

New Gold Inc.

Q4'23 financials non-eventful, all about execution from here

Reiterate Rating: UNDERPERFORM | PO: 1.90 CAD | Price: 1.61 CAD

Reiterate Underperform on execution risks

New Gold (NGD) reported Q4'23 financials. Given production was already pre-reported ([see production report](#)), and 2024 guidance also already released ([see guidance report](#)), we view the results as a non-event (given little new forward-looking information). From here, we think investor focus with NGD will be largely on its pair of ongoing growth which are expected to drive production growth, lower costs, and ultimately free cash flow generation. We see elevated execution risks in achieving the ambition targets set out with its recent long-term guidance disclosure. Reiterate Underperform.

Q4'23 EPS misses BofAe and consensus

NGD reported an adjusted loss per share (LPS) of \$0.01, which missed BofAe at an EPS of \$0.03, and Bloomberg/Visible Alpha (VA) consensus both at EPS of \$0.02. Q4'23 production was already pre-reported, and versus our estimates, the EPS miss was largely driven by higher-than-expected costs and higher-than-expected depreciation (see Exhibit 1 for more details). Similar to EPS, Q4'23 EBITDA (unadjusted) of \$67mn, missed BofAe at \$84mn, Bloomberg consensus at \$80mn, and VA consensus at \$82mn, reflecting the higher-than-expected costs in the quarter. We update our model for Q4'23A, though make no changes to forward estimates.

Balance sheet fine, but OTPP considerations linger

As at 31-Dec-23, NGD had cash of \$186mn, and debt of \$396mn, for net debt of \$210mn. This is modestly better versus net debt of \$216mn as at 30-Sept-23 (\$396mn debt, cash of \$179mn). In Q4'23, NGD generated modest free cash flow of \$10mn, better than our forecasts, but owing to lighter-than-expected capex spend. Of interest with respect to the balance sheet, we note that the 4-year anniversary on the financing deal for New Afton with Ontario Teachers' Pension Plan (OTPP) is fast approaching (31-Mar-24) at which point NGD has the option to repurchase OTPP's 46% stake in the asset. We value that stake at \$466mn. As of today, NGD remains balance sheet constrained for a full stake repurchase in cash, though we would not be surprised by a partial stake purchase, or involvement of another party, particularly given NGD's confidence in the longer-term outlook at the asset, and subject to the discussions/negotiations NGD will have with OTPP in the coming weeks.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.10)	(0.09)	0.07	0.10	0.17
EPS Change (YoY)	NM	10.0%	NM	42.9%	70.0%
Consensus EPS (Bloomberg)			0.11	0.18	0.36
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	17.0x	11.9x	7.0x
EV / EBITDA*	10.3x	6.4x	6.6x	4.3x	3.5x
Free Cash Flow Yield*	-12.0%	2.6%	-4.7%	23.8%	46.9%

* For full definitions of *IQmethod*SM measures, see page 5.

13 February 2024

Equity

Harmen Puri >>
Research Analyst
Merrill Lynch (Canada)
+1 416 369 7540
harmen.puri@bofa.com

Lawson Winder, CFA >>
Research Analyst
Merrill Lynch (Canada)
lawson.winder@bofa.com

Stock Data

Price (TOR / NYS)	1.61 CAD / 1.20 USD
Price Objective	1.90 CAD / 1.40 USD
Date Established	9-Feb-2024 / 9-Feb-2024
Investment Opinion	C-3-9 / C-3-9
52-Week Range	1.13 CAD - 2.12 CAD
Market Value (mn)	1,106 CAD
Free Float	92.1%
Average Daily Value	2.48 USD
Shares Outstanding (mn)	687.0 / 687.0
BofA Ticker / Exchange	YNGD / TOR
BofA Ticker / Exchange	NGD / NYS
Bloomberg / Reuters	NGD CN / NGD.TO
ROE (2024E)	5.6%
Net Dbt to Eqty (Dec-2023A)	26.7%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 13 February 2024 08:22PM EST

iQprofileSM New Gold Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-0.6%	2.7%	3.3%	4.1%	6.2%
Return on Equity	-7.0%	-7.4%	5.6%	7.8%	12.1%
Operating Margin	-1.8%	8.5%	12.2%	12.7%	18.6%
Free Cash Flow	(102)	22	(38)	194	383

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	6.0x	5.9x	4.1x
Asset Replacement Ratio	1.5x	1.1x	1.6x	0.7x	0.3x
Tax Rate	2.1%	NM	27.0%	35.0%	35.0%
Net Debt-to-Equity Ratio	20.2%	26.7%	33.6%	12.8%	-23.3%
Interest Cover	-0.6x	4.7x	3.0x	4.5x	7.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	604	787	839	1,050	1,121
% Change	-18.9%	30.1%	6.7%	25.1%	6.8%
Gross Profit	222	336	331	467	576
% Change	-39.8%	51.6%	-1.6%	41.2%	23.2%
EBITDA	184	296	289	438	541
% Change	-44.6%	60.5%	-2.5%	51.7%	23.4%
Net Interest & Other Income	(50)	(121)	(32)	(30)	(30)
Net Income (Adjusted)	(67)	(65)	46	68	117
% Change	NM	3.4%	NM	48.4%	72.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	64	(65)	46	68	117
Depreciation & Amortization	196	235	195	305	332
Change in Working Capital	9	(6)	0	0	0
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	(78)	123	32	30	30
Capital Expenditure	(293)	(266)	(310)	(208)	(95)
Free Cash Flow	-102	22	-38	194	383
% Change	NM	NM	NM	NM	97.1%
Share / Issue Repurchase	1	5	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(102)	0	0	(27)	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	201	186	116	253	607
Trade Receivables	14	16	16	16	16
Other Current Assets	163	150	150	150	150
Property, Plant & Equipment	NA	NA	NA	NA	NA
Other Non-Current Assets	1,866	1,934	2,049	1,952	1,716
Total Assets	2,244	2,286	2,332	2,372	2,489
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	171	229	229	229	229
Long-Term Debt	395	396	396	369	369
Other Non-Current Liabilities	718	872	872	872	872
Total Liabilities	1,284	1,497	1,497	1,470	1,470
Total Equity	960	789	835	902	1,019
Total Equity & Liabilities	2,244	2,286	2,332	2,372	2,489

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Gold & Precious Metals

Company Description

New Gold is a Canadian-based intermediate mining and development company with a focus on the production and sale of gold, copper, and silver in lower sovereign risk regions.

Investment Rationale

New Gold is focused on optimizing its portfolio of operating mines while advancing underground development of its Rainy River. However, we rate New Gold shares as Underperform on concerns around liquidity, permitting, execution and valuation, particularly in the short term.

Key Drivers

	2024E	2025E	2026E
Gold price (US\$/oz)	1,975	2,098	1,995
Gold Production (Koz)	326	326	391
TCC (US\$/oz)	810	736	435
AISC (US\$/oz)	1,594	1,014	661

Stock Data

Average Daily Volume	2,089,519
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

	2023	2024
Q1	-0.05A	0E
Q2	0A	0E
Q3	0A	0.03E
Q4	-0.04A	0.04E

Q4'23 financial results highlights

Exhibit 1: Q4'23 Financial Results Highlights

NGD reported Q4'23 financials after pre-reporting production results. Adjusted loss per share of \$0.01, missed BofAe at \$0.03, and Bloomberg/Visible Alpha consensus both at \$0.02.

	Q4'23	YoY	Q4'22A	QoQ	Q3'23A	BofA Estimate	Δ%	Bloomberg Consensus	Δ%	VA Consensus	Δ%
Q4 2023 Results											
Sales	199.2	22%	162.8	-1%	201.3	200.1	0%	195.8	2%	196.0	2%
EBITDA (US\$mn)	67.0	43%	46.8	-21%	85.2	84.4	-21%	79.9	-16%	82.4	-19%
Depreciation	66.5	27%	52.3	12%	59.4	47.3	41%	56.6	17%	54.0	23%
Adjusted EPS (US\$/sh)	(0.01)	0%	(0.01)	nm	0.03	0.03	-130%	0.02	nm	0.02	nm
Cash flow before w/c changes (US\$mn)	64.9	47%	44.2	-26%	87.6	78.0	-17%	NA	-	NA	-
FCF (US\$mn)	10.0	-125%	-39.5	nm	29.4	-14.9	nm	-2.6	nm	-5.3	nm
Net debt / (net cash) (US\$mn)	210.5	8%	194.1	-3%	216.3	239.1	-12%	229.3	-8%	436.6	-52%
Gold production ('000 ounces)											
Rainy River	62.7	-10%	69.8	-4%	65.0	65.8	-5%	62.8	0%	62.6	0%
New Afton	16.5	51%	10.9	-4%	17.3	14.7	12%	15.0	10%	16.5	0%
Total	79.2	-2%	80.7	-4%	82.2	80.4	-2%	77.8	2%	79.1	0%
Copper production (mn lbs)											
New Afton	12.0	74%	6.9	-9%	13.2	12.4	-3%	NA	-	10.8	12%
GEO production	105.1	7%	97.8	-5%	110.2	106.1	-1%	NA	-	NA	-
AISC (US\$/oz GEO)	1,575	-6%	1,668	6%	1,486	1,506	5%	NA	-	1,588	-1%

Source: BofA Global Research estimates, Company Reports, Visible Alpha, Bloomberg

BofA GLOBAL RESEARCH



Price objective basis & risk

New Gold Inc. (YNGD / NGD)

Our price objective for New Gold of US\$1.40/C\$1.90 per share is based on the shares trading at 0.65x its estimated net asset value (NAV) appropriately reflecting our outlook for the company relative to its peers, in our view. Historically, North American precious metal stocks have traded between 0.75x and 3.0x NAV, with a median of 1.50 times in the past three years (and 2.00 times longer term), with unhedged, growth-oriented producers occupying the upper end of the range, and companies with operating and/or financial issues at the lower end. Upside risks to our price objective are better-than-expected co-product basis cost control, and higher than expected commodity prices. Downside risks are operations get worse than expected, NGD has issues refinancing its debt, gold and copper prices go down.

Analyst Certification

I, Harmen Puri, 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.

North America - Metals and Mining Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Agnico Eagle Mines	AEM	AEM US	Lawson Winder, CFA
	B2Gold Corp	YBTO	BTO CN	Harmen Puri
	B2Gold Corp	BTG	BTG US	Harmen Puri
	Barrick Gold	GOLD	GOLD US	Lawson Winder, CFA
	Cameco Corporation	YCCO	CCO CN	Lawson Winder, CFA
	Cameco Corporation	CCJ	CCJ US	Lawson Winder, CFA
	CMC	CMC	CMC US	Lawson Winder, CFA
	Endeavour Mining	YEDV	EDV CN	Harmen Puri
	Endeavour Mining	EDVMF	EDVMF US	Harmen Puri
	Endeavour Mining PLC	XEDVF	EDV LN	Harmen Puri
	Franco-Nevada	YFNV	FNV CN	Lawson Winder, CFA
	Franco-Nevada	FNV	FNV US	Lawson Winder, CFA
	IAMGOLD	YIMG	IMG CN	Lawson Winder, CFA
	IAMGOLD Corp.	IAG	IAG US	Lawson Winder, CFA
	Ivanhoe Mines	YIVN	IVN CN	Lawson Winder, CFA
	Ivanhoe Mines	IVPAF	IVPAF US	Lawson Winder, CFA
	Lundin Mining	XLPRF	LUMI SS	Lawson Winder, CFA
	Lundin Mining Corp	YLUN	LUN CN	Lawson Winder, CFA
	Lundin Mining Corp	LUNMF	LUNMF US	Lawson Winder, CFA
	MP Materials	MP	MP US	Lawson Winder, CFA
	Newmont Corporation	NEM	NEM US	Lawson Winder, CFA
	Newmont Corporation	XNCRF	NEM AU	Lawson Winder, CFA
	Nucor	NUE	NUE US	Lawson Winder, CFA
	Pan American Silver	PAAS	PAAS US	Lawson Winder, CFA
	Teck Resources	YTECK	TECK/B CN	Lawson Winder, CFA
	Teck Resources Ltd	TECK	TECK US	Lawson Winder, CFA
	Triple Flag Precious Metals Corp.	YTFPM	TFPM CN	Lawson Winder, CFA
	Triple Flag Precious Metals Corp.	TFPM	TFPM US	Lawson Winder, CFA
	Wheaton Precious Metals	WPM	WPM US	Lawson Winder, CFA
NEUTRAL				
	Alamos Gold	YAGI	AGI CN	Harmen Puri
	Alamos Gold	AGI	AGI US	Harmen Puri
	Alcoa Corporation	AA	AA US	Lawson Winder, CFA
	Cleveland-Cliffs	CLF	CLF US	Lawson Winder, CFA
	First Quantum	FQVLF	FQVLF US	Lawson Winder, CFA
	First Quantum Minerals	YFM	FM CN	Lawson Winder, CFA
	Freeport-McMoRan	FCX	FCX US	Lawson Winder, CFA
	Hudbay Minerals	YHBM	HBM CN	Lawson Winder, CFA

North America - Metals and Mining Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	HudBay Minerals	HBM	HBM US	Lawson Winder, CFA
	Reliance Steel & Aluminum	RS	RS US	Lawson Winder, CFA
	Steel Dynamics	STLD	STLD US	Lawson Winder, CFA

UNDERPERFORM

	Centerra Gold	YCG	CG CN	Lawson Winder, CFA
	Centerra Gold	CGAU	CGAU US	Lawson Winder, CFA
	Eldorado Gold	EGO	EGO US	Harmen Puri
	Eldorado Gold	YELD	ELD CN	Harmen Puri
	Kinross Gold	KGC	KGC US	Lawson Winder, CFA
	New Gold Inc.	YNGD	NGD CN	Harmen Puri
	New Gold Inc.	NGD	NGD US	Harmen Puri
	Nexa Resources	NEXA	NEXA US	Lawson Winder, CFA
	Royal Gold	RGLD	RGLD US	Lawson Winder, CFA
	SSR Mining Inc.	SSRM	SSRM US	Lawson Winder, CFA
	SSR Mining Inc.	YSSRM	SSRM CN	Lawson Winder, CFA

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

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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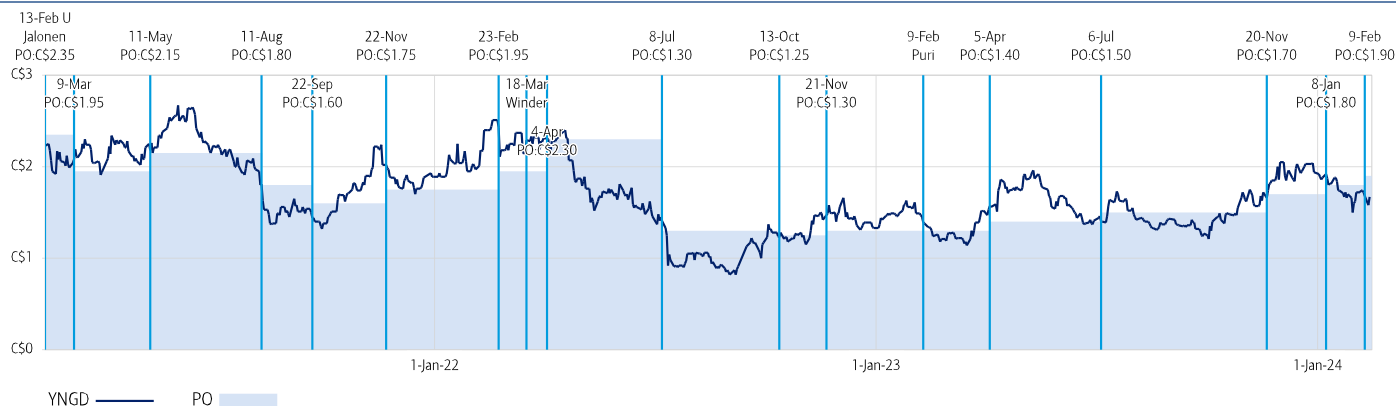
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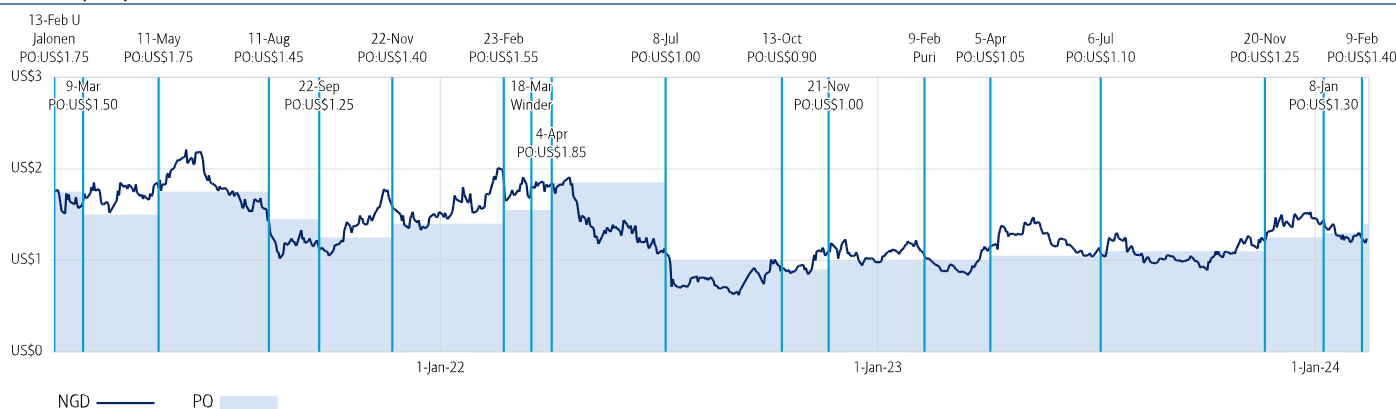
New Gold Inc. (YNGD) Price Chart



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.

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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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