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Newmont Goldcorp Corporation (NEM) CEO Tom Palmer on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-05-19 Earnings Summary

Press Release *Slides*

EPS of $0.36 misses by $-0.03 | Revenue of $2.71B (57.18% Y/Y) misses by $-113.98M

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Newmont Goldcorp Corporation (NYSE:NEM) Q3 2019 Results Conference Call
November 5, 2019 11:00 AM ET

Company Participants

Jessica Largent - VP, IR

Tom Palmer - President and CEO

Rob Atkinson - COO

Nancy Buese - CFO

Conference Call Participants

Mike Parkin - National Bank

Matthew Murphy - Barclays

Chris Terry - Deutsche Bank

Greg Barnes - TD Securities

Carey MacRury - Canaccord Genuity

Tanya Jakusconek - Scotiabank

Anita Soni - CIBC

Andrew Kaip - BMO Capital Markets

John Tumazos - John Tumazos Very Independent Research

Operator

Good morning, and welcome to the Newmont Goldcorp's Third Quarter 2019 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please note, this event is being recorded.

I would now like to turn the conference over to Jessica Largent, Vice President of Investor Relations. Please go ahead.

Jessica Largent

Thank you and good morning, everyone. Welcome to Newmont Goldcorp's third quarter 2019 earnings conference call. Joining us on the call today are Tom Palmer, President and Chief Executive Officer; Rob Atkinson, Chief Operating Officer; and Nancy Buese, Chief Financial Officer. They will be available to answer questions at the end of the call along with other members of our executive team.

Turning to slide two. Please take a moment to review the cautionary statements shown here, and refer to our SEC filings, which can be found on our website at newmontgoldcorp.com.

And now, I'll turn it over to Tom on slide three.

Tom Palmer

Thanks, Jess, and thank you all for joining our call.

It has been just over a month since I moved into the CEO role, and I'm very honored to be only the tenth CEO in Newmont Goldcorp's almost 100-year history. And I'm very excited about the strength of our portfolio, the capability of our people and the opportunities we have in front of us to safely deliver superior value for all our stakeholders.

Turning to the third quarter. We delivered solid performance and have made excellent progress in delivering on the value we promised to establish Newmont Goldcorp as the world's leading gold business. Recent highlights include completing three profitable projects on schedule and within budget; exceeding our commitments of value delivery from the Goldcorp acquisition through an acceleration of synergies and Full Potential improvements; closing the Nevada Gold Mine's joint venture and contributing our Newmont Nevada assets in good order and continuing to improve our safety of performance and advancing our reputation for sustainability.

Turning to the details on slide four. In the third quarter, we produced 1.6 million ounces of gold and all-in sustain cost of $978 per ounce, generating $1.1 billion in adjusted EBITDA and $365 million in free cash flow. We completed site visits to support the sales process for our Red Lake operation. We commissioned three projects in Borden, Ahafo Mill Expansion and Quecher Main and we approved the Tanami Expansion 2 project.

I'm pleased to report that we are exceeding our synergy targets from the Goldcorp acquisition, with run rate improvements expected to reach $240 million by the end of this year, including $60 million in quick wins from Peñasquito and Cerro Negro alone.

We also continue to lead the gold sector in stewardship. We declared a quarterly dividend of $0.14 per share, putting us on course to return approximately $900 million to shareholders this year. We maintain a strong balance sheet with over $5 billion of liquidity, and we were recognized as the top gold miner by the Dow Jones Sustainability Index for our leading ESG performance.

Leading mining companies have at their core an unwavering commitment to safety and sustainability. Turning to slide five. As Chief Executive Officer, you can expect from me a relentless focus on ensuring that everyone who works at our business can do so safely, through our leadership and through the systems and processes we put in place to manage risk. There is nothing more important. My expectation is that everyone who works in our business understands the fatality risk associated with their work and are ensuring that the critical controls that are required to manage them are in place at all times. A robust safety culture is one that constantly reinforces key systems, safe behavior and actively shares lessons learned from serious incidents. This is fundamental to the wellbeing of our people and underpins our operating performance.

Turning to a look at our global portfolio on slide six. We have the strongest and most sustainable portfolio in the industry. Our assets are allocated in the most balanced and favorable jurisdictions in the world with 14 operated mines and 2 non-operated joint ventures. With more than 90% of our reserves in the Americas and Australia, our global position provides an unmatched platform for near-mine, brownfields and greenfield exploration. As announced in September, we have imitated a sales process for Red Lake and interested parties have now completed their site visits. We've also divested our position in the Nimba iron ore project in Guinea and are strategically reviewing our equity investment portfolio.

Turning to our industry-leading project pipeline on slide seven. We have the deepest pipeline of world class projects in the gold industry, giving us significant project sequencing flexibility. We will continue to apply a disciplined and rigorous approach to optimize these projects and advance them through our investment system. Consistent project delivery and disciplined operational execution remain the cornerstones of our business and are central to creating long-term shareholder value.

This year, we have successfully delivered four projects on four Continents, and in the past month alone, declared commercial production for three of these projects, Quecher Main, Ahafo Mill Expansion and Borden. Quecher Main was safely delivered on schedule and under budget and is on track to generate an internal rate of return of 15%, an improvement from 10% when we approved the project just two years ago. Ahafo Mill Expansion was also brought on line within budget for approximately $175 million, increasing mill capacity to nearly 10 million tons per annum, whilst adding 75,000 to a 100,000 ounces per year of annual gold production from 2020 to 2024. And at Borden, we are extending the life of the Porcupine complex and leading the advancement of safe and sustainable underground mining globally through state of the art health and safety controls, digital mining technologies and processes and low carbon emission vehicles.

We've also continued to advance profitable growth. Last month, our Board unanimously approved moving the Tanami Expansion 2 project into the execution phase. We are very excited about this project's ability to extend life beyond 2040 at our world-class Tanami mine in our core Newmont region. This project also provides the platform for us to further explore a prolific mineral endowment at Tanami. We will provide further details on this project in the context of our long-term guidance at our webcast in December.

For our mid-term projects Yanacocha Sulfides and Ahafo North, we continue to advance and optimize them through our Definitive Feasibility study work.

Finally, looking at the earlier stage projects in our pipeline, we are taking patient and deliberate approach to optmizing and sequencing our larger projects including Nueva Unión, Galore Creek and Norte Abierto. These projects will compete for future capital investment, so we are proactively engaging with our joint ventures partners to ensure that the projects only advance after specific hurdles are achieved.

Our robust project pipeline is a key differentiator in the gold industry and provides us with the solid pathway to steady production and cash flow generation for decades to come.

Turning to slide eight for a look at the progress on the Goldcorp integration. I'm very pleased with the pace at which we are delivering value from this acquisition. On the G&A front, we have both accelerated and increased the total synergies to a $120 million per annum. This is $35 million and more than 40% higher than our initial $85 million commitment. For supply chain, our team is actively targeting value across several fronts, including quick wins through the extension of best pricing and rebates and leveraging our increased scale and volume to reduce our input costs.

Our world-class exploration team has identified over $25 million of annual program efficiencies, a figure that wasn't considered in our initial commitment. Our Full Potential program is well and truly underway at the former Goldcorp operations. We are seeing the same improvement opportunities at these new operations to those that we had delivered from Newmont's assets over the last seven years. And we are able to accelerate value delivery by leveraging this experience.

We launched Full Potential of Peñasquito at the start of June and have had Newmont's strongest team on the ground, supporting the site during their diagnose and design work. We have made excellent progress and the site is tracking to achieve $50 million in quick-win improvements this year alone. Full Potential has now moved into the deliver phase at Peñasquito.

At Cerro Negro, Full Potential was kicked off in July and the site is tracking to achieve $10 million in improvements that we also expect to achieve this year. In just six months since we acquired Goldcorp, we are exceeding our commitments and are tracking towards delivering $240 million in annual run rate improvements by the end of this year. This is two-thirds of the commitment we made for the end of 2021, after only six months.

With that, I'll turn it over to our Chief Operating Officer, Rob Atkinson, on slide nine to review our operational performance.

Rob Atkinson

Since June, I've had the opportunity to visit all of our sites. And the observations and discussions I had as a result have informed my immediate priorities. My highest priority is a renewed and relentless focus on safety followed by ensuring that we are demonstrating a high level of visible and felt leadership in the field. Secondly, it will be about focusing on the basics to ensure we not only hit our plan but we better it. Thirdly, we need to collaborate more across our regions to learn from each other as a whole is worth more than the sum of the parts. And finally, a strong focus on improving productivity, day in and day out.

As COO, I am very much looking forward to investing in our people and local communities and raising our performance to drive greater value from what I believe to be an exceptional asset base.

Before reviewing our third quarter operational performance, I'd like to congratulate Dan Janney, our new regional Senior Vice President of the North America region. Dan is an accomplished miner with 27 years of global mining operations experience, and most recently was a key Newmont leader in Nevada. He has successfully led teams to deliver step change improvements in safety, efficiency and productivity. And his appointment reflects our intention to safely improve costs and accelerate operational and efficiency improvements at our six mines in North America.

I'll now provide an overview of the North America sites on slide 10. In North America, our teams are focusing on safety and operational execution as we work to overcome headwinds and deliver a strong end to 2019, and importantly to set ourselves up for long-term success. At Peñasquito an illegal blockade began on September the 14th, resulting in a third quarter production shortfall of 11,000 gold ounces and 51,000 gold equivalent ounces from silver, lead and zinc. The blockade was lifted on October the 8th and we started shipping concentrate immediately after the blockade was listed. I'm pleased to see progress has been made with both the federal and state governments to help ensure the rule of law is upheld to enable a sustainable operating environment. On October the 22nd, we began restarting operations.

And yesterday, we also restarted government sponsored discussions with members of the Cedros community exclusively. And I look forward to reaching a sustainable and long-term win-win solution to this local issue. The site is now safely back to full operation.

The stripping campaign in the main Peñasco pit is nearing completion and we expect to maintain higher grades in the fourth quarter and into 2020. As Tom mentioned, our Full Potential work at Peñasquito has firmly moved into the deliver phase with the $50 million of quick win improvements. I'm very excited about the team's work to progress the incremental $200 million of cost and productivity initiatives. Similar to Boddington six years ago, the majority of the improvements are expected to come from the mill with a focus on increasing throughput and reducing maintenance downtime.

At Porcupine, we achieved commercial production at the Borden underground mine on October the 1st. Ore from Borden is processed at the existing Porcupine mill and will extend profitable production at the mining complex in Timmins, Ontario. We also see exploration upside at Borden as the deposit remains open at depth.

At Musselwhite, rehabilitation work is nearing completion, and we recently executed contracts for engineering, construction and the installation of a new conveyor system. Whilst the replacement of the conveyor is underway, we are getting ahead on development and building inventory to sustainable levels. As we head into the next year we plan to have three or four stopes available at one time. And going forward, very importantly, our plan is to be 18 months ahead on development work.

Musselwhite is currently operating in the mining area halfway down the mine as we also continue to push the [indiscernible] and exploration drift at the bottom of the mine in order to improve and ensure mining and/or flexibility in the future.

We expect to begin recognizing production and sales in the second quarter of 2020, once the mill is processing the stockpile material we are currently trucking to surface. And we will back to normal operations in early October when we bring the conveyor back online.

The Musselwhite materials handling project is tracking to be fully operational by mid-2020 with the shaft installation nearing commission and dry commissioning of the new crushing and conveyor systems well underway.

At Éléonore, mining continues in Horizon 5 and we expect to reach higher grades in the fourth quarter. However, third quarter production was slightly lower than expected due to mine sequence. The operations is developing an integrated geotechnical and mine planning system to determine the optimal approach for safely and sustainably progressing through the lower zones to minimize mining-induced stresses.

Full Potential has now commenced at Éléonore, and we are progressing the key diagnose phase of this program. And we are leveraging our experience from all of our other underground mines to identify the highest value improvement opportunities.

At Red Lake, operations fully resumed in October after we completed work to install additional safety controls at lower levels of the mine, and we recently recommenced mining of Cochenour. As the sales process progresses, we continue to focus on the safe and efficient operation of this mine. Finally, at CC&V, we expect to finish the year strongly as we recover the fair ounces from the VLF1 leach pad.

Now to discuss our South America operations on slide 11. At Merian, we delivered steady third quarter performance, sustained improvements in mine productivity and mill performance. We're now transitioning into harder rock, which will present higher grade and improved mine productivity.

Yanacocha delivered solid production with the drawdown of ounces from our existing La Quinua leach pad. With Quecher Main reaching commercial production in October, we expect to see recovery of ounces from the new Carachugo leach pad in 2020.

I'd like to congratulate our South America team for safely delivering this important project that will sustain the Yanacocha's mine life and serve as a the bridge to the future growth opportunities in the years ahead.

At Cerro Negro, we kicked off our full potential process, which has been in full swing since July and our team has identified $10 million of quick wins, mainly from improving mine development rates while setting the course to design and implement opportunities such as shift optimization, maintenance scheduling and basic operational improvements. And I'm looking forward to providing an update on our progress during our guidance webcast. We are tracking to a strong fourth quarter as we mine an average grade of 3 -- 13.8 grams per ton.

Turning now to our Australia operations on slide 12. At Tanami, we delivered another solid quarter and expect the fourth quarter to reflect the operation's lowest cost and highest production for the year as we access higher grade stopes.

At Boddington, our planned stripping campaign in the south pit is progressing very well. And during the third quarter, we safely completed mill maintenance activities. Unit costs have improved with higher ore tons mined, and a favorable foreign exchange rate. And at KCGM, we continued to strongly focus on increasing mine productivity whilst managing within the constraints of current geotechnical challenges and the associated remediation work in the Fimiston pit. We are optimizing mill recoveries as the Morrison startup pit starts to present higher grade ore. As a result of the exclusion zones we put in place to safely manage the east and west walls of the pit, 2019 production will be impacted by 40,000 ounces, and we have adjusted our regional outlook accordingly. But above all else, we will always ensure that our workforce is safe whilst we proactively manage through these geotechnical challenges with pragmatic mine plans and a high level of monitoring of all of our high walls. We also continue to determine the most appropriate design for a layback to further manage risk and access the gold ounces, which remain in the pit. Underground operations are progressing well.

On the project front, we're excited that Tanami Expansion 2 is unanimously approved by our Board for execution. The team is progressing development work, and shaft sinking has advanced beyond 210 meters, and we expect to commence raise boring in quarter one 2020. This is a terrific project which will deliver a significant value, increase mine life and provide a platform for further exploration.

Now to our Africa operations on slide 13. Ahafo delivered another quarter of solid performance as we continued mining higher grades from Subika open pit and realized initial benefits from the successful ramp-up of the Ahafo Mill Expansion project. The expansion accelerates efficient processing of ore from stockpiles, and the Subika underground mine, as well as harder lower grade ore from Ahafo's existing pits. Successful project execution has positioned the operation to generate a strong fourth quarter and a record 2019.

At Akyem, we also delivered yet another solid quarter and are pleased to have recently connected both, our Africa operations to our operations support hub in Perth. The process control staff are now remotely analyzing real time data from Akyem and collaborating with the site to deliver SAG mill improvements. We've identified approximately $20 million to $25 million of annual opportunities at Akyem and Ahafo from throughput and recovery improvements that will be implemented over three years. This is a great example of the value that can be generated from operating as one, fully connected global mining business.

Looking forward, we've now established a solid platform to further evaluate growth from this prospective district. As we continue progressing our underground exploration, I'm excited by the potential of Subika and adjacent ore bodies, and are actively evaluating and prioritizing these growth opportunities on a value versus risk basis.

Wrapping up with our 2019 operational outlook on slide 14. Our full-year outlook now incorporates Nevada Gold Mines from July the 1st, which lowered our production by 45,000 ounces, improved our overall unit costs and lowered our exploration and advanced project spend by approximately $35 million. We also updated the North America and Australia regions to include the impacts of the last Peñasquito blockade and current mining constraints at KCGM. These have been partially offset by improved unit costs at Boddington. Our development capital outlook has been lowered to $550 million as increases for Nevada Gold Mines and Ahafo are offset by lower spend in North and South America.

In summary, we expect to deliver approximately 6.3 million attributable ounces of gold and deliver all-in sustaining costs of approximately $965 per ounce in 2019. We remain fully focused on safely improving productivity and lowering costs to generate sustainable long-term value. And we'll provide an update on our progress at our guidance webcast on December the 2nd.

With that, I'll hand it over to Nancy on slide 15.

Nancy Buese

Thanks, Rob. Turning to slide 16 for the financial highlights.

In the third quarter, we delivered revenue of more than $2.7 billion, which increased 57% over the prior year quarter with the additional sales from the Goldcorp assets and higher gold prices, adjusted net income of $292 million or $0.36 per diluted share, and adjusted EBITDA of nearly $1.1 billion, a 70% increase over the prior year quarter.

Cash from continuing operations was $793 million, an increase of 85%, driven by higher adjusted EBITDA. Free cash flow of $365 million increased more than $200 million over the prior year quarter; free cash flow per share of $0.44 of which we paid $0.14 per share in dividends.

As a reminder, our third quarter results proportionately consolidated the Company's ownership interest in Nevada Gold Mines. For the third quarter our 38.5% of the Nevada Gold Mines joint venture contributed 334,000 ounces and generated $234 million of EBITDA.

Turning to slide 17 for a review of earnings per share in more detail. Third quarter GAAP net income from continuing operations was $2.2 billion or $2.71 per share. The primary adjustment was a $2.88 gain related to the creation of Nevada Gold Mines. The gain represents the difference between the fair value of Newmont's 38.5% ownership interest in Nevada Gold Mines and the carrying value of the Newmont Nevada assets contributed to the joint venture. Other adjustments included $0.49 related to valuation allowances and other tax impacts, $0.03 related to transaction and integration costs, and $0.01 of other charges. Taking these adjustments into account, we reported adjusted net income of $0.36 per diluted share.

Turning to slide 18. We remain well-positioned to execute our capital priorities including maintaining an investment grade balance sheet, investing in the next generation of mines to improve margins and build a stronger reserve base, and returning cash to shareholders through our sustainable quarterly dividend of $0.14 per share.

We have one of the strongest balance sheets in the gold sector. In September, we issued $700 million of debt at a rate of 2.8%, which was the lowest 10 years metal and mining coupon ever and is a testament to our leading financial position.

Before using the proceeds to pay off $626 million of debt due on October 1st, we ended the quarter with a cash balance of $2.7 billion. Looking forward we are well-positioned to continue a trajectory of industry-leading financial performance by executing our capital priorities and staying focused on long-term value-creation.

And now, I'll hand it back to Tom to wrap up on slide 19.

Tom Palmer

Thanks, Nancy. Turning to slide 20.

We are building momentum to deliver a strong fourth quarter and ensuring we are taking the necessary steps to position our business for long-term success. We remain focused on the five foundational principles of our strategy: Keeping our people safe with a relentless commitment to our safety culture and systems; growing margins through the application of our operating, technical and exploration discipline; leveraging our exploration program and unmatched portfolio to grow reserves and resources; optimizing our world-class project pipeline; and maintaining discipline around capital allocation.

Thank you for your time. With that, I'll turn it over to the operator to open the line for questions.

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] And our first question comes from Mike Parkin of National Bank. Please go ahead.

Mike Parkin

Hi, guys. Thanks for taking my question. Looking back at slide eight where you're showing where your initial target on synergies was and where you've transitioned to today. It looks like the G&A savings are -- if that right hand bars chart is proportional, has grown substantially. Just trying to get an idea of what is benefited from your initial kind of look to where you are today. And then, also if you could provide any kind of sense of what the breakdown in that G&A savings would be, just ballpark from a percentage basis on a corporate versus the site base?

Tom Palmer

Thanks, Mike. It's Tom here. So, the G&A number is a $120 million that you see on the right hand side, which is an increase from the initial commitment we made of $85 million. That value comes from collapsing two companies into one. So it's the value that comes from no longer having a corporate headquarters in Vancouver and starting to run Newmont Goldcorp like we ran Newmont before we acquired Goldcorp. So, that -- the vast majority of that value is coming from corporate costs. And it's about the focus we have had on driving down our overhead costs that we're running this business as efficiently as we can. And from my position, we're not finished yet. I think there is still more work for us to do to set this business up to run efficiently and as we move into 2020, you can expect to hear more from on that.

Mike Parkin

Great. Thanks very much, and congrats on the progress on that target.

Tom Palmer

Thanks, Mike.

Operator

Our next question comes from the Matthew Murphy of Barclays. Please go ahead.

Matthew Murphy

Hi. I just had question on the ramp-up at Musselwhite. So, when you're talking about rebuilding inventories, those are underground inventory, or it's stope availability, or it's actual, or at surface?

Tom Palmer

Thanks, Matthew. I'll pass microphone across to Rob Atkinson to your question.

Rob Atkinson

Thanks, Matthew. Very simply, it's material that we are currently trucking up from underground to the surface. And when those stocks get to the sufficient level, we'll restart the plant next year. But, it is all that's currently being mined halfway down the mine.

Matthew Murphy

Okay. And then, the reason for not starting the mill till later is just it's going to be insufficient quantities till then. Is that right?

Rob Atkinson

That's correct. The best way to run a mill is flat out to not at all. And we want to make sure that we're in a position of not starting and stopping.

Matthew Murphy

Sure, okay. And so, is this progress in line with what you had previously guided on Musselwhite?

Rob Atkinson

It very much is. And certainly I was up there a couple of weeks ago. So, the operation firsthand, the team's making great progress. And I mentioned in the discussion that we've awarded the contracts. So, segmentation are on board. And we really are pushing that project to bring it on by early October next year. So, very good progress.

Matthew Murphy

And then, just the last one related to Musselwhite is, those insurance proceeds looks like 45 million since the fire, do you expect to get more proceeds there or is there a cap on what you can get?

Nancy Buese

We do. There is a cap and we have not previously disclosed that but suffice it to say, we're working with the carriers and the underwriters now to settle that claim. And our hope is to try to wrap that up by the end of the fourth quarter.

Operator

Our next question comes from Chris Terry of Deutsche Bank. Please go ahead.

Chris Terry

A few questions for me. Maybe we could just start at Peñasquito a lot of moving parts there. Just wondering if you could comment on the last technical report you had out versus how we should expect the run right from here. I think, you mentioned higher throughput, 50 million, Full Potential savings. So, just wanted to sort of think about how that asset is shaping up in forward periods? Thanks.

Tom Palmer

Chris, I'll pick up that one and maybe pass across to Rob to add any color. The $50 million quick wins comes from some very straightforward things, parking up 14 pieces of mining equipment that are excess to requirements, parking up an overland waste conveyer that's required and taking a team from Boddington and tuning those SAG mills, so runs efficiently, and a bit of work around how we design a polygon in the mine and how we dig to the polygon. So, as Rob talks about some really basic things that we're doing at Peñasquito. The thing that gets me really excited about Peñasquito and the value that it can deliver at the parallels between Peñasquito and Boddington. And I'd laid the turnaround at Boddington over the last six or seven years. And I can see the same story at Peñasquito and the opportunity for us to improve throughput particularly at the front end of that mill attacking all of that experience from Boddington and rapidly applying to a Peñasquito is what gets me very excited about the value and the upside that we can deliver from Peñasquito.

In terms of long-term view, less than four weeks, we're providing our guidance for five years. That's probably the best way to give you a summary of how Peñasquito is going to shape up over the next five years or so.

Chris Terry

And then, maybe just to ask a question on the slide going through the synergies another way. Of the 40 million that you've added, the $240 million, just wondering if you could comment on what we should see of that actually flowing through to the cash line, so actually on the operating line. Thanks.

Tom Palmer

Yes. You'll start to see that flowing through. I'll pass across to Nancy to -- she's probably better placed to answer that question.

Nancy Buese

Yes. So, you'll see -- as we recognize some of the full potential benefits, you'll see those in a variety of ways. You will see them in improved cost structure, you may see them in terms of improved production and productivity and a few other places. So, I would say it's a balance between cost and production probably swayed significantly more towards costs. And we will continue to refine those numbers as we present them to you over the quarters and recognizing folks want to understand how this is actually flowing through AISC and how will it flow through production. And again, as Tom mentioned, you'll see most of that represented in our December guidance, and that will be the best benchmark for how to how to understand those savings. But we get to ask and will continue to provide transparency on that as we move forward.

Chris Terry

Okay. Thanks, Nancy. And then, in terms of just following up on the costs as well. Just at Tanami, I just wondered if you could comment, thinking about the expansion, the second phase and where that asset is at. I was just wondering if you could comment a little bit on what you've seen on the cost reduction from the pipeline versus your original expectations and whether the benefits coming through there? Thanks.

Tom Palmer

Yes. Thanks, Chris. Again, we'll provide some more detail to build upon the information we've provided a previously, in a few weeks' time, with our long-term guidance. But that project continues to meet our internal rates of return. So, it continues to present as a very profitable mine. And I'd expect that we'll be able to show some good cost improvements in our story that continues from the one that we've shared with you over the last 12 months for that expansion of that operation.

Chris Terry

Thanks, Tom. The last one for me, just in terms of the guidance going forward and maybe you will have more color in the next month or so. But, are you going to be guiding on an asset-by-asset basis or going to more of a regional approach like you have in this release? Thanks.

Tom Palmer

Chris, you will see the same asset by asset approach for Newmont Goldcorp going forward that you had for Newmont in the past. So, for the next 12 months, you will see asset-by-asset, you'll see three years by region, you'll see five years for the portfolio, same as we've done for a number of years now.

Operator

Our next question comes from Greg Barnes of TD Securities. Please go ahead.

Greg Barnes

Yes. Thank you. Rob, in your comments at Peñasquito and the discussions you have in there, you specifically said you're talking to the Cedros community only. I'm wondering where the trucking company and their issues lie now?

Rob Atkinson

It's a good question. And going back to what I said, the key relationship we have is with the communities and that's where it's got to start and finish. The CAVA trucking live some in that community, other elsewhere, but very simply our discussions are with that community and that's what we've got to solve with the government, both state and federal that we are having other discussions to make sure that the Cedros community is first and foremost, and that's where our discussions lie, and that's where we are absolutely targeting to deliver long-term sustainable future. So, certainly, our priority is with the Cedros community. And CAVA, we have to manage on ongoing basis, but our focus again is for Cedros.

Greg Barnes

Is it mostly the water issues that you're dealing with there?

Rob Atkinson

Very much, the water is the key part, the other thing is that we want to have an ongoing relationship. Relationship shouldn't be transactional. And we want to make sure that the Cedros community is benefiting from the presence of our operation there. But a large part of that is to have reliable, predictable and a high quality of source of water. So, that forms a large part of the discussions, but certainly not the only part.

Greg Barnes

Thanks for that. And Tom, the Q4 is shaping up to be a very good quarter, north of 1.8 million ounces I guess from what your guidance suggests. I guess, the only issue there is that Goldcorp had a history of loading everything up into the fourth quarter and then there was a bit of pull back after that. Is Q4 more of a run rate or is it a one-hit wonder and things pull back? How do you see things moving forward?

Tom Palmer

Well, there are number of factors driving our strong fourth quarter and they are not from former Goldcorp assets. You've got Ahafo Mill Expansion that's going to have full quarter of run rate. You're moving into higher grade ore at KCGM, you're moving into higher grade ore at Tanami. So, there are a number of former Newmont assets that are contributing to that fourth quarter. So, it's a factor of mine sequence. And when our mines are reaching some of the high grade ore, that's driving a higher fourth quarter this year. And when we guide in December, we'll give you some indication through our guidance as to how 2020 is shaping up in terms of a year -- half year on half year or quarter-on-quarter performance.

Rob Atkinson

And I think, Tom, if I could also just add that one of the key things that we are doing next year is to make sure that we're well set up for the long-term future. And as an example of that at Éléonore, we're working very closely to make sure that our stoping sequence is right that we've got that flexibility and also that we're doing the Musselwhite to make sure that we're no longer in that one stope position that we were just 12 months ago that we've actually got several stopes. So, all the work that we are doing is very much focused on the long-term and we're setting mines up as such.

Greg Barnes

Does the gold have more of a consistent production profile through the year?

Rob Atkinson

Greg, it's about following the mine sequence and how the grade presents through a portfolio 13 or 14 operations. So, we don't try and optimize to get smooth quarter-on-quarter. We look to optimize on what's the best value and then, let those mine plans, those mine sequence follow in good order.

Operator

Our next question comes from Carey MacRury of Canaccord Genuity. Please go ahead.

Carey MacRury

Hi. Good morning, everyone. I just had a question on Éléonore and Porcupine. I guess, when the Goldcorp deal was first done, those are deemed as potentially non-core. Now that you have had them for almost two quarters, I'm just wondering what you're thinking on those two assets are?

Tom Palmer

Just to clarify, Carey, we never said Éléonore was a potential optimization asset. It's a core asset in our business, and the exploration potential around Éléonore is first class. And that's the region we are very happy to have our foot on. So, I don't know where that story has come from but that's never been the case. Porcupine, some really good opportunities around Porcupine to optimize that operation, particularly as we look to bring in Borden and the contribution from Borden and upside from Borden. So, our focus with Porcupine is on optimizing the value from that asset.

Carey MacRury

Okay. Thanks. And then, maybe on the 2020 guidance, I think, your preliminary numbers were at 7.4 million ounces, given the blockade at Peñasquito and what's happened with Musselwhite and potentially KCGM, are those the three items that you would have had --

that we should potentially be taking our 2020 numbers down a bit by or are there other items that should offset those when we think about 2020? I know you're in the middle of your guidance process?

Tom Palmer

It's a bit of apples to oranges when you start to compare from that March guidance to what we'll present in 2020. You've got -- since March, we've formed a joint venture in Nevada. So, you'll see the impact of production and costs from that joint venture that we'll talk to in that first week of December. You've got a potential divestment of Red Lake that comes into that equation. You've got different mining sequence from Peñasquito as you flagged, in terms of when ore might present. So, there are number of factors that come into play.

At Ahafo, we're moving into a different mining method next year as we mine the Subika underground mine with a sub level shrinkage method that wasn't back in March 4. So, there are a number of factors that will be different from March 4 to what we present in the first week of December. We will provide clear explanation of that when we provide our long-term guidance.

Operator

Our next question comes from Tanya Jakusconek of Scotiabank. Please go ahead.

Tanya Jakusconek

Maybe for Tom. Congratulations on the full potential that you're seeing ahead of budget there. I wanted to ask about 2020. I know that we talked previously that 80% of your expected synergies are going to be captured in 2020 and you would be exiting the year at 100%. But since you've been doing better than anticipated, is that something that we think you're going to be doing better than that 80%, have you changed that target at all?

Tom Palmer

So, 40% run rate by the end of this year, 80% by the end of 2020, and 100% by the end of 2021 was the initial commitment that we made. We are now sitting at essentially 66% of that run rate at the end of 2020. As part of our long-term guidance again in four weeks' time, we will give you an update in terms of how we're tracking based upon that guidance against that initial commitment that we made.

Tanya Jakusconek

I look forward to hearing more about that. And maybe just on divestiture, you mentioned Red Lake, potentially not being in 2020 guidance. Does it look like something could close before year-end?

Tom Palmer

We're on track with the process we're running. We've just completed the site visits. So, we remain on track.

Operator

Our next question comes from Anita Soni of CIBC. Please go ahead.

Anita Soni

Good morning, everyone. So, my question is with regards to Éléonore. Could you just talk about the grade -- the lower grades that you have this quarter and how you see that playing out over the next little while?

Tom Palmer

Thanks, Anita. I'll pass the microphone across to Rob Atkinson to take you through that.

Rob Atkinson

No problem. Good morning, Anita. It's really very simple that we've been working hard to get the stocks back into a good sequence so that we're minimizing all the mining stresses that we are looking at certainly higher grade coming into the quarter four. So, very, very simply, it's those two issues that I think we're getting back into a better sequence and the stocks which are presenting are of a higher grade. So, that's all there is to it.

Anita Soni

All right. And then, similarly on Cerro Negro lower grades, I think you're citing Eureka and Mariana Norte has higher grades in fourth quarter. But, as I recall, Eureka grades weren't all that high. So, I'm just -- I think, you had 10-gram per ton overall this quarter. And I think what I know of Eureka, what was left was about 10-gram per ton material. So, was there some pod that you had not mined yet that was for higher grade?

Rob Atkinson

I'm not 100% sure, to be honest, but certainly we've -- at Cerro Negro, we've just been progressing the plan, we're certainly into a very high grade moving forward this next quarter, but perhaps Tom?

Tom Palmer

Yes. I think, Anita, why don't we get Jess to pick up with you after the call and she can take you through the detail of that question?

Anita Soni

Sure. And then, just in terms of the debt issuance and then repaying the debt on October 1st. I'm just curious why you didn't use cash balances to just pay off that debt and move on? I know that your net debt to EBITDA is around 1 at the $1,500 goal that we just experienced, but closer to about 1.5, if you use the prior quarter's run rate on EBITDA?

Nancy Buese

Yes, Anita, a great question. And what we really wanted to do is, as we take on both the acquisition of the Goldcorp assets in the JV, we wanted to ensure we had maximum financial flexibility. So, we had an opportunity at an unbelievable coupon to just refinance that for now. But, that's one thing we've really continued to think about. At today's higher gold prices, debt repayment will be a significant priority. We just wanted to give ourselves some flexibility as we're taking on what Newmont looks like today. But, you can certainly anticipate, as we are experiencing these prices, a significant amount of those dollars will be pointed towards debt reduction of those 21 through 23 debt towers.

Anita Soni

Thank you. And then, last one, just a little bit more on the -- trying to get you to reveal something as everyone else has on the guidance coming up. In terms of Musselwhite, when you put out the 7.4 million ounces, I think that was in June of -- it was with Q2 results when you put out 7.4. Did that incorporate the impact of the Musselwhite fire which you think happened at the end of the first quarter?

Rob Atkinson

Yes. The numbers you're quoting there, Anita, go back to our guidance from early March, but don't incorporate the impact of the Musselwhite fire that happened in late March.

Anita Soni

All right. So, this would probably have been more like the annualized run rate pre-fire would have been in that 7.4 million ounces?

Rob Atkinson

Yes. That's a good judgment to make.

Operator

Our next question comes from Andrew Kaip of BMO Capital Markets. Please go ahead.

Andrew Kaip

Hey, thanks. Thanks very much for taking my question. Look, just a little bit more on Musselwhite, early October is when you're guiding towards commercial production. I'm wondering if you can walk us through the steps and what the critical path there is, that's determining early October. Is it the completion of the conveyance system or is it material handling system isn't going to be commercial by that time. So, just a bit more clarity would be…

Tom Palmer

Thanks, Andrew. It's not linked to the materials handling system, it's the replacement conveyor. And I'll get Rob to take you through some detail on that.

Rob Atkinson

No problem. Thanks, Andrew. And again, this is a sequence of events. So, really the -- what we've been working hard on at the moment is the rehabilitation and the dewatering. That had to be done to be completed. We've got one more area which is a transfer point to demolish and salvage some of the old gear, and that will be done over the coming months. The contract in place to get a suitably qualified experience contractor was also a part, and that's been awarded and we expect full site mobilization to be completed by early January.

Now, as Tom mentioned, the materials handling, it's a very important part. If you remember that we've got a shaft and we've got conveyor at Quecher, that's being commissioned, and we're expecting that to be fully commissioned roundabout the end of the first quarter. The mechanical completion of the belt we're expecting to be somewhere towards the end of the second, early third quarter, and then that's where we can do the plant completion the technical support and the ramp up to allow us to get to October. So certainly, while it's not the material handling system, the material handling system only comes into zone with the belt running, and that's when we can get the true efficiencies. So, we're going to get a double whammy that when the belt comes back, it's going to be a lot more efficient domain in general with the materials handling system as well. But, that's the sequence of event that we're looking at over the next nine months, nine or 10 months.

Andrew Kaip

All right. Thank you. And then, when we think about Musselwhite on go forward basis, the full production, how many stopes are you thinking that you have available or -- to be able to meet the production expectations and guidance and give you that flexibility that you can look out efficiently?

Rob Atkinson

I think, a good rule of thumb is for, if we're in for that and certainly I think we'll be comfortable for the couple of reasons is that it gives us the flexibility, if there is challenges with stopes, it also give us the flexibility with grade. And the key to all that is making sure that our development is well ahead that whether there is a Musselwhite to any of our other mines keeping that 18 months in advance is so key. But, a good rule of thumb we are aiming at just to just have at least four.

Andrew Kaip

Right.

Tom Palmer

And just another comment, Andrew, on putting keeping Musselwhite is an important mine in our portfolio of 14, given the context of our portfolio represents approximately 200,000 to 250,000 ounces. So, one of the advantages of having a portfolio of our size and spread globally is that we can manage through this issue. But, it's at that scale compared to our portfolio.

Andrew Kaip

Okay. And then, just one final question, just on Peñasquito, you had indicated the grades would be stepping up in the fourth quarter from where they are currently. I'm just wondering what kind of step-up and can we expect. There is a fairly significant grade difference between what was previously forecasted for 2019 and then what 2020 was and that's move. So, I'm just wondering how much a step up should we be expecting.

Tom Palmer

Again, Andrew, I'll get Rob to take you through some of that detail.

Rob Atkinson

The grades, we are about to hit some good material in the mine after the pre-stripping has been done. So we are going to have sustained period where the grade is going to be higher. I think, a good rule of thumb is about 0.5 gram per ton is where we're typically sitting for the final quarter.

Andrew Kaip

Okay. Thank you very much.

Tom Palmer

Thanks, Andrew.

Operator

Our next question comes from John Tumazos of John Tumazos Very Independent Research. Please go ahead.

John Tumazos

Thank you very much for taking my question. Could you elaborate a little bit? There was a sentence or two towards the end of the presentation that mentioned Galore Creek, Norte Abierto and Nueva Unión. Are those projects that you're optimistic about because they're very large or because the pending data that might be developed over the next couple years as Newmont does their work, may improve the project, or because of the existing data on the project or because you expect higher copper and gold prices to improve the returns?

Tom Palmer

What we like about those three projects that we have sitting at prefeasibility stage is the very long life that they present. And I can underpin investment thesis for the Newmont Goldcorp that represents very long life that can go out through the next two or three decades or beyond. And where those projects sit, all three of them in prefeasibility study phase is it gives us in conjunction with our joint venture partners the opportunity to really work on and optimize those projects, get good competition for capital going, so that they present in the second half of the next decade as the first project that may come on to extend the life of our business. We look at those projects as doing them in series, not parallel. So, you can look at those three projects, the opportunity to optimize them and then sequence them, you can have those three projects come on through the latter part of the 2020s into the 2030s, and into the 2040s and really underpinning long life for our business.

Operator

Our next question is a follow-up from Anita Soni of CIBC. Please go ahead.

Anita Soni

So, I was just wondering, when you do the December 2nd guidance and outlook, will you address reserves at the acquired assets at that point or would that be a February Q4 phenomenon?

Tom Palmer

Anita, it's Tom here. It's be February, and we will make sure that we bring that information out. Typically, we drop a press release, but I think for next year, we'll make sure we signal that and take you through that information as that's ready. But, it's a -- into the New Year exercise for us to complete all that work.

Anita Soni

And will it incorporate, I mean, your assumptions on where the costs could go or will it just sort of benchmark to where you are now?

Tom Palmer

You're asking the question in terms of reserve pricing?

Anita Soni

Yes, reserve pricing. I mean, one side of the equation where reserve is -- the cost associated with it?

Tom Palmer

Yes. I wouldn't expect our reserve pricing to change from $1,200.

Anita Soni

But, I mean, the unit cost assumptions that are used on the other side of the equation to say okay we're mining at 90 bucks a ton Éléonore versus say 110, which is -- I'm just pulling numbers out of the air, but I'm just wondering, will it include sort of the benchmarking of what's actually happening at the asset right now or some future projection of what you think you can deliver?

Tom Palmer

For the operating assets, it will be underpinned by the mine plans that underpin our business. So, it'll be the assumptions we have used.

Operator

Our next question is a follow-up from Carey MacRury of Canaccord Genuity. Please go ahead.

Carey MacRury

Hi. Just one more question on -- just wondering if you could touch on the Coffee project. I know you've pushed it back in the development pipeline. Just wondering what the work plan there looks like going forward.

Tom Palmer

We've pushed that back, the prefeasibility because we think there's exploration upside potential there that we want to better understand. Marcelo Godoy, our Head of Exploration is particularly excited about the opportunity around Coffee. But, what we're looking at is doing the drilling program to better define that resource and keep that project in prefeasibility stage and so we can better understand that, optimize that project, and then bring it forward in competition with the other project. It sits alongside in prefease.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over to Tom Palmer for closing remarks.

Tom Palmer

Thank you, operator. Thank you, everyone, for joining us. And thank you for your continued interest in Newmont Goldcorp. Thank you.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.