

Harmony

1H24 beats on grades. Sustainable?

Reiterate Rating: UNDERPERFORM | PO: 96.00 ZAR | Price: 108.48 ZAR

1H24 beat. Now net cash. Interesting.

Harmony Gold (HAR) reported 1H24 results. Gold production 832koz, +7% versus consensus. Production profit ZAR11.1bn, +2% vs consensus. Headline earnings ZAR5.9bn, +13% vs consensus. **Key takeaways:** (1) HAR now in a R74 million net cash position. (2) ZAR1.47/sh dividend declared, consistent with policy but +69% versus consensus. (3) AISC US\$1403/oz, -12% YoY, partly due to ZAR weakness. **Model changes:** 2024E EBITDA +15% to ZAR15.3bn on higher volume and lower unit cost estimates. Reiterate Underperform; whilst we do acknowledge recent strong performance, we think that additional funding will be needed to develop project pipeline. Separately, we think that valuation looks full on 1.1x P/NPV (versus historic average c. 1x). Reiterate Underperform. Price Objective ZAR96 (was ZAR90) on 1x P/NPV (1.1 prior).

How sustainable is recent performance?

1H24 performance beat our expectations, largely driven by higher grades (6.29g/t reported versus guidance of 5.6-5.75g/t). **Key question:** How sustainable is recent (strong) performance and ultimately mining at these high grades (vs. history)? Guidance implies c. R6bn spend in 2H (R3.8bn in 1H24). Grades should remain solid at key assets near-term (Moab Khotsoeng, Mponeng) and as such, we think that HAR could deliver ahead of FY24 production guidance of 1.38-1.48Moz. Medium-term, we think that consistently mining high grades at South African legacy assets is tricky given (1) age of mines, (2) challenging geology and (3) labour & safety challenges.

Gold pivot to copper. Project financing in question.

Harmony's "other" copper-gold project, Wafi-Golpu, is located in Papua New Guinea (PNG). The project is now 50/50 owned with Newmont (NEM). The previous JV partner, Newcrest Mining (NCM), was acquired by NEM on 6th November 2023 – see our North American Metals & Mining Research team's note [A new standard in gold mining](#). In our view, project capex of US\$2.8bn (2020 technical report) has likely materially inflated. Is NEM a long-term owner/developer of Wafi? Also, as the "junior partner" in the Wafi project, HAR needs a financing solution. In our view, this would likely require at least some new equity. Based on our recent conversations with investors, we think that this is deterring many from owning HAR shares.

Estimates (Jun) (ZAR)	2022A	2023A	2024E	2025E	2026E
EPS (Reported Diluted)	(1.72)	7.80	14.1	17.2	22.6
EPS Change (YoY)	-120.4%	553.5%	80.3%	22.1%	31.3%
Dividend / Share	0.62	0.75	1.83	2.02	3.61
ADR EPS (Reported Diluted - US\$)	(0.11)	0.44	0.74	0.90	1.18
ADR Dividend / Share (US\$)	0.04	0.04	0.10	0.11	0.19
Valuation (Jun)					
P/E	NM	13.9x	7.71x	6.32x	4.81x
Dividend Yield	0.57%	0.69%	1.69%	1.86%	3.33%
EV / EBITDA*	9.40x	6.31x	4.70x	4.27x	3.72x
Free Cash Flow Yield*	1.75%	4.40%	8.27%	9.30%	16.7%

* For full definitions of *IQmethod*SM measures, see page 7.

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Refer to important disclosures on page 8 to 11. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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29 February 2024

Equity

Key Changes

(ZAR)	Previous	Current
Inv. Opinion	C-3-8	C-3-7
Price Obj.	90.00	96.00
2024E Rev (m)	53,457.6	55,623.4
2025E Rev (m)	57,485.1	57,987.6
2026E Rev (m)	59,898.7	60,311.9
2024E EPS	12.19	14.06
2025E EPS	16.22	17.18
2026E EPS	21.41	22.56
2024E DPS	1.02	1.83

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Stock Data

Price (Common / ADR)	108.48 ZAR / 5.51 USD
Price Objective	96.00 ZAR / 5.35 USD
Date Established	29-Feb-2024 / 29-Feb-2024
Investment Opinion	C-3-7 / C-3-7
52-Week Range	53.86 ZAR-125.16 ZAR
Market Value (mn)	66,932 ZAR
Shares Outstanding (mn)	617.0 / 617.0
Average Daily Value (mn)	10.70 USD
Free Float	75.0%
BofA Ticker / Exchange	HGMCF / JNB
BofA Ticker / Exchange	HMY / NYS
Bloomberg / Reuters	HAR SJ / HARJJ
ROE (2024E)	22.6%
Net Dbt to Eqty (Jun-2023A)	8.1%

iQprofileSM Harmony

Key Income Statement Data (Jun)	2022A	2023A	2024E	2025E	2026E
(ZAR Millions)					
Sales	42,645	49,275	55,623	57,988	60,312
EBITDA Adjusted	7,635	11,376	15,253	16,788	19,265
Depreciation & Amortization	(3,683)	(3,454)	(4,407)	(5,043)	(4,354)
EBIT Adjusted	3,952	7,922	10,846	11,745	14,911
Net Interest & Other Income	(5,010)	(1,316)	(35.4)	(138)	288
Tax Expense / Benefit	46.0	(1,723)	(2,038)	(813)	(1,064)
Net Income (Adjusted)	3,055	4,941	8,705	10,633	13,964
Average Fully Diluted Shares Outstanding	612	618	619	619	619

Key Cash Flow Statement Data

Net Income (Reported)	(1,052)	4,820	8,705	10,633	13,964
Depreciation & Amortization	3,683	3,454	4,407	5,043	4,354
Change in Working Capital	(201)	(416)	(152)	(42.8)	(154)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	4,948	2,731	2,317	935	770
Cash Flow from Operations	7,378	10,589	15,276	16,568	18,933
Capital Expenditure	(6,214)	(7,640)	(9,722)	(10,322)	(7,750)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other CFI	14.0	(2,956)	0	0	0
Cash Flow from Investing	(6,200)	(10,596)	(9,722)	(10,322)	(7,750)
Share Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(430)	(154)	(1,396)	(740)	(2,068)
Increase (decrease) debt	(156)	2,490	(1,206)	(1,206)	(1,206)
Other CFF	(565)	(1,142)	(255)	(271)	(203)
Cash Flow from Financing	(1,151)	1,194	(2,857)	(2,217)	(3,478)
Total Cash Flow (CFO + CFI + CFF)	27.0	1,187	2,697	4,029	7,706
FX and other changes to cash	(398)	(768)	(2,997)	(1,521)	(1,347)
Change in Cash	(371)	419	(300)	2,508	6,359
Change in Net Debt	215	2,071	(906)	(3,714)	(7,565)
Net Debt	757	2,828	1,922	(1,793)	(9,358)

Key Balance Sheet Data

Property, Plant & Equipment	32,872	41,507	47,077	52,627	56,226
Goodwill	0	0	0	0	0
Other Intangibles	48.0	33.0	33.0	33.0	33.0
Other Non-Current Assets	6,394	7,022	7,593	8,164	8,735
Trade Receivables	1,682	2,395	2,704	2,818	2,931
Cash & Equivalents	2,448	2,867	2,567	5,075	11,434
Other Current Assets	3,364	3,416	3,675	3,794	3,726
Total Assets	46,808	57,240	63,649	72,512	83,085
Long-Term Debt	3,180	5,592	4,386	3,179	1,973
Other Non-Current Liabilities	8,536	9,901	9,901	9,901	9,901
Short-Term Debt	25.0	103	103	103	103
Other Current Liabilities	4,950	6,764	7,179	7,371	7,261
Total Liabilities	16,691	22,360	21,569	20,554	19,238
Total Equity	30,117	34,880	42,080	51,958	63,847
Total Equity & Liabilities	46,808	57,240	63,649	72,512	83,085

Business Performance*

Return On Capital Employed	8.53%	13.0%	16.7%	17.6%	19.4%
Return On Equity	9.96%	15.2%	22.6%	22.6%	24.1%
Operating Margin	9.27%	16.1%	19.5%	20.3%	24.7%
Free Cash Flow (MM)	1,164	2,949	5,554	6,246	11,184

Quality of Earnings*

Cash Realization Ratio	2.42x	2.14x	1.75x	1.56x	1.36x
Asset Replacement Ratio	1.69x	2.21x	2.21x	2.05x	1.78x
Tax Rate	4.35%	26.1%	18.8%	7.00%	7.00%
Net Debt/Equity	2.51%	8.11%	4.57%	-3.45%	-14.7%
Interest Cover	5.50x	7.97x	9.54x	13.5x	24.9x

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Gold & Precious Metals

Company Description

HAR's operations in South Africa include underground mines, 1 open-pit mine & tailings retreatment ops. In Papua New Guinea, HAR's interests include Hidden Valley, an open-pit gold / silver mine and a 50% stake in the Wafi-Golpu project (Newmont HAR's partner). Harmony maintains a hedging programme, taking out hedges when at positive margin, subject to limits: 25% of FX, 20% of gold, 50% of silver (over next 24 months).

Investment Rationale

Harmony is a high-cost / low-margin gold producer given that the majority of its production comes from deep, labour-intensive South African underground mines. We forecast US\$ gold prices at a long-term real price of US\$1750, and thus we expect Harmony's margins to compress from current levels as pressure from cost inflation (largely "administered" costs from electricity and labour) is not offset by Rand gold prices, which we forecast remaining fairly static (real terms). Maintain Underperform.

Stock Data

Shares / ADR	1.00
Price to Book Value	1.6x

Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-3-8	C-3-7
Price Obj.	5.02	5.35
2024E EPS	0.64	0.74
2025E EPS	0.85	0.90
2026E EPS	1.12	1.18
2024E DPS	0.05	0.10

Changes to estimates

Exhibit 1: Changes to estimates

We raise 2024E EBITDA to ZAR15.2bn on higher volume and lower cost estimates

	June YE	New	FY24E Old	% chg	New	FY25E Old	% chg	New	FY26E Old	% chg
Gold price (\$/oz) (market price)		1,932	1,932	0%	2,024	2,024	0%	2,070	2,070	0%
Gold price received (incl. hedges) (US\$)		1,932	1,932	0%	2,024	2,024	0%	2,070	2,070	0%
Rand-Dollar exchange (ZAR/USD)		18.80	18.80	0%	19.31	19.31	0%	20.04	20.04	0%
Gold price received (incl. hedges) (R/kg)		1,158,418	1,158,159	0%	1,259,593	1,259,617	0%	1,333,704	1,333,704	0%
All in sustaining costs (US\$/oz)		1,585	1,662	-5%	1,659	1,668	-1%	1,533	1,601	-4%
All in sustaining costs (R/kg)		960,581	1,004,767	-4%	1,029,859	1,035,825	-1%	987,722	1,031,502	-4%
Revenue (ZARm)		55,623	53,458	4%	57,988	57,485	1%	60,312	59,899	1%
EBITDA (ZARm)		15,253	13,236	15%	16,788	16,178	4%	19,265	18,515	4%
margin		27%	25%		29%	28%		32%	31%	
EBIT (ZARm)		10,846	8,591	26%	11,745	11,151	5%	14,911	14,168	5%
Net income (ZARm)		8,705	7,543	15%	10,633	10,040	6%	13,964	13,252	5%
Basic HEPS (SAcps)		14.06	12.19	15%	17.18	16.22	6%	22.56	21.41	5%
DPS (SAcps)		1.83	1.02	79%	2.02	2.13	-5%	3.61	3.22	12%
Cash from operations		12,279	11,493	7%	15,047	14,371	5%	17,586	16,888	4%
Capex (CFS)		9,722	9,873	-2%	10,322	9,285	11%	7,750	8,218	-6%
Free cash flow		2,557	1,620	58%	4,725	5,086	-7%	9,837	8,670	13%

Source: BofA Global Research estimates

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Results summary

Exhibit 2: Results summary

Production profit was +2% versus Visible Alpha consensus, i.e. beat

	1H 24A	1H 23A	YoY	1H 24E	% Var	Consensus	% Var
Group production (koz)	832	733.3	14%	783	6%	777	7%
AISC (\$/oz)	1,403	1,598	-12%	1,617	-13%	1488	-6%
AISC (ZAR/kg)	843,043	890,048	-5%	975,808	-14%		
Revenue (ZAR mn)	31,415	23,259	35%	28,239	11%	28867	9%
Production profit (ZAR mn)	11,140	5,415	106%	8,877	25%	10869	2%
Headline Earnings (ZAR mn)	5,919	1,804	228%	4,307	37%	5244	13%
Capex (ZAR mn)	3,826	3,630	5%	5,220	-27%	3510	9%
Dividend (ZARc/sh)	1.47	0.0	nm	0.63	133%	0.87	69%

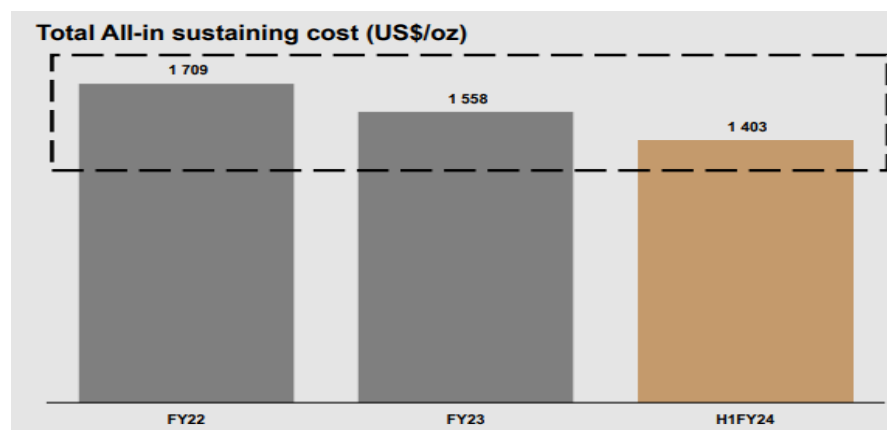
Source: BofA Global Research estimates

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Costs down on grades & ZAR

Exhibit 3: All-in sustaining cost (US\$/oz)

Down YoY, partly driven by rand-denominated cost base / weak rand



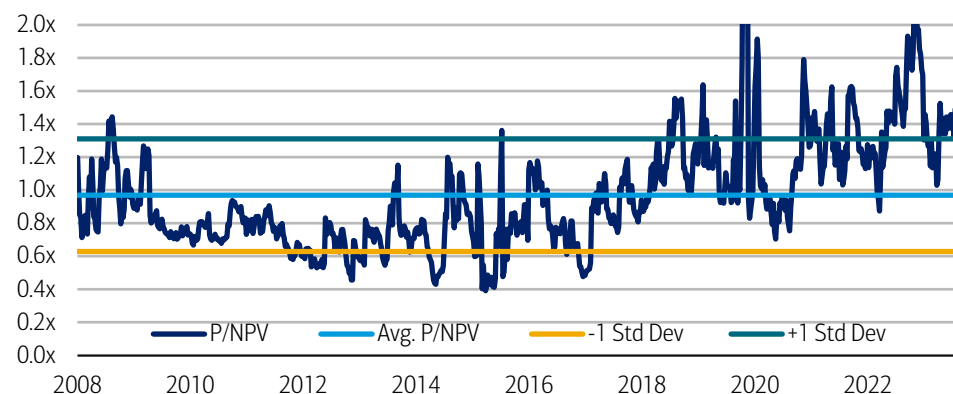
Source: Company presentation

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Valuation

Exhibit 4: P/NPV chart

HAR trades on c. 1.1x P/NPV, above historic average c. 1x



Source: BofA Global Research estimates, Bloomberg

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Price objective derivation

Exhibit 5: Price objective derivation

We derive our price objective based on 1x P/NPV

Sum-of-the-parts-valuation

Tshepong	5502
Mponeng	17101
Moab Khotsong	21689
Joel	713
Doornkop	2341
Kusasaletu	883
Masimong	636
MWS	5820
Phoenix (Tailings retreatment)	2565
Central plant reclamation	2069
Surface dumps	194
Kalgold	463
Hidden Valley	9621
G&A	-7268
Net cash/ (debt) (t-1)	-2828
Total SOTP NPV	59503
NPV/share (ZAR)	96.13
NPV multiple	1.0
Price objective	96
Current share price	109
Upside/(downside) potential	-12%

Source: BofA Global Research estimates

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Our 2024 DPS estimate increases from ZAR1.02 to ZAR1.83 and we change our income rating from 8 (same/lower) to 7 (same higher).

Model summary

Exhibit 6: Model summary

These are our latest published estimates based on our house commodity price forecasts

Income Statement (Rm) - June YE	30-Jun-23	30-Jun-24	30-Jun-25	30-Jun-26
Revenue	49,275	55,623	57,988	60,312
Cost of sales	-39,535	-42,668	-44,112	-43,287
- Production costs excluding royalty	-34,217	-36,706	-38,071	-37,917
- Royalty expenses	-651	-827	-490	-509
- Amortisation & depreciation	-3,454	-4,407	-5,043	-4,354
- Impairment of assets	0			
- Rehab expenditure	-32	-111	-111	-111
- Care & maintenance	-227	-227	-227	-226
- Employment termination & restructuring costs	-597	-116	-120	-119
- Share based payments	-51	-51	-51	-51
- Other	-306	-222		
Gross (loss)/profit	9,740	12,956	13,875	17,025
Corporate, admin & other expenditure	-1,044	-1,044	-1,044	-1,040
Exploration	-506	-506	-506	-504
Gain on derivatives	-194	353		
- FX gain/(loss)	-634	0		
Other operating expenses	-268	-560	-580	-570
Operating profit	7,094	11,199	11,745	14,911
Profit/(loss) from associates	57	73	73	73
Other	-214	0		
Investment income	663	676	657	813
Finance cost	-994	-1,137	-868	-598
Profit/(loss) before taxation	6,606	10,810	11,608	15,199
Taxation	-1,723	-2,038	-813	-1,064
Current	-643	-1,622	-813	-1,064
Deferred	-1,080	-416		
Net profit/(loss) from continuing operations	4,883	8,773	10,795	14,135
Effective tax rate	-26%	-19%	-7%	-7%
Current Tax rate on Tax Inc estimate	-7%	-15%	-7%	-7%
Profit/(loss) from discontinued operations				
Net profit/(loss)	4,883	8,773	10,795	14,135
Non-controlling interest	-63	-68	-162	-171
Attributable to owners of the parent	4,820	8,705	10,633	13,964

Source: BofA Global Research estimates

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Price objective basis & risk

Harmony (HGMCF / HMY)

Our price objective of R96ps (ADR US\$5.35) is set at a 1x Price to NPV multiple. We use a multiple slightly above HAR's historical average of about 1x to reflect a higher gold price environment. We use a real discount rate of 5%, in line with our convention for gold mining companies.

The upside risks to our price objective are as follows: i) Additional production/value being realised from acquired mines, namely Mponeng & MWS (acquired 2020), Moab Khotsong (acquired FY18) than we currently model. This could result from pillar mining, tailings, below infrastructure reserves and/or reducing costs. ii) Sale or realistic funding option for the Golpu project in Papua New Guinea that causes Harmony's share of the NPV of this project to be realised in the share price (not our base case). iii) Higher-than-expected gold and copper prices. iv) Weaker-than-expected ZAR. v) Lower-than-expected cost inflation.

The downside risks to our price objective are i) higher-than-expected cost inflation in South Africa, predominantly from wages and electricity, ii) stronger-than-expected ZAR, iii) further production disruptions related to the Covid-19 virus, iv) lower-than-expected gold prices, v) labour unrest, vi) production negatively impacted by a shortage of electricity in South Africa.

Analyst Certification

I, Cameron Needham, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EEMEA - Materials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Kazatomprom	XWREF	KAP LI	Jason Fairclough
	Kazatomprom	XCWGF	KAP KZ	Jason Fairclough
	Northam Platinum Holdings	NPTLF	NPH SJ	Cameron Needham
NEUTRAL				
	Anglo Platinum	AGPPF	AMS SJ	Cameron Needham
	AngloGold Ashanti	AULGF	ANG SJ	Cameron Needham
	AngloGold Ashanti	AU	AU US	Cameron Needham
	Gold Fields	GFI	GFI US	Cameron Needham
	Gold Fields	GFIOF	GFI SJ	Cameron Needham
UNDERPERFORM				
	Erdemir	ERELF	EREGL TI	Jason Fairclough
	Exxaro Resources	EXXAF	EXX SJ	Cameron Needham
	Harmony	HGMCF	HAR SJ	Cameron Needham
	Harmony	HMY	HMY US	Cameron Needham
	Impala Platinum	IMPUF	IMP SJ	Cameron Needham
	Impala Platinum	IMPUY	IMPUY US	Cameron Needham
	KGHM Polska Miedz	KGHPF	KGH PW	Jason Fairclough
	Kumba Iron Ore	KUMBF	KIO SJ	Cameron Needham
	Maaden	XSDRF	MAADEN AB	Jason Fairclough
	Sibanye-Stillwater	SBYSF	SSW SJ	Cameron Needham
	Sibanye-Stillwater	SBSW	SBSW US	Cameron Needham

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

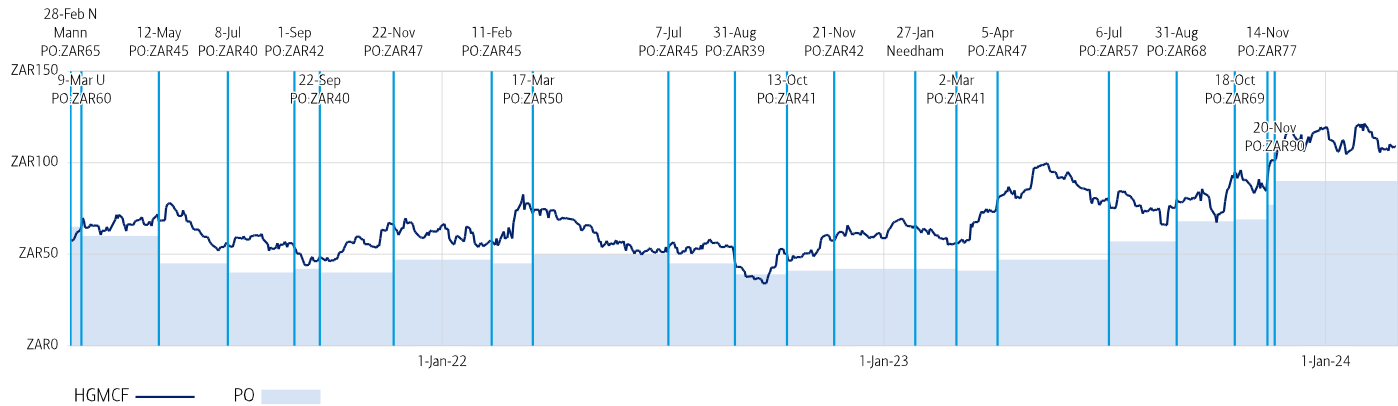
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Disclosures

Important Disclosures

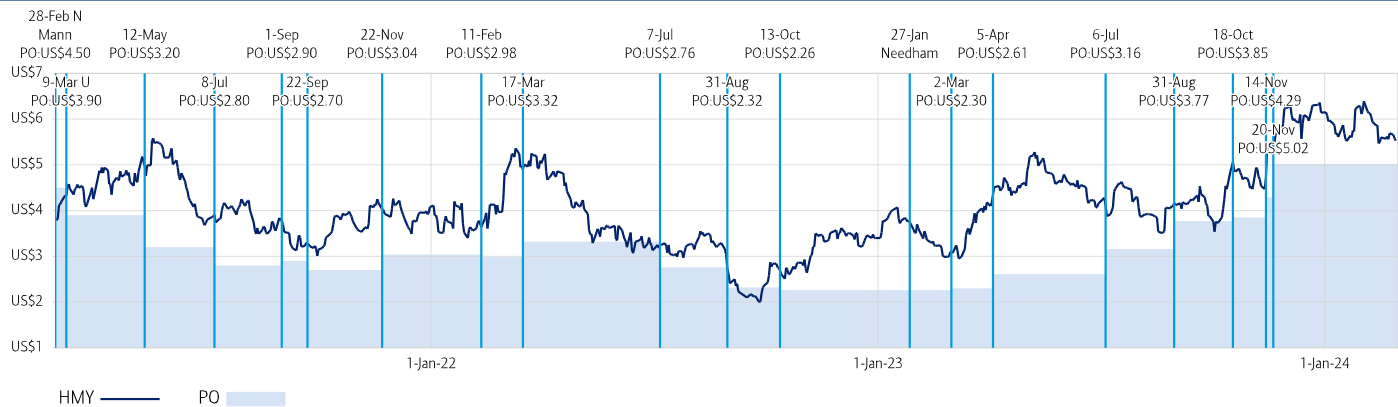
Harmony (HGMCF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Harmony (HMY) Price Chart



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The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	58	53.70%	Buy	26	44.83%
Hold	24	22.22%	Hold	10	41.67%
Sell	26	24.07%	Sell	13	50.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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