Equity Value | 1,543,254 | | | | | |
| Shares Outstanding | 243,730 | | | | | |
| Target Price | \$ 6.33 | | | | | |
| Current Price | \$ 7.69 | | | | | |
| Analyst Target Price (Low, Avg., High) | 8.5, 9.58, 11 | | | | | |
| 52 Week High | 9.25 | | | | | |
| Est. Return | -18% | | | | | |
| Industry Forward P/E | 21.5 | | | | | |
| Discount | 8.15% | | | | | |
| Long Term Growth Rate | 3.5% | | | | | |
| Recommendation: SELL | | | | | | |

Sensitivity Analysis

In our sensitivity analysis you can see the effects of altering the discount rate (Cost of Equity) by (+/-) 1.5% and the residual effects on the Valuation calculations and final price target.

| | |
|--|----------------|
| Sum of Discount FCFE | 36,662 |
| Discounted Terminal Value | 2,394,766 |
| Equity Value | 2,431,428 |
| Shares Outstanding | 243,730 |
| Target Price | \$ 9.98 |
| Current Price | \$ 7.69 |
| Analyst Target Price (Low, Avg., High) | 8.5, 9.58, 11 |
| 52 Week High | 9.25 |
| Est. Return | 30% |
| Industry Forward P/E | 21.5 |
| Discount | 6.65% |
| Long Term Growth Rate | 3.5% |

| | |
|--|----------------|
| Sum of Discount FCFE | 25,599 |
| Discounted Terminal Value | 1,067,726 |
| Equity Value | 1,093,325 |
| Shares Outstanding | 243,730 |
| Target Price | \$ 4.49 |
| Current Price | \$ 7.69 |
| Analyst Target Price (Low, Avg., High) | 8.5, 9.58, 11 |
| 52 Week High | 9.25 |
| Est. Return | -42% |
| | |
| Industry Forward P/E | 21.5 |
| Discount | 9.65% |
| Long Term Growth Rate | 3.5% |

Conclusion

Based on the Valuation calculations completed above, it is our recommendation that we sell our position in Coeur Mining. We believe that Coeur Mining is currently overvalued by 18% base on our target price of \$6.33 and the current price of 7.69. CDE has proved to be an overwhelming positive addition to the fund since our initial investment in April 2020. However, from a value investing perspective, and based on the results from our other calculated price targets, KRA and ADES represent the better short term investments with the highest likelihood of gaining a return greater than that 20% threshold we are striving for in our investment strategy.