

Agnico Eagle Mines (TSX:AEM)

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INVESTA
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Company Overview

Agnico Eagle Mines (TSE:AEM)

Business Description

- Agnico Eagle is a senior Canadian gold mining company that has produced precious metals since 1957
- They are headquartered in Toronto, Canada
- The firm has 11, 421 employees in across their various operations
- Its operating mines are located in Canada, Finland, and Mexico
- The company operates through three business units: Northern Business, Southern Business, and Exploration
- Agnico Eagle has declared a cash dividend every year since 1983

Key Financial Data

Stock Price	\$71.56
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52 Week Low	\$62.28
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52 Week High	\$109.99
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LTM Revenue	\$4,720M
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LTM Net Income	\$933.6M
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Management Team



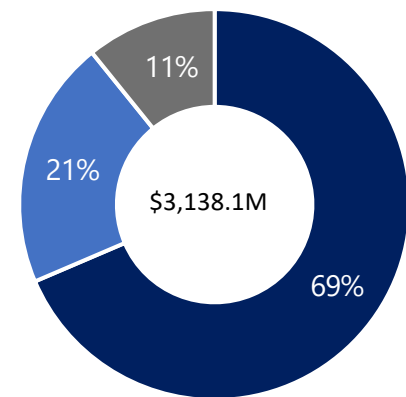
Name	Sean Boyd	Ammar Al-Joundi	David Smith
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Position	CEO	President	CFO
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Years Exp.	23	20	9
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Previous Roles	CFO, Comptroller	CFO, Senior VP	Senior VP, Strategic Planning
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Revenue by Geographic Locations

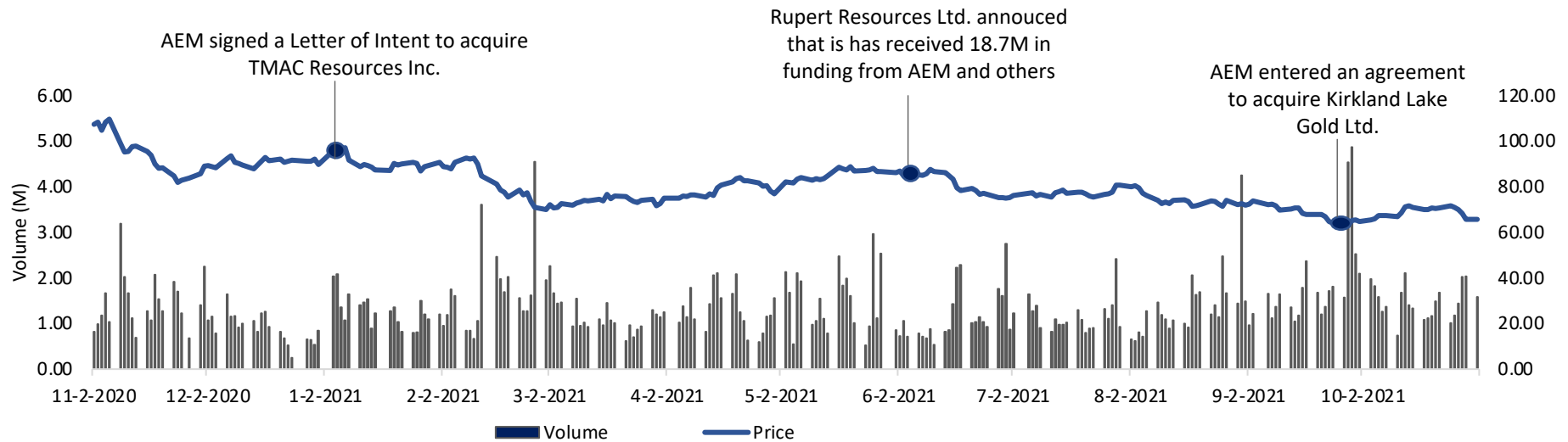


■ Canada ■ Mexico ■ Finland

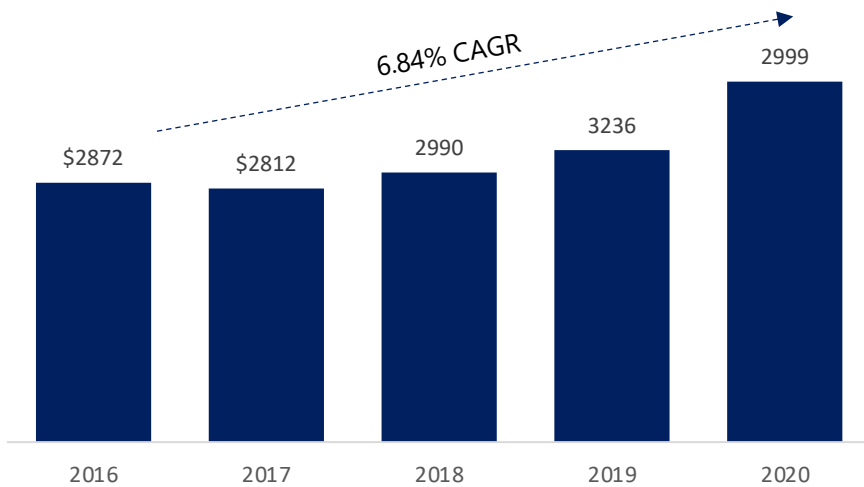
Company Overview

Agnico Eagle Mines (TSE:AEM)

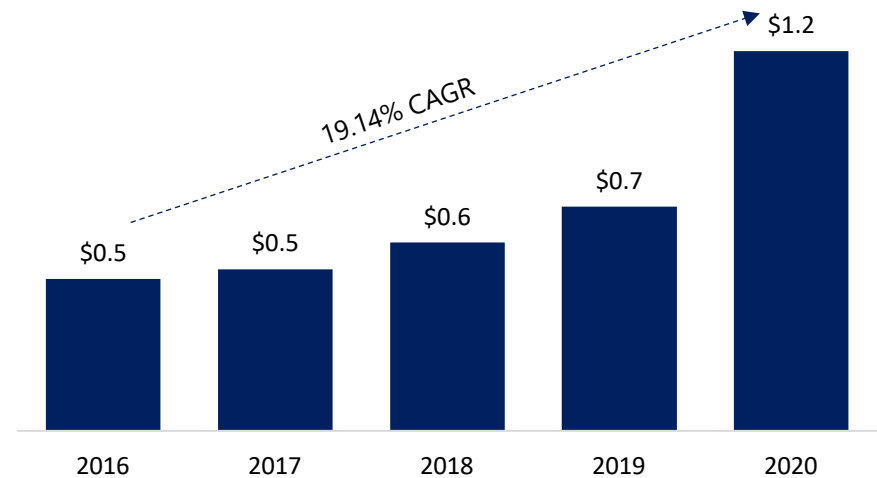
Price Volume Chart



Revenue Growth



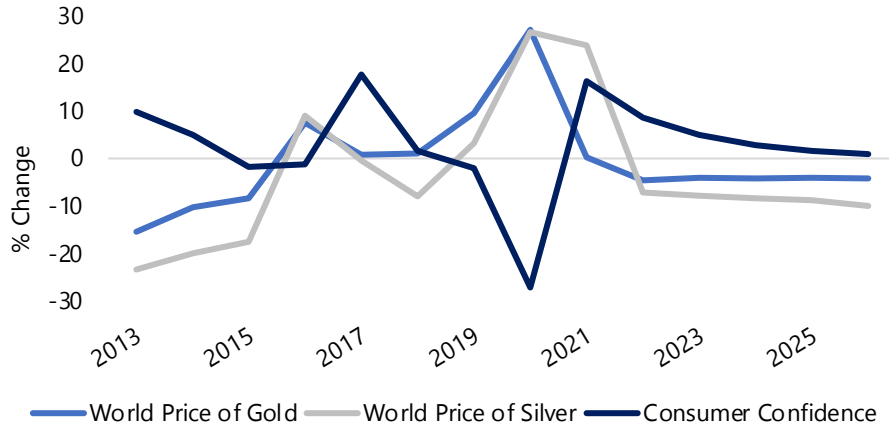
Dividend Per Share



Industry Outlook

A mature industry with high barriers to entry that is subject to critical external drivers

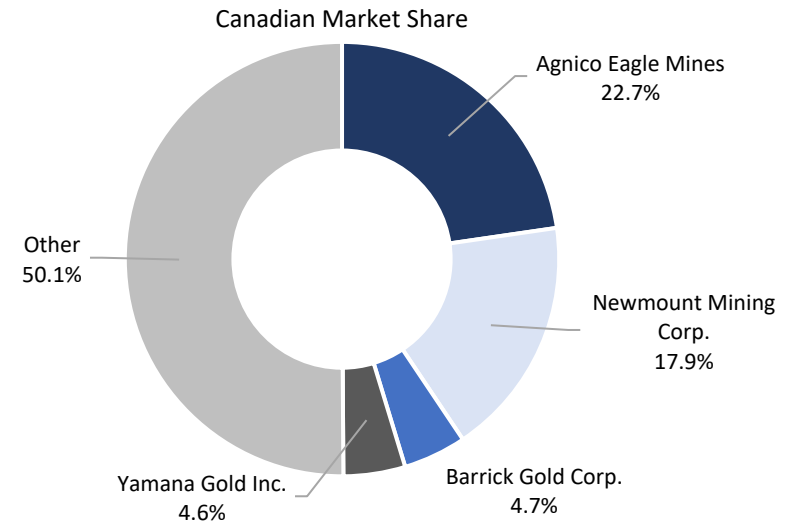
External Drivers



- The price of gold and silver are key drivers of this industry and have been a source of volatility in the past
- The price of gold tends to be inversely correlated with consumer confidence
- Many investors use gold as a hedge against inflation but the price relationship has been relatively weak
- Central banks often sell gold from its reserves when the economy is doing well, which can add to price movements
- Downstream markets drive demand: consumers, jewellery manufacturers, industrial product manufacturers

Competitive Landscape and Industry Structure

- There are roughly 270 businesses in the industry, but the top 4 companies occupy 50% of market share
- The capital-intensive nature of mining creates a high barrier to entry
- While the Industry relies on a lot of technology it demonstrates a slow rate of innovation, meaning it is unlikely that an innovation will disrupt the industry
- Mining is highly regulated and companies must adhere to jurisdiction and land regulations, as well as environmental requirements
- Other Canadian players on PWC's Top 40 Mining Companies include **Kinross Gold Corporation** and **Kirkland Lake Gold Ltd.**



Industry Outlook

A mature industry with high barriers to entry that is subject to critical external drivers

Success Factors

Controlling Volatility

Forward Selling: Companies need the ability to forward sell production to lock in high gold and silver prices when appropriate.

Expanding and Curtailing Production: Along with the need to lock in prices, the volatile nature of gold and silver prices require companies to be able to increase and decrease production as prices move, reducing costs in lower price periods and pumping out product in high price periods.

Access and Availability

Availability of Resource: It is important for companies to have access to large, high-grade reserves, allowing for economies of scale and greater flexibility in scheduling output.

Highly Skilled Workforce: The management and operation of mining projects require highly skilled workers.

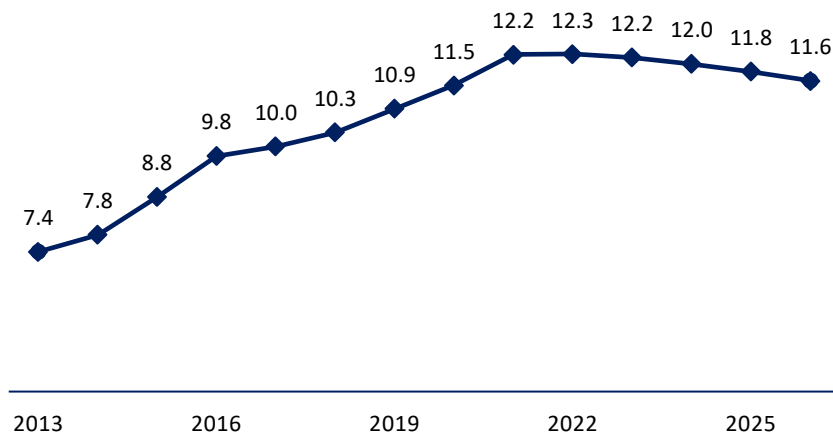
Regulation

Environmental Requirements: The mining industry is highly regulated and one of the main concerns is environmental impact, dealing with the use of toxic chemicals and managing contaminated waste. Companies must avoid fines and penalties.

Growth

- Canadian mining industry has exhibited strong growth over the past 5 years, driven by increased production and higher prices
- Declining growth is forecast over the next few years due to expected decreases in world prices of gold and silver, Gold price is expected to fall at an annualized 4.2%
- Coming out of the pandemic, an improvement in the economy will increase demand for jewellery and the technological uses of gold, but will likely lower demand for gold and silver as modes of investment as consumer confidence stabilizes
- A number of these Canadian companies are also growing their operations internationally, which is a key source of growth for the individual operators

Industry Revenue Growth Forecast (USD B)



Investment Thesis I

AEM's ability to unlock the full value of merger with Kirkland Lake Gold

Terms of the Deal

- Announced on Sept 28th at a 1% premium to KL's share price, set to close Dec 2021 or Q2 2022
- KL shareholders to receive 0.7935 AEM shares per KL share (AEM and KL shareholders will own 54% and 46% of the post-merger entity respectively)

Value of Merger

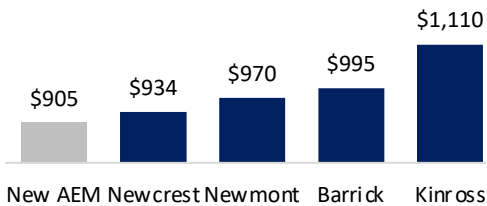
Streamlining of corporate costs (office, payroll, legal) ~\$35M/year

Unification of mining operations, procurement & warehouse savings ~\$130M/year

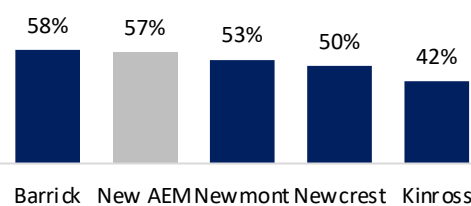
Consolidation of infrastructure & combined innovation ~\$240M over 5 years

Dominating Position As Industry Leader Created

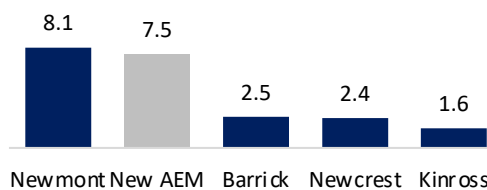
2021E All-In Sustaining Costs



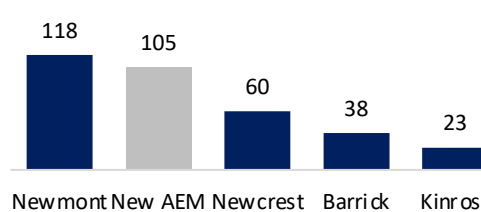
2021E EBITDA Margin (%)



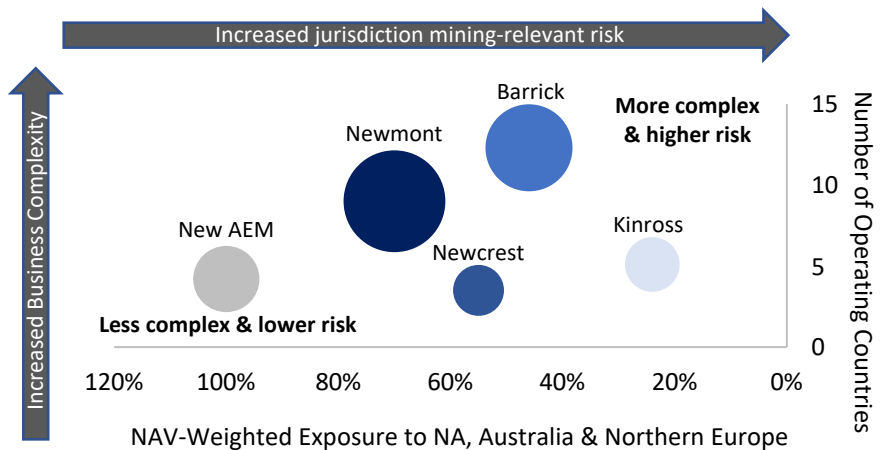
2021E Gold Prod. (oz/1k shares)



Gold Reserves (oz/1k shares)



Low Risk Going Forward



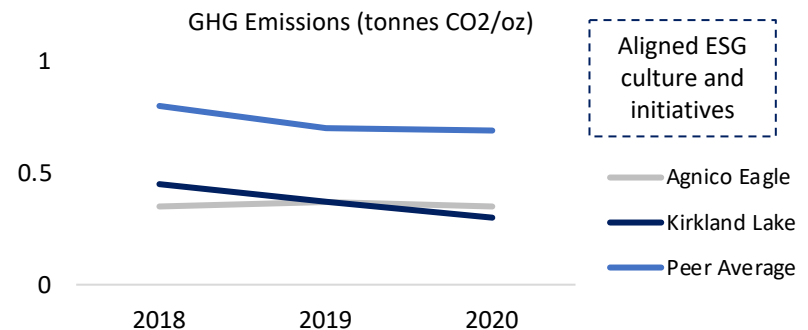
Combined Expertise & Similar Culture

Combined board & management team

- Streamlined procurement
- Mine modernization
- Process redesign/development

Complementary technical capabilities

- Refractory ore skillset
- Deep underground mining



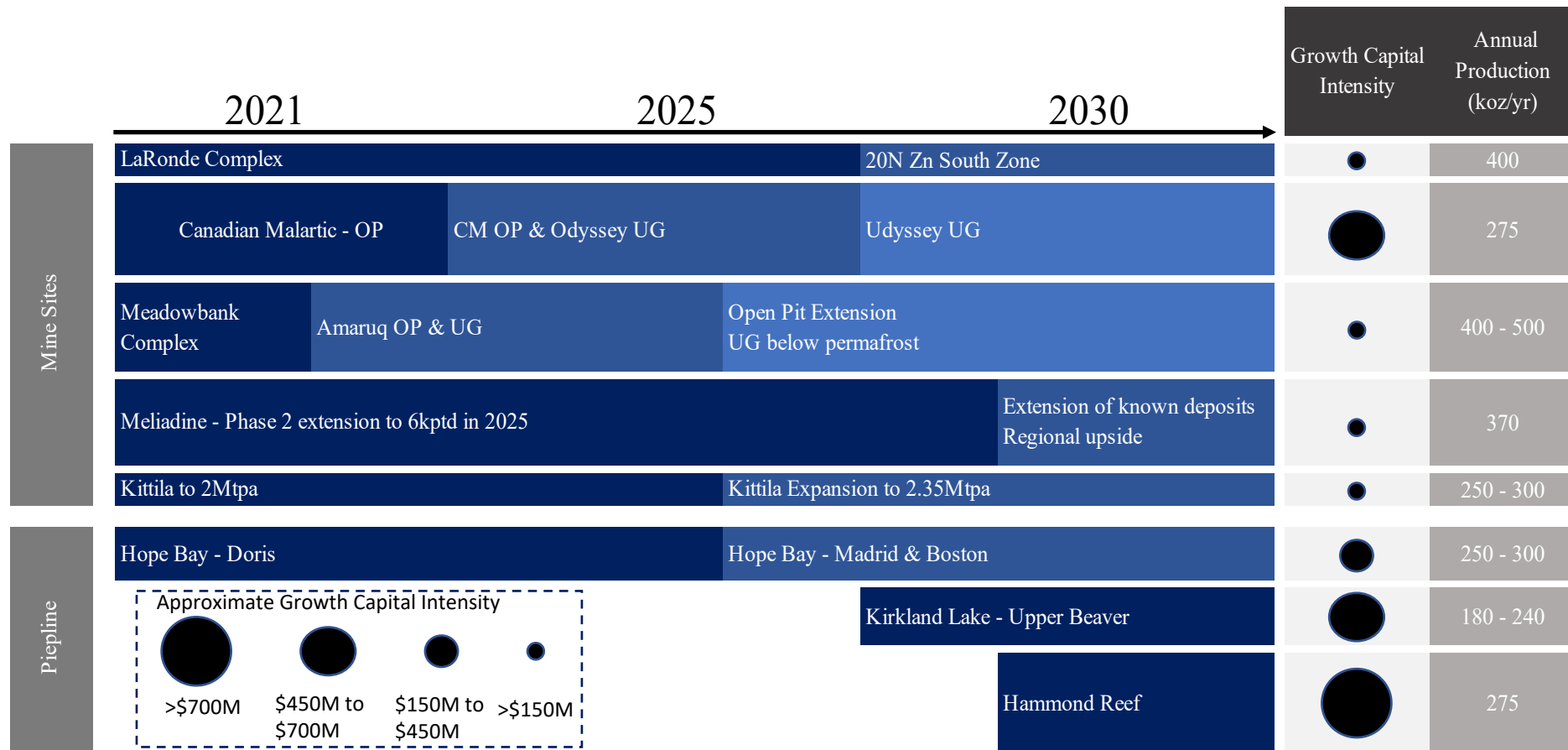
Investment Thesis II

High potential growth from project success

Existing Project Pipeline Provides High-quality Production Growth

- AEM current project pipeline is expected to drive a new phase of growth for the Company over the next four years.
- Their pipeline includes low risk organic (mine site) growth opportunities in all of their operating regions.
- AEM anticipates growing their gold production from approximately 1.74 million ounces in 2020 to approximately 2.15 million ounces in 2024.
 - Disciplined capital spending supports long term gold production of 2+ Moz/year

Mine Sites Extensions & Pipeline Projects to Provide Added value

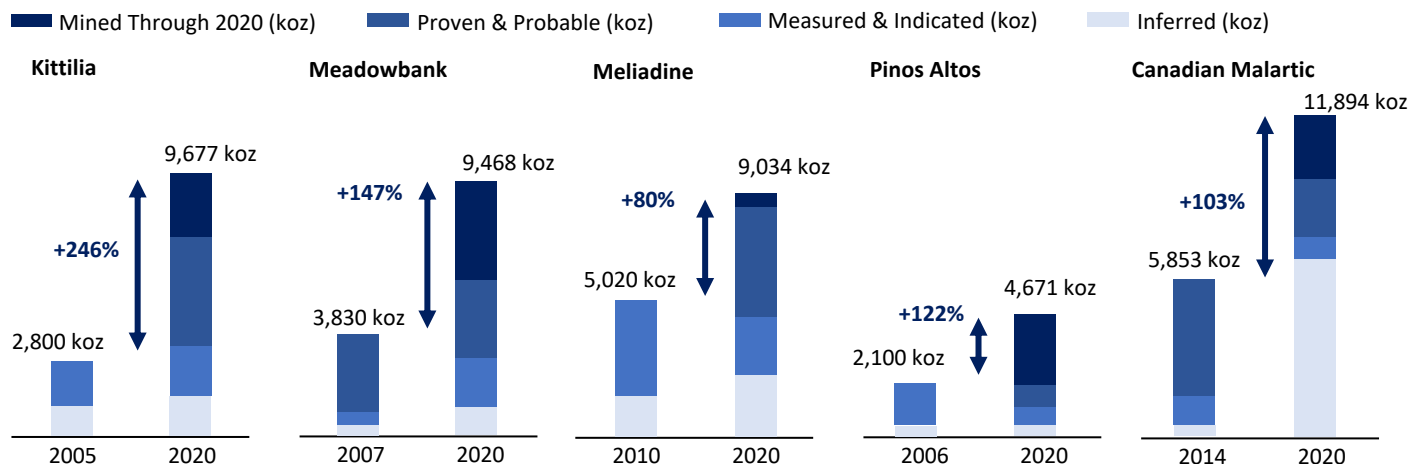


Investment Thesis II

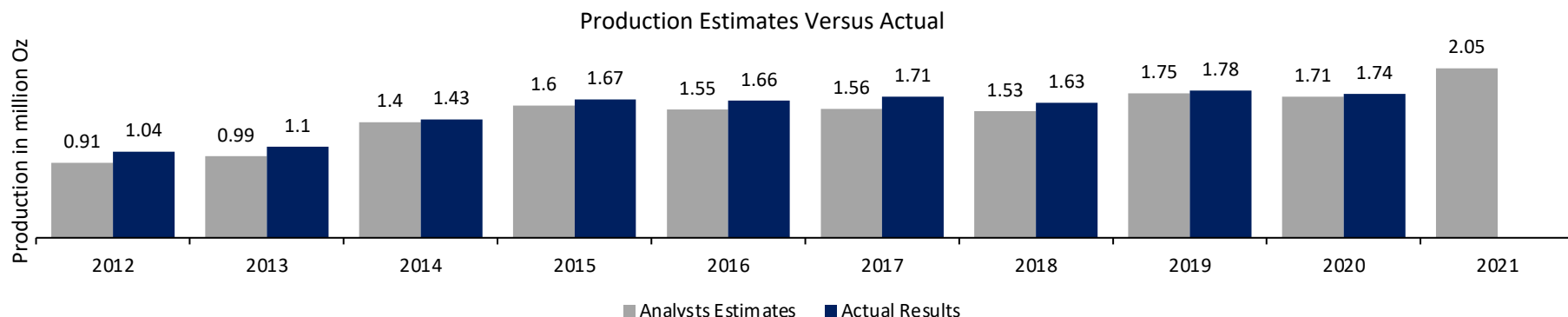
High potential growth from project success

Successful M&A and Exploration Strategy

- Agnico Eagle's growth is driven by a consistent investment strategy and solid execution
- Since 2005, they have added significant value through the acquisition of several development stage projects, where mineral reserves and mineral resources have expanded through focused exploration activities
 - Five of these projects have become operating mines
- Significant value added and key deposits still open and positioned to deliver more value



Solid Track Record of Meeting Expectations & Excellent Track Record of Delivering on Promises



- In 2020, AEM's mines produced 1.737 million ounces of gold, compared to their market estimate of 1.705 million ounces
- This was the ninth consecutive year that they exceeded production guidance

Investment Thesis III

AEM poised to benefit from the gold price increase tailwind

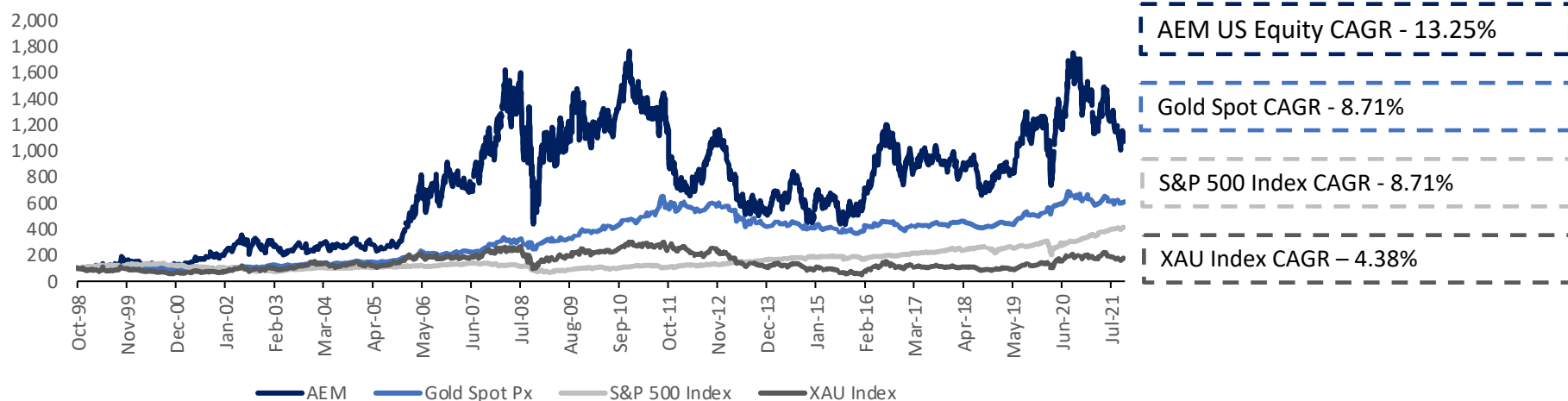
Gold to Rise in the Presence of Inflation Induced Volatility

- Statistics Canada's CPI increased by 4.4% from September 2020, representing the biggest year over year increase since February 2003 when the CPI surged 4.7%
 - This represents a 0.2% month over month increase, which matched previous monthly increase
- Tiff Macklem has further announced that the benchmark rate will increase prior to the banks original roadmap, likely April 2022, should a full recovery unfold over the next 6 months
- The bank aims to keep CPI hovering around 2%, with a comfort level between 1% - 3%
 - With that said, the bank has revised inflation to be higher than expected in 2021/22 at 3.4%
- Similarly, in the U.S. the CPI has risen 5.4% over the past year which represents a 30 year high.
 - The FED has admitted that the inflation rate is likely to exceed 2% for some time.



AEM Outperforms Gold and Gold Equities

- AEM high quality gold reserves also support our future growth. Agnico Eagle's average gold grade is over 100% higher than the average of our North American peers
- Since 1998, Agnico Eagle has consistently outperformed both gold and gold equities with a compound annual growth rate of approximately +13%



Risks and Catalysts

Agnico Eagle Mines (TSE:AEM)

Risks

Decline in Resources



As resources decline, it is becoming increasingly expensive to extract and locate minerals. Such increases in expenses will be detrimental to AEM's bottom line, unless cost-cutting measures are introduced

Rising Canadian Dollar



The Canadian dollar is expected to appreciate in the upcoming years. As mining is export driven, a rising CAD would make Canadian exports less attractive in foreign markets

Declining World Gold Prices



As the global economy recovers, the demand for Gold as a mode for investment will decrease. Thus, decreasing the price of gold and lowering the product prices for AEM

Mitigations

Ample Reserves if Kirkland deal goes through



The combined company would have 48 million ounces of gold in reserve. The merger would also consolidate the Abitibi region of Canada, which has one of the highest gold reserves in the world

Pivoting away from exporting

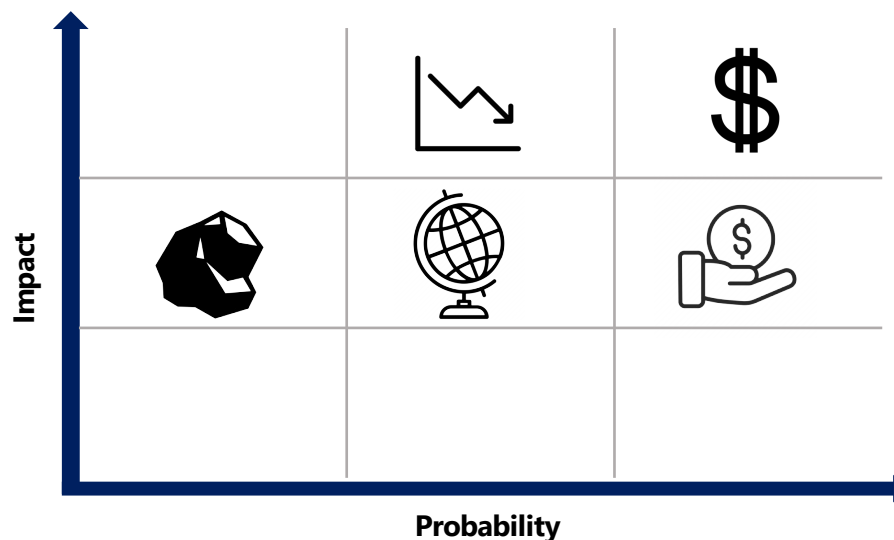


Although exporting is the largest revenue driver for gold, the mineral's diverse uses in manufacturing and jewelry allows AEM to pivot away if necessary

Diversification away from Gold



With \$2.3 billion in liquidity, a combined AEM-Kirkland could pivot into other minerals if gold prices declines as predicted



Catalysts

Global Operators Investing in Canadian Mines



As global gold production is expected to plateau in the upcoming years, international investors may look towards Canada for opportunities due to the country's large untapped lands

Technology Advancements



Advancements in open-cut mining, bacterial leaching, and other mining technologies will allow the excavation of previously unprofitable mines

Synergies with Kirkland



By combining the two companies' expertise and reserves, 2 billion CAD worth of synergies is expected in the next 10 years

AEM can mitigate much of pandemic turmoil and global gold price uncertainty through the Kirkland merger

Valuation

Comparable Company Analysis

(\$ CAD in Millions Except Per Share Amounts in CAD as Stated)

Operating Statistics:					Capitalization			Enterprise Value	Revenue		EBITDA		EPS		Projected Revenue Growth	Projected EBITDA Growth	EBITDA Margin	
Company Name	Tickr	Share Price	Diluted Shares	Equity Value	Net Debt	Preferred Stock	Other & NCI		LTM	FY21	LTM	FY21	LTM	FY21			LTM	FY21
Kinross Gold Corporation	K	8.00	1,261.13	10,089.0	931.2	-	84.0	11,104.2	5,344.5	4,730.8	2,593.7	1,977.8	1.3	0.5	(11.5%)	(23.7%)	48.5%	41.8%
Barrick Gold Corporation	ABX	24.23	1,779.24	43,111.0	17.3	-	10,512.3	53,640.7	15,694.8	14,967.6	8,746.8	8,139.7	1.8	1.4	(4.6%)	(6.9%)	55.7%	54.4%
Kirkland Lake Gold	KL	56.93	263.91	15,024.4	(1,032.8)	-	-	13,991.6	3,145.6	3,125.8	2,119.9	2,056.0	3.8	3.9	(0.6%)	(3.0%)	67.4%	65.8%
Newmont Corporation	NGT	71.73	800.30	57,405.7	1,434.7	-	1,059.3	59,899.7	15,471.8	15,565.2	7,944.0	8,031.6	4.0	4.0	0.6%	1.1%	51.3%	51.6%
Yamana Gold	YRI	5.44	963.12	5,239.4	353.5	-	971.6	6,564.4	2,181.3	2,265.0	1,166.5	1,250.8	0.2	0.4	3.8%	7.2%	53.5%	55.2%
Maximum		\$ 71.73		57,405.7				59,899.7	15,694.8	15,565.2	8,746.8	8,139.7	\$ 4.0	\$ 4.0	0.6%	1.1%	67.4%	65.8%
75th Percentile		60.63		46,684.7				55,205.4	15,527.6	15,117.0	8,144.7	8,058.6	3.9	4.0	(0.3%)	(2.0%)	58.6%	57.2%
Median		\$ 40.58		\$ 29,067.7				\$ 33,816.1	\$ 10,408.2	\$ 9,849.2	\$ 5,268.9	\$ 5,043.8	\$ 2.8	\$ 2.7	(2.6%)	(5.0%)	53.5%	53.0%
25th Percentile		20.17		13,790.6				13,269.8	4,794.8	4,329.6	2,475.3	2,036.5	1.6	1.2	(6.3%)	(11.1%)	50.6%	49.2%
Minimum		8.00		10,089.0				11,104.2	3,145.6	3,125.8	2,119.9	1,977.8	1.3	0.5	(11.5%)	(23.7%)	48.5%	41.8%

Agnico Eagle Mines	AEM	\$ 71.56	244.2	\$ 17,474.2	\$ 1,742.6	\$ -	\$ -	\$ 19,216.8	\$ 4,720.0	\$ 4,812.3	\$ 2,443.8	\$ 2,361.6	\$ 3.8	\$ 3.3	2.0%	(3.4%)	51.8%	49.1%
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Valuation Statistics				Equity Value		Enterprise Value		EV/Revenue		EV/EBITDA		P/E	
Company Name								LTM	FY21	LTM	FY21	LTM	FY21
Kinross Gold Corporation	K			\$	10,089.0	\$	11,104.2	2.1 x	2.3 x	4.3 x	5.6 x	6.3 x	16.0 x
Barrick Gold Corporation	ABX			\$	43,111.0	\$	53,640.7	3.4 x	3.6 x	6.1 x	6.6 x	13.8 x	16.8 x
Kirkland Lake Gold	KL			\$	15,024.4	\$	13,991.6	4.4 x	4.5 x	6.6 x	6.8 x	14.9 x	14.4 x
Newmont Corporation	NGT			\$	57,405.7	\$	59,899.7	3.9 x	3.8 x	7.5 x	7.5 x	17.9 x	17.8 x
Yamana Gold	YRI			\$	5,239.4	\$	6,564.4	3.0 x	2.9 x	5.6 x	5.2 x	25.9 x	15.1 x

Maximum				\$	57,405.7	\$	59,899.7	4.4 x	4.5 x	7.5 x	7.5 x	25.9 x	17.8 x
75th Percentile				\$	43,111.0	\$	53,640.7	3.9 x	3.8 x	6.6 x	6.8 x	17.9 x	16.8 x
Median				\$	15,024.4	\$	13,991.6	3.4 x	3.6 x	6.1 x	6.6 x	14.9 x	16.0 x
25th Percentile				\$	10,089.0	\$	11,104.2	3.0 x	2.9 x	5.6 x	5.6 x	13.8 x	15.1 x
Minimum				\$	5,239.4	\$	6,564.4	2.1 x	2.3 x	4.3 x	5.2 x	6.3 x	14.4 x

Agnico Eagle Mines	AEM			\$	17,474.2	\$	19,216.8	4.1 x	4.0 x	7.9 x	8.1 x	18.8 x	21.4 x
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Commentary

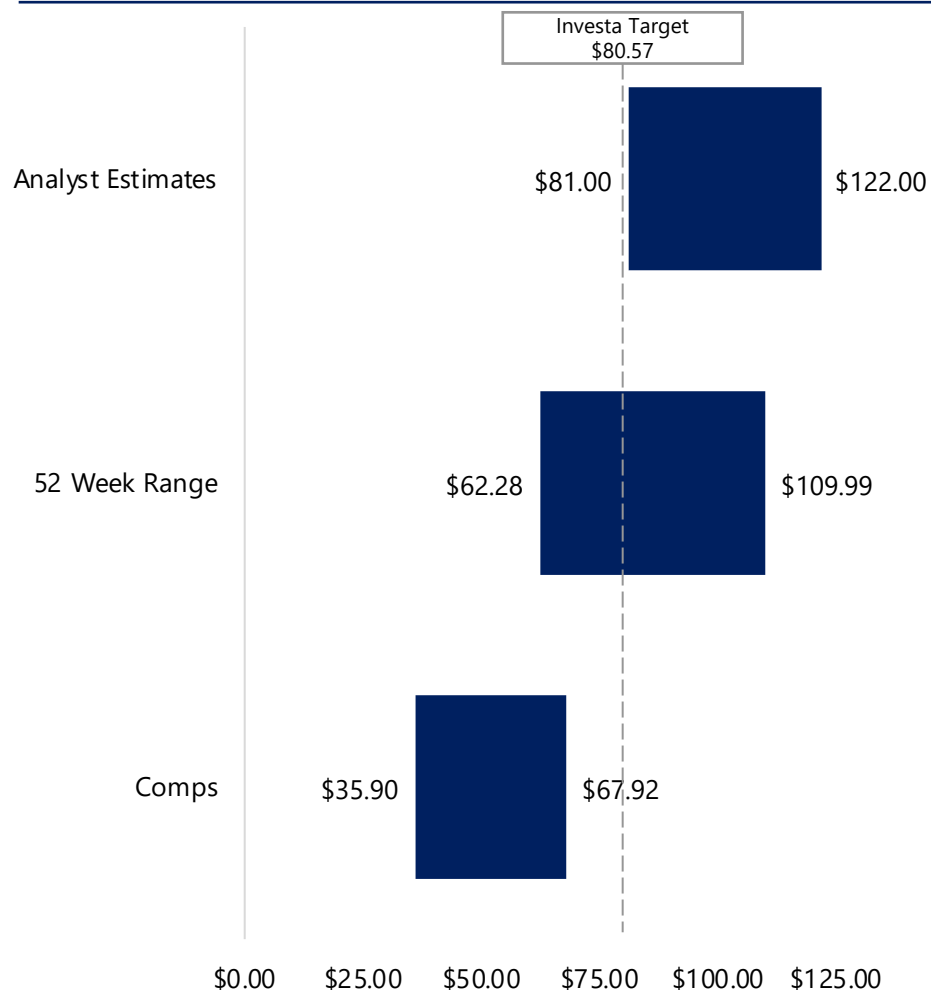
- The peer universe was chosen based on geographic and business model similarities
 - The comparable companies are gold mining companies based in Canada
- Agnico Eagle Mines currently trades at a premium to its peers on an EV/Revenue, EV/EBITDA and P/E basis
 - Agnico is perceived as an industry leader, hence the premium. However, the recently announced merger with Kirkland Lake Gold will present cost synergies and promising growth opportunities

LTM Median EV/EBITDA	6.1x
LTM EBITDA	\$2,443.80
Enterprise Value	\$14,907.18
(-) Net Debt	\$1,742.60
Equity Value	\$13,164.58
FDSO	244.189
Implied Share Price	\$53.91

Recommendation: BUY

Agnico Eagle Mines (TSE:AEM)

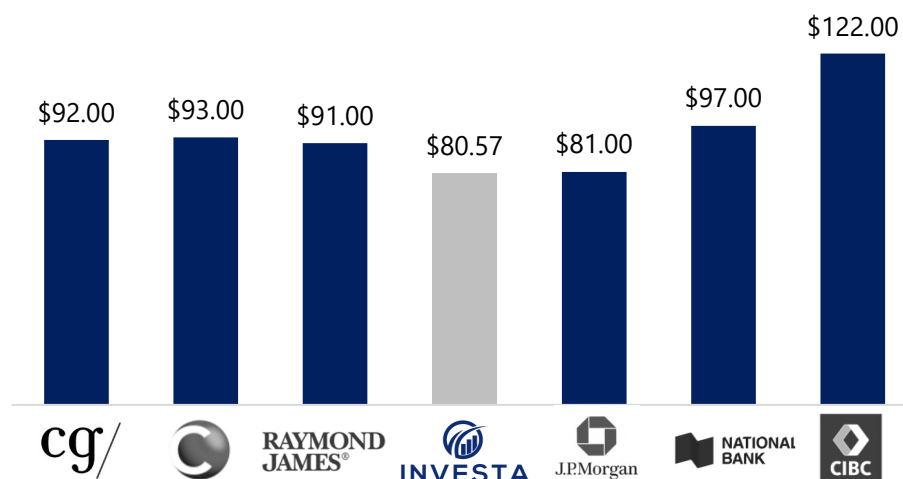
Football Field Analysis



Weighted Valuation

Analysis	Price	Weights
Comparable Analysis	\$53.91	30%
Analyst Targets	\$92.00	70%
Investa Target	80.57	100%
Current Share Price	71.56	
Capital Gains Return	12.59%	
(+) Dividend Yield	2.66%	
Implied Return	15.25%	

Selected Broker Summary



Despite uncertainties of global gold price and of the CAD, Investa Insights believe Agnico Eagle Mines has cemented itself as a value investment due to the company's history of project pipelines, successful M&A, explorations, and consistent outperformance of gold and gold equities. We place a BUY recommendation on AEM with a price target of \$80.57 and an expected return of 15.25%.

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