Action Note

Equity Research

November 4, 2022

Gold and Precious Minerals - Large-Cap Golds

Agnico-Eagle Mines Ltd.

(AEM-N, AEM-T) US$42.27 | C$56.47

Consolidating Malartic

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Event

In partnership with Pan American Silver (PAAS-Q), AEM announced a binding offer to acquire Yamana Gold (AUY-N). Under the transaction, AEM would fully consolidate its ownership of the Canadian Malartic Mine under one roof.

Impact: POTENTIALLY POSITIVE

Under the transaction, AEM will acquire the Canadian Malartic mine and the Wasamac project by contributing $1.0 billion in cash and issuing 36.089 million common shares for total consideration of ~$2.48 billion. PAAS will acquire the balance of AUY's assets. AUY has notified Gold Fields of its intention to accept the binding offer, subject only to Gold Fields' "right to match" under the Gold Fields Agreement.

Consolidation of the Canadian Malartic mine under AEM's ownership gives the company full control over a cornerstone asset and in one of the company's key regions. It also gives the company full control over the development of the Odyssey underground project that is the future of the Canadian Malartic operation. We are not familiar with the Wasamac project but do not see it as priority for AEM.

Our NPV-5% for Canadian Malartic is ~$1.8 billion and Steven Green includes ~$0.34 billion in his AUY NAV for Wasamac. On this basis, we estimate that AEM is paying ~1.2x NPV for Canadian Malartic and Wasamac. We believe that this is a reasonable price for the assets and reflects recent M&A valuation multiples. Recent large transactions include AEM acquiring Kirkland Lake Gold for 1.2x NAV and the Barrick/Randgold merger at ~1.1x NAV.

We estimate, on a pro forma basis, that the acquisition of Yamana's 50% interest in Canadian Malartic is slightly dilutive to our AEM NAV (-1.7%). AEM's consolidated gold production would increase by ~10% in both 2023 and 2024. We estimate that the transaction is ~1.7% accretive to 2023 EPS and ~10% to 2023 EBITDA.

TD Investment Conclusion

We are maintaining our BUY recommendation and $67.00 target price.

Recommendation:	**BUY**
Risk:	**HIGH**
12-Month Target Price:	**US$67.00**
12-Month Dividend (Est.):	**US$1.60**
12-Month Total Return:	**62.3%**

Market Data (US$)

Current Price	US$42.27
52-Week Range	$36.69 - $67.14
Mkt Cap (f.d.) ($mm)	$19,287.8
Float Cap ($mm)	$19,203.3
EV ($mm)	$20,970.0
Current Dividend	$1.60
Dividend Yield	3.8%
Avg. Daily Trading Vol.	2,835,351

Financial Data (US$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	456.3
Float Shares (mm)	454.3
NAVPS	$38.54

Estimates (US$)

Year	2020A	2021A	2022E	2023E
EBITDA ($mm)	1,485.0	1,773.0	2,704.0	3,249.0
EPS (f.d.)	1.86	2.40	2.16	2.29
CFPS (f.d)	4.98	6.52	4.86	5.92

EPS (f.d.) Quarterly Estimates (US$)

Year	2020A	2021A	2022E	2023E
Q1	0.23	0.67	0.61	–
Q2	0.18	0.69	0.76	–
Q3	0.78	0.60	0.52	–
Q4	0.67	0.46	0.37	–

Valuations

Year	2020A	2021A	2022E	2023E
EV/EBITDA	14.1x	11.8x	7.8x	6.5x
P/E (f.d.)	22.7x	17.6x	19.6x	18.5x
P/CFPS (f.d)	8.5x	6.5x	8.7x	7.1x

Supplemental Data

Year	2020A	2021A	2022E	2023E
Gold US$/oz	1,770	1,799	1,795	1,750
Gold Prd'n koz	1,737	2,086	3,152	3,358
Cash Cost $/oz	774	769	764	661

All figures in US$, unless otherwise specified

Company Profile

Agnico-Eagle Mines Ltd. is a Canadian large-cap gold producer with operating mines in Canada, Finland, Australia, and Mexico.

Details

Agnico to acquire Yamana's Canadian portfolio - Under the proposed transaction, PAAS would acquire all of the issued and outstanding shares of Yamana through an all-share transaction, with Yamana selling its Malartic (AEM current 50% interest) and Wasamac mines to AEM with shareholders receiving shares and cash.

Consideration includes the issuance of 153.5mm PAAS shares; $1.0bln in cash contributed by AEM, as well as 36.1mm AEM shares. Based on the November 3 closing prices total consideration amounts to $5.02 per AUY common share.

There is no AEM shareholder approval required. A simple majority of PAAS shareholder votes is required to approve the arrangement with no approvals under the Investment Canada Act required.

AEM intends to purchase as a strategic investment, in the open market up to US$150 million of PAAS shares. AEM's decision to make purchases of PAAS shares will be at its discretion and will be subject to market conditions, the price of PAAS shares, and applicable securities law and stock exchange requirements.

Background - Recall that Yamana received a takeover offer from Gold Fields (GFI-N) in late-May. PAAS highlighted that today's offer represents a 15% premium to GFI's $6.7bln all-share offer and has been deemed a superior proposal by Yamana's Board. GFI shares jumped as much as 19% on the news. GFI's offer is subject to a $300mm break-fee and has a right-to-match (expires November 15) although the company stated in a press release this morning that the company "strongly believes" its offer remains superior. **The proposed arrangement would only become effective if the GFI offer is not approved by Yamana shareholders at the special meeting scheduled for November 21.** The proposed transaction would close in late-Q1/23.

Outlook

We have made no changes to our estimates at this time.

Valuation

Agnico Eagle is trading at 6.9x consensus Capital IQ EV/NTM EBITDA which is below its three-year average of 8.2x. Agnico's large producer peers, Newmont and Barrick are trading at an average of 6.25x Capital IQ EV/NTM EBITDA and over the previous three years have traded at an average of 7.2x.

Justification of Target Price

Our target price is based on a 1.75x NAV multiple to our 5% discounted cash-adjusted NAV (60% weighting) and an 8.0x multiple to our 2023E EBITDA estimate (40% weighting).

Key Risks to Target Price

The main risks facing Agnico-Eagle include forecast, financial, technical, and political risks. These include risks related to gold, zinc, copper, and silver prices; the governing fiscal and legislative regimes; the timing of key developments; market conditions; capital and operating costs; foreign exchange rates (primarily the Canadian dollar, the euro, and Mexican peso); resources and reserves; operating parameters; permitting; environment; indigenous people; labour strikes/disputes; and staffing and key personnel retention. Given the scale of the merger with Kirkland Lake, there could be integration challenges that may impact our forecasts. COVID-19 restrictions could have a further negative impact on the company's operations.

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Agnico-Eagle Mines Ltd.	AEM-N | AEM-T	2, 4, 9

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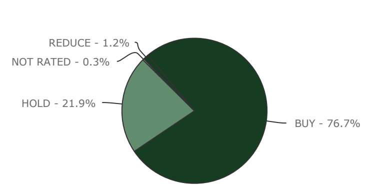

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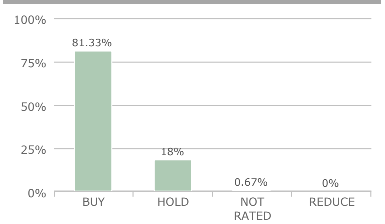

Current as of: November 4, 2022

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