Fin 2800
Financial Analysis Project

Newmont Corporation vs. Southern Copper Corporation

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NEM vs SCCO

Newmont Mining Corporations (NEM) is a mining company that focuses on the production and exploration (primarily) of gold properties. Having its headquarters located in Denver Colorado, the company has a broad range of operations outside of the US including Canada, Mexico, Dominican Republic, Peru, Suriname, Argentina, Chile, Australia, and Ghana. After having read section 1 of their 10-K ("The Company"), I've decided to compare Newmont Mining Corporation with Southern Copper Corporation (SCCO)—another leading company within the mining industry. Southern Coppers is one of the largest integrated copper producers in the world. Just like NEM, Southern Copper has its headquarters in the US but has operations abroad—all their mining, smelting and refineries are situated in Peru and Mexico. Unlike NEM, SCCO focuses more on the production and exploration of copper properties. These two companies operate in the mining industry and have lots of common ground, both being subjected to similar risks and threats in the industry. For these reasons, I have chosen to compare SCCO against NEM for the fiscal years of 2021 and 2020 through financial ratio analysis.

Based on both company's Consolidated Balance and Income Statements, I was able to calculate the following financial ratios:

	2021	2020	2021	2020
Liquid Ratios:	Newmont		Southern Copper	
Current Ratio	2.900	2.524	2.729	3.477
Quick Ratio	2.549	2.239	2.296	2.791
Asset Management Ratios:				
Inventory Turnover	5.844	5.207	4.003	4.136
Fixed Assets Turnover	0.507	0.473	1.155	0.844
Total Assets Turnover	0.301	0.278	0.598	0.471
Leverage Ratios:				
Debt to Equity Ratio	0.857	0.733	1.229	1.329
Debt Ratio	0.461	0.423	0.551	0.571
Coverage Ratios:				
Times Interest Earned Ratio	4.588	9.110	15.636	7.933
Cash Flow Basis	13.066	16.578	17.714	9.904
Profit Margins:				
Gross Profit Margin	0.555	0.564	0.644	0.508
Operating Profit Margin	0.103	0.244	0.555	0.391
Pre-tax Profit Margin	0.091	0.273	0.521	0.344
Net Profit Margin	0.095	0.246	0.311	0.197
Return Ratios:				
Return on Assets	0.029	0.068	0.186	0.093
Return on Equity	0.053	0.123	0.417	0.217
Return on Invested Capital	0.042	0.095	0.236	0.114
DU Pont Analysis ROA	0.029	0.068	0.186	0.093
DU Pont Analysis ROE	0.053	0.123	0.417	0.217
Equity Multiplier	1.842	1.798	2.245	2.346

(All work and calculations will be submitted separately as an Excel Workbook)

Liquidity Ratios.

Liquid ratios measure a firm's ability to meet short term obligations. The Current Ratio (CR) can depict this ability as it is calculated by dividing *current assets* (assets expected to be converter into cash within 12 months) by *current liabilities* (obligations expected to be paid within 12 months). Having a CR of $2 means that a company has $2 of current assets for every $1 of current liabilities. A CR < 1 can be a concern to a company as its means that the company has more obligations that must be paid within a year than the ability for the company to convert their assets into cash within that same period—perhaps leading to a situation where these short-term obligations cannot be paid. On the other hand, having too much liquidity can make a company incur too much opportunity cost as well as risk of loss. The Quick Ratio (QR) is an adjustment to the CR as it subtracts inventory from current assets which is then divided by current labilities. This is because inventory might not be as liquid as other current assets.

Based on the liquid ratio calculations of both companies, we can see that for the fiscal year of 2021, NEM has a higher CR and QR than SCCO (2.900, 2.549 > 2.729, 2.296 respectively). Yet, for the year 2020 it was the other way around (3.477, 2.791 > 2.524, 2.239 respectively). There is a clear indication that as of last year, NEM had more liquidity than SCCO which is favorable for NEM over SCCO as it means that they had a greater ability to pay short term obligations which also translates to a lower risk in them not being able to pay their current liabilities (less likelihood of a maturity mismatch). There are some limitations to these calculations for instance, it would have been useful to know these two ratios for the year 2019. We would then be able to see if events such as COVID impacted NEM into decreasing their liquidity for the year 2020. Nevertheless, the most recent year shows that NEM could meet short term obligations with more security than SCCO.

NEM 2021 vs. Industry Standard	SCCO 2021 vs. Industry Standard
	

(Some of the calculations are slightly different)

Asset Management Ratios.

Inventory Turnover measures how many times over the period did a company sell its inventory and replaced it. For both companies, the inventory turnover ratio was calculated by dividing the company's *COGS* by the *average inventory.* Based on the ratios, we can see that that for the year 2021, NEM replaced its inventory 5.884 times while SCCO replaced it 4.003 times. For the year 2020, NEM replaced it 5.207 times and SCCO 4.135 times. A greater value in inventory generally means that a company can sell its inventory faster—they can support their sales levels with a smaller investment in inventory. It is because of this that it seems that NEM is better off regarding its inventory control but also, a higher ratio might suggest stronger sales for the company as they are able to sell and replenish. This can also be seen with the alternative equation for Inventory Turnover, *sales / average inventory.* If the sales (the numerator) increase, the inventory turnover value will increase.

Fixed Asset Turnover (FAT) is calculated by dividing *Sales* by *Net Fixed Assets*. For instance, if a company has a FAT of $2, that means that a company is generating $2 of sales for every $1 invested in net fixed assets. The calculations suggest that both companies have increased their FAT. NEM increased from 0.473 (2020) to 0.507 (2021) and SEC from 0.844 to 1.155 respectively. Based on these calculations, both companies show that they have improved their efficiency in generating sales based on their investment on fixed assets (also considering that the general trend of FAT is to increase through time due to depreciation, part of net fixed assets—as

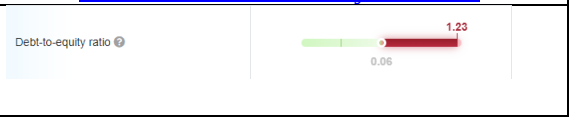
depreciation decreases over time the denominator gets smaller if the rest of fixed assets remain unchanged). Furthermore, the ratios suggest that SCCO is better off in terms of their investment on fixed assets and its return on sales for both years—depreciation being a small portion of net fixed assets as seen in their balance sheet.

Total Asset Turnover (TAT) is similar to FAT ratio, but it includes current assets as well. Therefore, it is calculated by dividing *sales* by *total assets*. Based on the calculations, we can see that SCCO has a higher ratio than MEN for both years. For the most recent year (2021), SCCO total asset turnover ratio was 0.598 while NEM was 0.301. In other words, for every $1 that SCCO invests in assets NEM increases sales by $0.301 as opposed to SCCO generating $0.598 in sales. Based on TAT and FAT ratios calculations, it seems as if SCCO has a better management of its investments on assets in compared to NEM (even though NEM has a better management of its inventory).

Leverage Ratios.

Leverage ratios are similar to liquidity ratios in the way they measure a company's ability to meet short and long-term obligations. The Debt Ratio (DR) equals to the total debt or *total liabilities* of a company divided by its *total assets*. Based on debt ratio of both companies, it is clear that SCCO has a greater debt ratio than NEM for both years; 0.552 > 0.461 in 2021 and 0.571 > 0.423 in 2020. This means that SCCO finances more of its assets with debt than NEM does. For instance, in the year 2021, 55.2% of SCCO's assets were financed with debt while 46.1% of NEM's assets were financed with debt. Both of these values lay under industry standard parameters, nevertheless, SCCO debt ratio is clearly higher than NEM's in both fiscal years. This means that SCCO has a higher risk—it has more dependency on money borrowed and owed by the company. A higher debt ratio value might also suggest that it might end up being harder for a company to obtain loans for, let say, expansion or new projects.

The Debt-to-Equity Ratio is another version of the DR. It is calculated by dividing *total liabilities* by *shareholders' equity*. NEM had a debt-to-equity of 0.857 in 2021 and 0.733 in 2020. SCCO had 1.229 in 2021 and 1.329 in 2020. This ratio represents the amount of shareholder's equity that comes from debt (in the case of NEM for the year 2021, it means the company has $0.857 of debt for every $1 in equity). We can see based on this ratio that SCCO is using more debt than NEM. We can see in the chart below a comparison of the debt-to-equity ratio of both companies in the year 2021 against the industry average (for that year).

NEM 2021 vs. Industry Standard	SCCO 2021 vs. Industry Standard
	

(Some of the calculations are slightly different)

Based on this comparison, we can see how both companies use more debt for shareholders' equity than the industry average, not an optimal stance for both companies.

Coverage Ratios.

Coverage ratios give information about a company's ability to pay, if the company can afford the debt it has. The Time Interest Ratio is calculated by Dividing *net income before tax* by *interest expense*. The Cash Flow Basis is an adjustment to the Time Interest Ratio where the numerator is *EBITDA* instead of *EBIT*. In other words, it is the addition of Depreciation and Amortization to EBIT. This is done because Depreciation and Amortization are not cash expenses, therefore if it is added to EBIT there is a more accurate representation of operating cash flows. For

these two ratios, higher numbers are better as they show a safer position where the company is able to cover its dept.

	2021	2020	2021	2020
Coverage Ratios:	Newmont		Southern Copper	
Times Interest Earned Ratio	4.588	9.110	15.636	7.933
Cash Flow Basis	13.066	16.578	17.714	9.904

Based on the results of these two ratios, we can see a huge increase in SCCO from 2020 to 2021 on their ability to pay, surpassing NEM's ratios that where higher in 2020.

Profit Margins.

Gross Profit Margin = (*Sales – COGS)/Sales.* This ratio shows the profit per sales dollar. Operating Profit Margin is similar to the Gross Profit Margin, but it includes overhead expenses in the numerator. It is calculated by dividing *EBIT*/Sales. Differences in these two margins allow a better understanding on whether there might be problems with a company's variable (or supply chain) costs or overhead costs. Pre-tax Profit Margin is calculated by dividing *Earnings Before Tax* by *sales*. Finally, Net Profit Margin is calculated by dividing *Net Income* by *Sales.* These ratios calculate profit for a company at different levels of the Income Statement. A higher margin in all of them is more desirable than a lower margin (with the industry average as a reference point).

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Profit Margins:	Newmont		Southern Copper	
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Operating Profit Margin	0.103	0.244	0.555	0.391
Pre-tax Profit Margin	0.091	0.273	0.521	0.344
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Based on these ratio calculations, we can see better off ratios for SCCO during 2021 and a decrease in all four ratios (profitability) for NEM from 2020 to 2021.

DU PONT Analysis and Return Ratios

	2021	2020	2021	2020
Return Ratios:	Newmont		Southern Copper	
Return on Assets	0.029	0.068	0.186	0.093
Return on Equity	0.053	0.123	0.417	0.217
Return on Invested Capital	0.042	0.095	0.236	0.114
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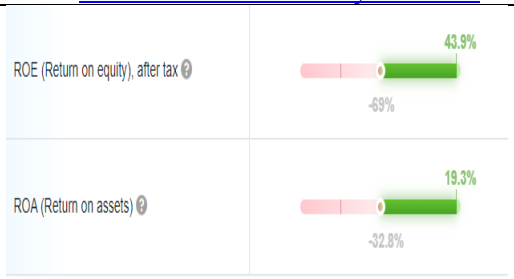
The ROE & ROA of a company is what demonstrates whether the company is earning the sufficient amount to justify shareholders if the company will be able to return their opportunity cost. We can see that for NEM, there was a decline ROA from 2020 to 2021. By looking at the calculations in the DU Pont Analysis, we can see this is true because although Total Asset Turnover did not decrease from 2020 to 2021, the Net Operating Margin did significantly. Moreover, ROA for SCCO increased from the past year. This can be explained because both Total Asset Turnover and Net Profit Margin also increased from the previous year. The decrease in ROA for NEM also explains the decrease in ROE—although its Equity multiplier increased, the decrease on their ROA negatively influenced its ROE. The opposite can be seen for SCCO, its Equity Multiplier decreased but the significant increase in their ROA overcompensated such decrease, eventually leading to a higher ROE.

Even though NEM's ROE and ROA decreased from the previous year, both companies have these ratios above the industry average:

NEM 2021 vs. Industry Standard	SCCO 2021 vs. Industry Standard
	

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Risks.

Both of these companies are subjected to very similar risks since they both operate within the mining industry. After reading "Section 2" of both 10-K's, there are several risk factors within the industry that might threatened both company's operations.

Mining Companies is subjected to numerous regulations of all sorts and nature. The one that I find most interesting is the fact that these two companies operate in several other countries besides the US. Factors such as political turmoil, country regulations, laws, and even culture can be potential risks for these companies. For instance, "In recent years, worldwide mining activity has been pressured by neighboring communities for financial commitments to fund social benefit programs and infrastructure improvements. Our projects in Peru are not exempt from these pressures. Our Tia Maria project in Peru has experienced delays while trying to resolve issues with community groups. It appears that in the Peruvian mining environment, it is becoming increasingly important to obtain acceptance from local communities for projects in their areas. This may entail demands for substantial investments in community infrastructure and upgrades that must be met in order to proceed with the mining projects." (SCCO 10-K).

In addition, there are many health, safety, and environmental implications for these two companies. The industry in filled with dangerous machinery, dangerous chemicals, and direct contact with the environment. Environmental laws and even fatalities are some of the risk considerations for both of these companies.

Uncertainty is one other risk factor that both of these companies must take into consideration. One uncertainty factor is that of price and demand. "Historically, the commodity markets have been very volatile, and there can be no assurance that commodity prices will not be subject to wide fluctuations in the future" (NEM 10-K). But there is also uncertainty in the pursuit

of mining operations: “Metals exploration is highly speculative in nature. It involves many risks and is frequently unsuccessful. Once mineralization is discovered, it may take a number of years from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures must be made to determine proven and probable mineral reserves; this requires drilling to establish the metallurgical processes that will be needed to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities” (SCCO 10-K).

Conclusion.

After taking a closer look at my financial ratio calculations as well as the nature of the mining industry. I have come up with the following conclusions. If I had to invest in one of these companies (based on the ratios between 2020 and 2021), I would invest on SCCO over NEM. This can be supported by the increase in my Profit Margin analysis as well as the increase in ROE and ROA seen the DU Pont Analysis. Nevertheless, this doesn’t mean that NEM is doing poorly. Both of these companies are operating (mostly) above industry standards. It is also important to take into consideration that NEM is a much bigger company than SCCO, and it takes number one place as the biggest gold company in the world next to Barrick Gold. On the other hand, Southern Copper Corporation is ranked number five biggest producer of copper in the world. Both of these companies are leading corporations within the mining industry and none of them are operating below industry standards. Nevertheless, based on the ratio analysis conducted, SCCO seems to be better off from 2020 to 2021.