

Harmony Gold

Materials

Company Update Report

Hold

Counter	Share price	Intrinsic value	Difference
HAR	R204	R196	-4%

As at 24 February 2025

Executive summary

Harmony Gold released a half-year operational performance information on 3 February 2025. In this report, we discuss the trading statement and provide revisions to our valuation. Since our last report, Harmony has gone up roughly 17%, while the gold price has increased by about 13%. Key highlights from the trading statement includes the following:

- Gold production is between 790 000 and 805 000 oz.
- Underground recoverable grades are expected to have improved higher than the guided 5.80g/t.
- AISC will be between R960 000/kg and R985 000/kg.
- Production remains on track to exceed the full-year guidance of between 1.4 – 1.5 million oz, but it is still lower than H1FY24 as anticipated by management.

We have updated our valuation to account for a higher gold price and slightly higher gold production. Additionally, we have considered the long-term CAGR in the ZAR gold price to determine the long-term growth rate used in the DCF valuation. This resulted in a change in intrinsic value from R150 to R196. We therefore change our sell recommendation to a hold.

Analyst thesis

While Harmony is the most affordable out of SA gold producer peers (GFI and ANG), it has the highest exposure to South Africa, where electricity has historically been unreliable and labour costs are unstable. Additionally, it has a high-cost relative to peers due to its underground mines. Harmony has mined through high-yield ore bodies, and in the future, we think it will be difficult to grow production due to declining yields. Moreover, Harmony has significantly outperformed its peers recently, but our view is that the outperformance is unlikely to continue as tailwinds run out.



Operational Update

Harmony has provided an operational performance update for the half-year, with full results scheduled for release on 4 March 2025. The update reflects strong operational progress, underpinned by higher mined grades and improved efficiencies across its operations.

Production for the half-year is expected to range between 790 000 and 805 000 ounces, suggesting that Harmony may exceed its full-year production guidance. Notably, underground recoverable grades are anticipated to surpass 5.80g/t, further supporting higher production levels. This positive trend highlights the effectiveness of Harmony's ongoing optimisation strategies and operational discipline.

In addition to strong production figures, all-in sustaining costs (AISC) remain well-contained and below previous guidance, reinforcing management's commitment to cost control and margin expansion. AISC is projected to be between R960 000/kg and R985 000/kg, reflecting disciplined cost management despite industry-wide inflationary pressures. By maintaining costs at these levels strengthens Harmony's profitability and competitive position within the sector.

Looking ahead, we expect continued balance sheet strengthening, driven by sustained profitability amid favourable gold prices. With improved grades, there is also potential for an upward revision to full-year production guidance. As the company moves forward, we will closely monitor management's outlook and any further operational enhancements that could support long-term growth.

Harmony Gold's FY25 Guidance

- Production 1.4moz-1.5moz
- All in sustaining cost 1 020 000/kg and 1 100 000/kg
- Underground recovered grade 5.8g/t
- Capex R10.8 billion

Change in Management

At the end of 2024, Peter Steenkamp, the former CEO of Harmony, retired after successfully leading the company through significant operational and strategic developments. His departure marked a transition in leadership, with Beyers Nel assuming the role of Group Chief Executive Officer (CEO) and Executive Director as of 1 January 2025.

Beyers Nel has been with Harmony since 2003 and brings 24 years of experience in the gold mining industry, encompassing operational, management, and executive roles. Before he was appointed CEO, he served as Chief Operating Officer (COO) for South African operations from 2016 and was later promoted to Group COO in January 2023.



Gold Price Run

The gold price has enjoyed a strong bull run driven by a multitude of factors with investors looking to add to gold exposure as a safe-haven asset. The result was an increase in the gold price of roughly 44% over the past year. These factors are:

- **Geopolitical tensions and economic uncertainty:** Escalating geopolitical tensions, particularly between the U.S. and Ukraine, have heightened global economic concerns. The Trump administration has added to the uncertainty by initiating negotiations with Russia to end the war, excluding Ukraine and other European nations from the discussions.
- **Trade policies and tariffs:** The recent imposition of tariffs by the U.S. administration has raised fears of a global trade war. These trade policies can disrupt global markets, leading investors to turn to gold as a hedge against potential economic downturns.
- **Central bank demand:** Central banks worldwide have increased their gold reserves. This growing demand from official institutions supports higher gold prices.
- **Inflation concerns:** The potential for rising inflation, exacerbated by trade disputes and economic policies, diminishes the purchasing power of fiat currencies. Investors often turn to gold as a hedge against inflation, driving up the price.

Due to the inherent unpredictability of most of the mentioned factors, their outcomes cannot be forecasted with certainty. Geopolitical tensions, economic policies, central bank decisions, and inflationary trends are all subject to rapid shifts influenced by evolving global events.

As a result, market sentiment towards gold remains highly sensitive to new developments, with any significant change in these factors potentially leading to fluctuations in the gold price. Investors closely monitor these variables, as even minor policy adjustments, unexpected geopolitical conflicts, or shifts in economic indicators can trigger swift market reactions, either driving gold prices higher as a safe-haven asset or causing declines if confidence in other investments strengthens. This dynamic nature underscores the volatility of the gold market and the importance of staying informed about macroeconomic trends.

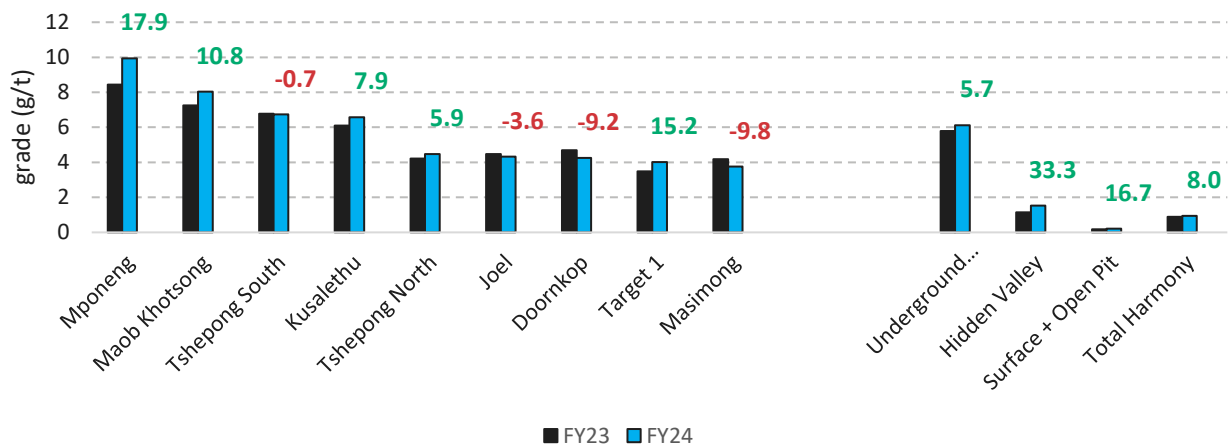


Qualitative summary

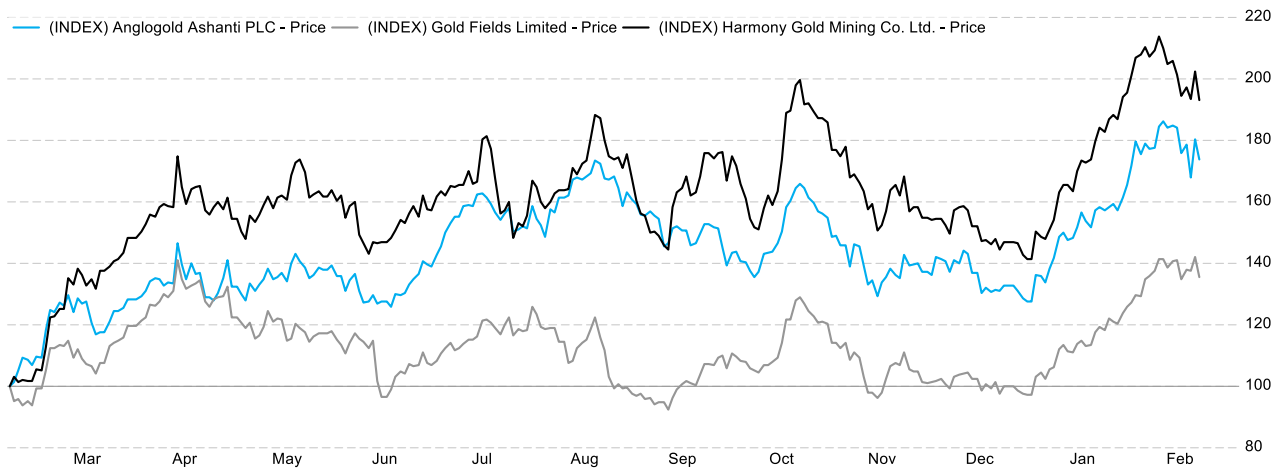
Factor review	Rating	Description
Growth		Expected 3-year sales CAGR of 7%. Expected 3-year earnings CAGR of 19%.
Valuation		Harmony is the most affordable gold producer compared to its three main rivals. It trades at a P:E of 11x. On a DCF valuation with a long-term growth rate, Harmony has a 4% downside.
Dividend yield		The forward dividend yield for Harmony Gold Mining Co. Ltd. is 2.3%.
Issuance		Harmony has previously issued shares to raise capital for M&A like in 2020 when it bought AngloGold's SA assets. The number of issued shares has increased for the past 20 years.
Catalyst	<ul style="list-style-type: none"> EVA Copper project (Production expected by 2028). 	
Quality of earnings		As with other gold producers, Harmony's earnings are volatile and generally linked to factors outside of their control, like the price of gold and the ZAR/USD exchange rate.
Moat		None
Management and governance		CEO Peter Steenkamp retired at the end of 2024. The new CEO is Beyers Nell, who has been with Harmony since 2003 and has 24 years of experience in the gold mining industry.
Balance sheet		Harmony has cash of roughly of R4.7 billion total debt of R1.8 billion. Net cash is roughly R2.9 billion.
Risks	<ul style="list-style-type: none"> Production delays caused by strikes, natural disasters and operational failures Negative prices; adverse FX movements Execution risk Loadshedding 	
Regulation		Miners generally operate in highly regulated industries. Regulation is particularly high in South Africa and Harmony has higher exposure to SA than peers.
ESG		Harmony's ESG score compared to the industry is ranked as average on FactSet.
Momentum price		Price momentum is positive
Momentum earnings		HAR has positive earnings momentum, increasing since 2021.
Piotrowski F-Score		Piotrowski F-Score for Harmony is 7.



Graph 1: Year-on-year (y/y) percentage change in recovered grades



Graph 2: ANG, GFI, and HAR 1 year performance



Graph 3: Gold price 1 year





Valuation

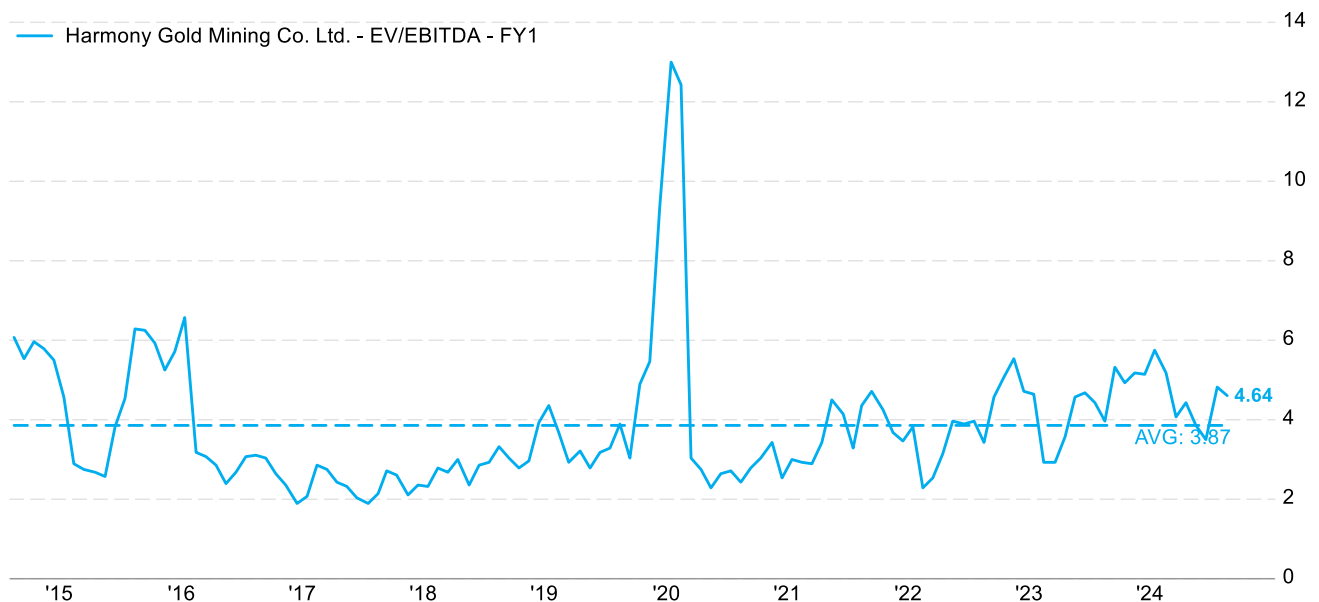
Our valuation of Harmony is based on a discounted cash flow (DCF) model extending to FY29, incorporating the following key assumptions: a weighted average cost of capital (WACC) of 13.4%, a USD/ZAR exchange rate of 18.30, and a gold price of \$2 900/oz. For the terminal value, we apply a long-term growth rate of 7%.

Table 1: Intrinsic value

Valuation Probabilities			
	Bear	Mid	Bull
LTG Rate	4,0%	7,0%	10,0%
Probability	15%	70%	15%
Share price	R147,07	R185,63	R291,97
Share Price Value	R195,80		
Upside	-4%		

Using a scenario analysis approach, we assessed Harmony Gold's potential valuation assuming the gold price were to reach \$3 500/oz while maintaining the USD/ZAR exchange rate at R18.30. Based on our analysis and applying the same probability assumptions and growth rates, we estimate Harmony's intrinsic value to be approximately R419 per share. This highlights the significant sensitivity of a mining company's valuation to fluctuations in the price of the ore it extracts.

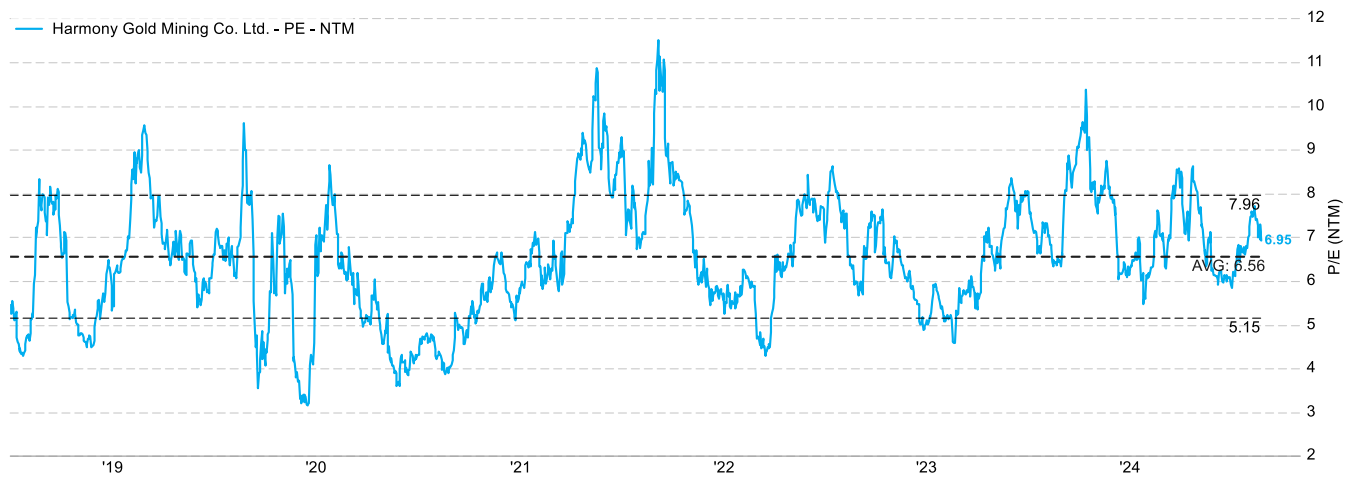
Graph 4: Sibanye EV/EBITDA history



Source: FactSet

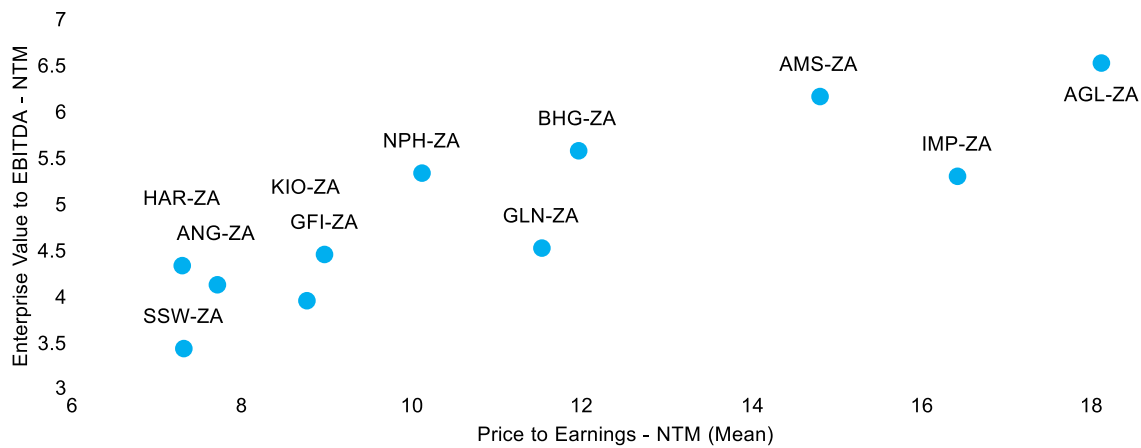


Graph 5: Forward P:E



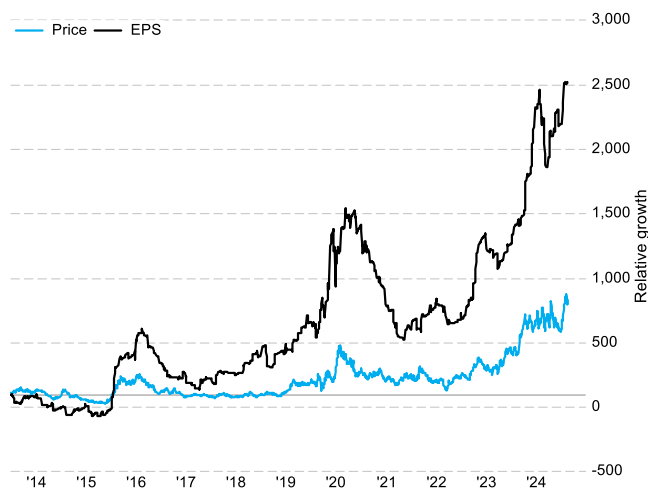
Source: FactSet

Graph 6: P:E and EV/EBITDA



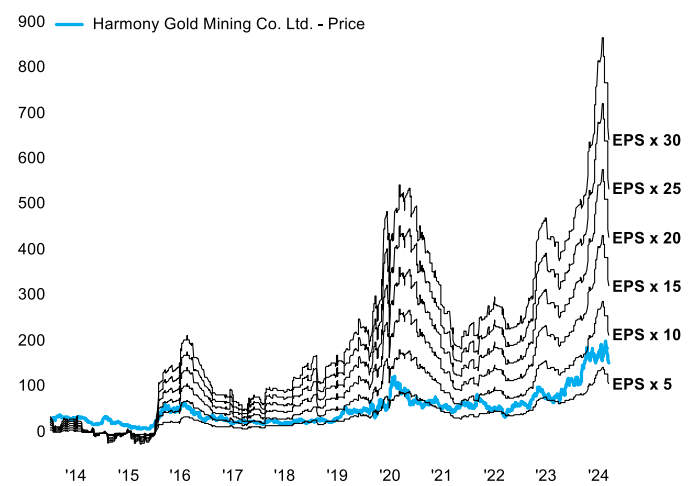
Source: FactSet

Graph 7: Components of P:E multiple



Source: FactSet

Graph 8: EPS times multiple



Source: FactSet

**Table 2: Company data**

52-week high	R229,80
52-week low	R105,57
Market value (bn)	R129,8
Price momentum	Positive
3m earnings revision	1,1%
Fiscal year end	2025/06/30
Beta (3Y, daily)	1,14

Source: FactSet

Table 3: Valuation multiples

Multiple	Latest:	Last note:
	Feb-2025	Sept-2024
P:E	7,0x	7,0x
P/S	1,7x	1,4x
P/B	1,6x	1,4x
P/CF	5,3x	4,6x
EV/EBITDA	4,2x	3,5x
EV/EBIT	5,1x	4,3x
EV/SALES	1,7x	1,4x
Dividend yield	2,3%	2,1%

Table 4: Performance versus benchmark

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
Harmony Gold Mining Co. Ltd.	36,8%	-3,8%	14,9%	10,5%	90,7%	269,3%	249,7%	247,6%	659,8%
JSE Capped SWIX	5,3%	2,8%	3,4%	4,9%	19,4%	13,0%	15,5%	44,2%	34,5%

Source: FactSet

Table 5: Key competitors

Code	Price (local)	Market cap (\$bn)	Sales FY0 (\$bn)	EBIT FY0 (\$bn)	Net income FY0 (\$bn)	EV/EBIT	P:E (NTM)	Price % (3mo)	Price % (1YR)
HAR-ZA	206,1	130	61	14	9	5,1x	7,0x	14,9%	90,7%
ANG-ZA	577,1	292	105	33	19	5,4x	7,5x	22,8%	66,4%
GFI-ZA	343,0	315	95	41	23	5,1x	8,6x	21,8%	41,2%

Source: FactSet



Table 6: Key financials and ratios

Income statement	Jun 20	Jun 21	Jun 22	Jun 23	Jun 24	2025E	2026E	2027E
Revenue	30 642	44 029	42 148	49 459	62 644	71 802	78 433	77 457
Cost of sales	26 073	34 210	37 490	39 444	45 401	46 430	51 157	68 712
Gross income	41 940	4 569	9 819	4 658	10 015	17 243	25 964	29 003
EBIT	3 747	8 624	3 642	8 949	15 851	22 102	26 535	23 282
EBITDA	7 302	12 634	7 461	12 435	20 496	27 428	32 230	29 378
Pretax income	24058	-689	6 299	-1 121	6 549	11 689	22 100	26 986
Tax expense	255	1 258	-46	1 723	3 082	6 413	8 145	-
Net income	-878	5 087	-1 052	4 820	8 587	15 841	19 305	17 422

Balance sheet	Jun 20	Jun 21	Jun 22	Jun 23	Jun 24	2025E	2026E	2027E
Current assets	10 166	8 551	7 494	8 678	11 497	21 198	33 173	-
Intangible assets	536	365	48	33	19	-	-	-
Total assets	48 803	46 808	57 240	60 460	76 124	93 853	-	-
Current liabilities	7 794	5 948	5 349	7 262	10 310	5 407	5 839	-
Short term debt	315	494	222	319	269	9	9	-
Long term debt	7 544	3 128	3 425	5 902	2 031	1 785	1 785	-
Total debt	3 622	3 647	6 221	2 300	1 794	1 794	-	-
Minority interest	4	54	78	123	175	175	175	-
Total shareholders' equity	23 371	31 160	30 039	34 757	40 774	55 948	74 467	97 692

Cash flow	Jun 20	Jun 21	Jun 22	Jun 23	Jun 24	2025E	2026E	2027E
Capital expenditure	3 610	5 142	6 214	7 640	8 398	10 030	11 506	7 833
Free cash flow	1 128	4 045	710	2 308	7 252	11 843	12 223	-
Net operating cash flow	4 730	9 187	6 924	9 948	15 650	20 257	23 836	-
Net investing cash flow	-3 565	-8 477	-6 200	-10 596	-8 366	-10 717	-10 344	-
Net financing cash flow	4 305	-4 294	-1 151	1 194	-5 430	-1 177	-2 164	-
Free cash flow per share	2,1	6,6	1,2	3,7	11,5	-	-	-
Free cash flow yield (%)	2,9%	12,4%	2,2%	4,7%	6,9%	9,1%	9,3%	-

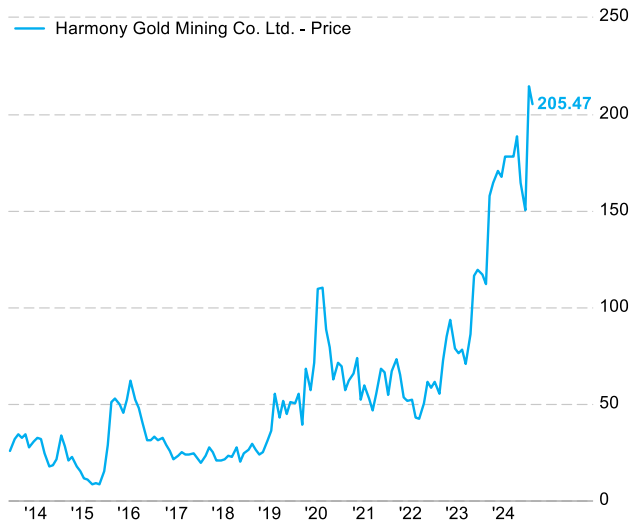
Ratio analysis	Jun 20	Jun 21	Jun 22	Jun 23	Jun 24	2025E	2026E	2027E
Profitability								
ROA	-2,1%	10,9%	-2,2%	9,3%	14,6%	20,8%	20,6%	-
ROE	-3,8%	18,7%	-3,4%	14,9%	22,7%	29,4%	26,9%	21,2%
Margins								
EBITDA margin	23,8%	28,7%	17,7%	25,1%	32,7%	38,2%	41,1%	-
EBIT margin	12,2%	19,6%	8,6%	18,1%	25,3%	30,8%	33,8%	-
Net profit margin	-2,9%	11,6%	-2,5%	9,7%	13,7%	22,1%	24,6%	-
Gross profit margin	14,9%	22,3%	11,1%	20,2%	27,5%	36,2%	37,0%	-

Source: FactSet



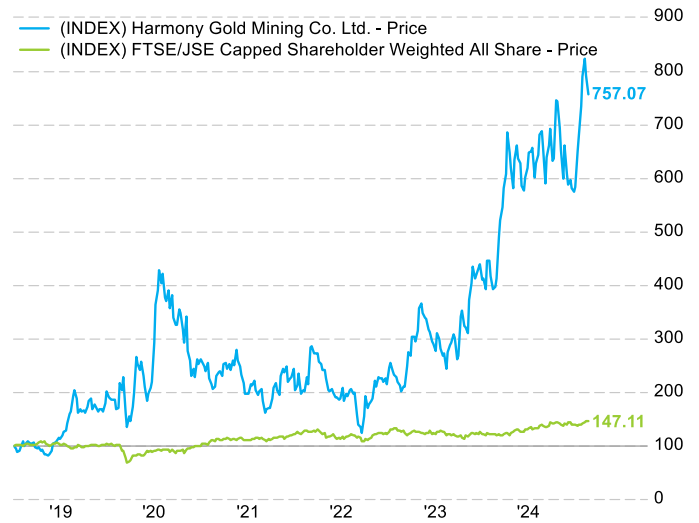
Price Performance

Graph 9: Price



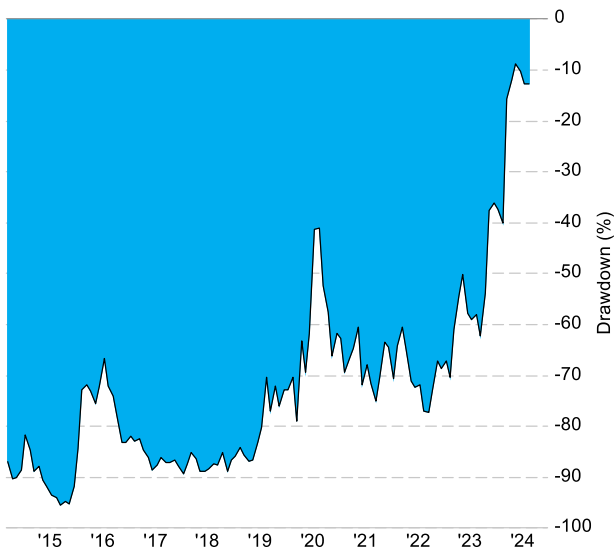
Source: FactSet

Graph 10: Performance versus benchmark



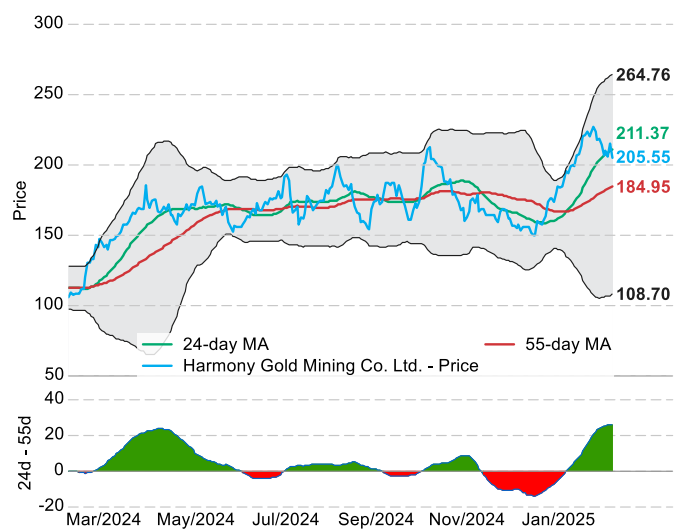
Source: FactSet

Graph 11: Drawdown



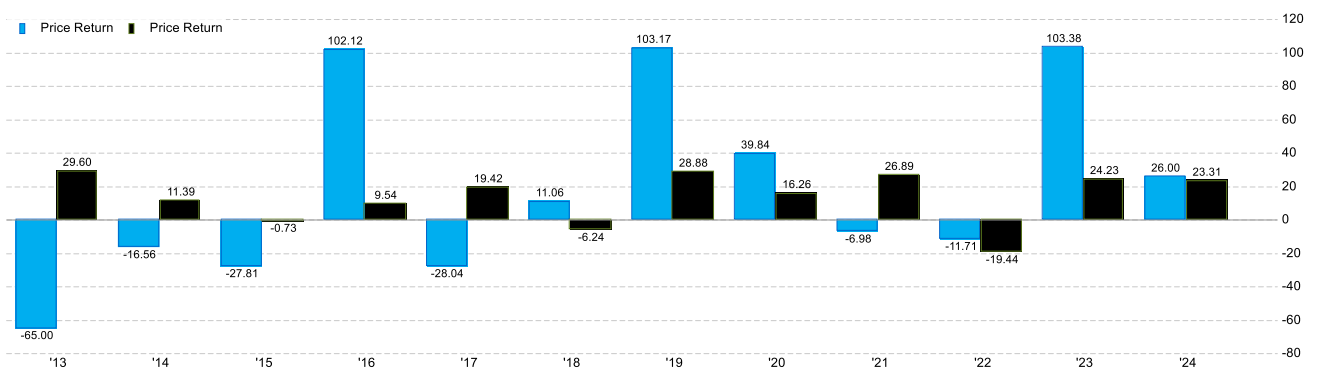
Source: FactSet

Graph 12: Price momentum



Source: FactSet

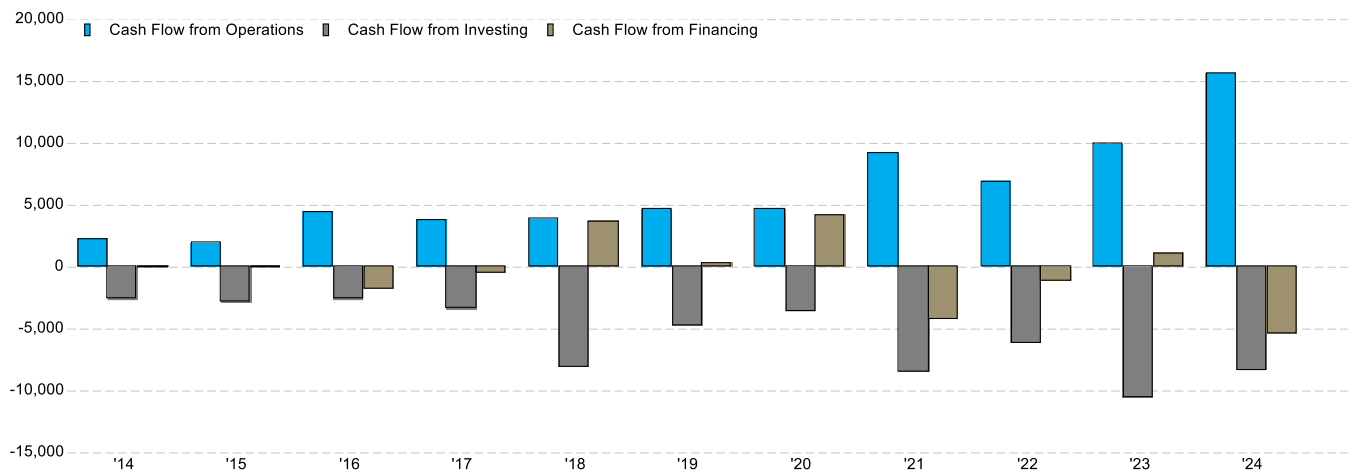
Graph 13: Calendar year returns





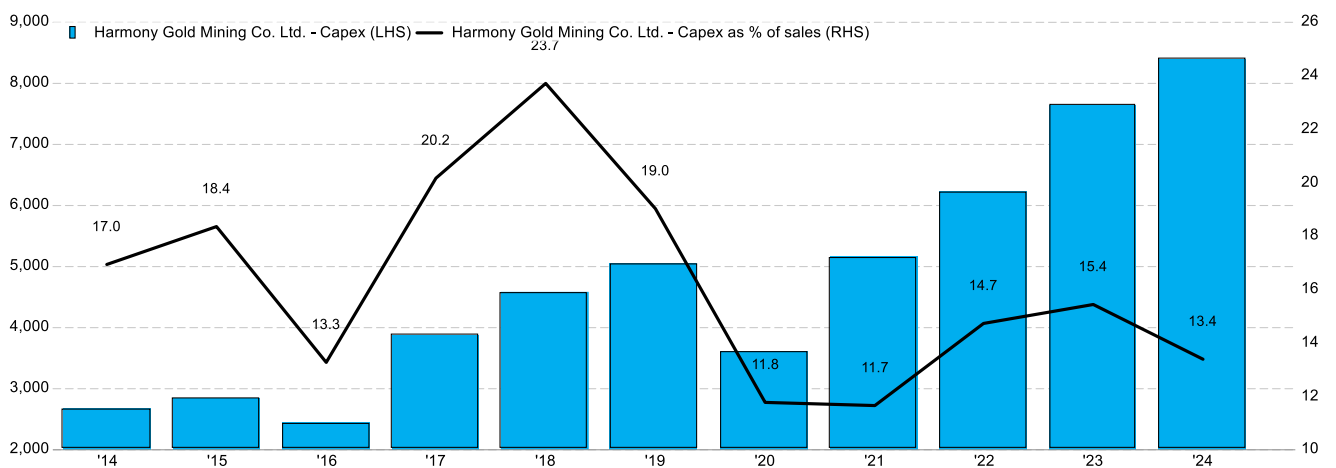
Use of cash

Graph 14: Cash flows



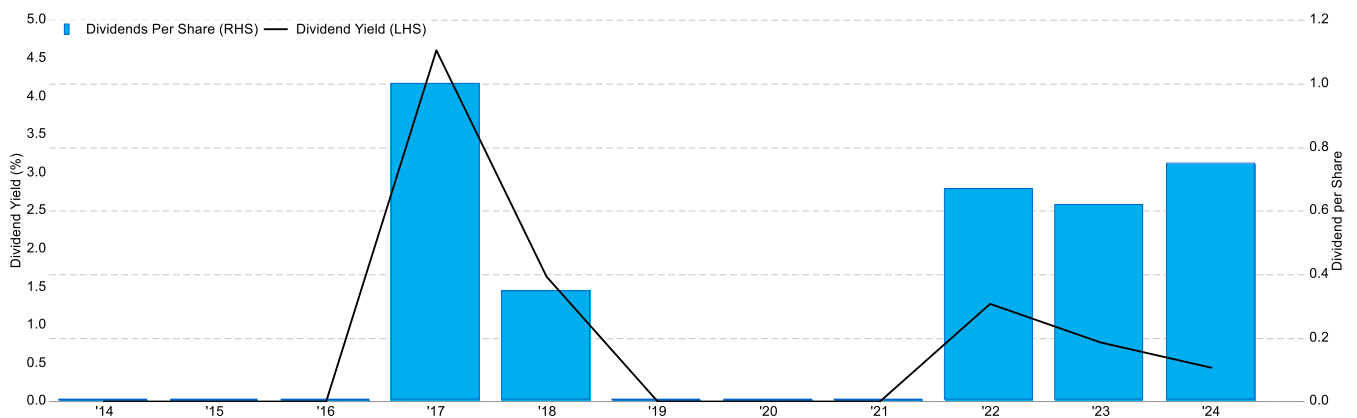
Source: FactSet

Graph 15: Capex



Source: FactSet

Graph 16: Dividends

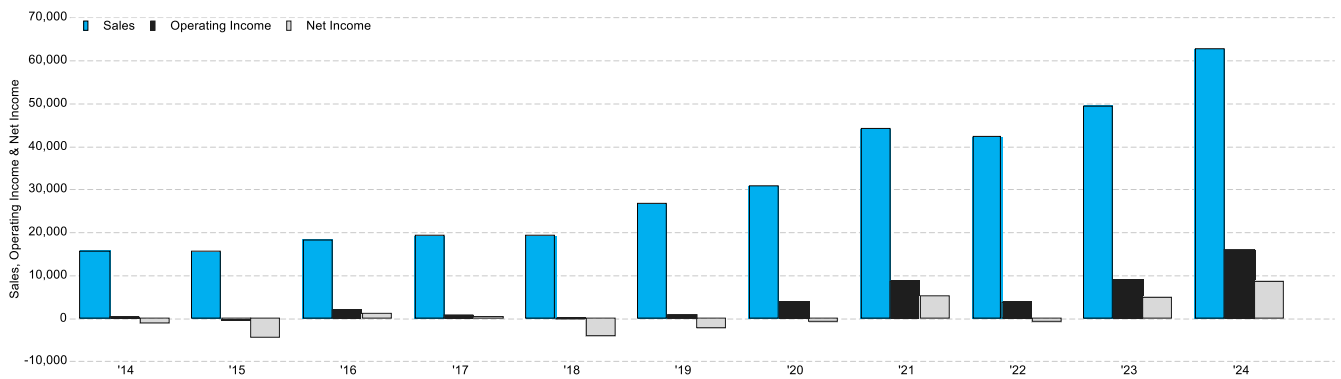


Source: FactSet



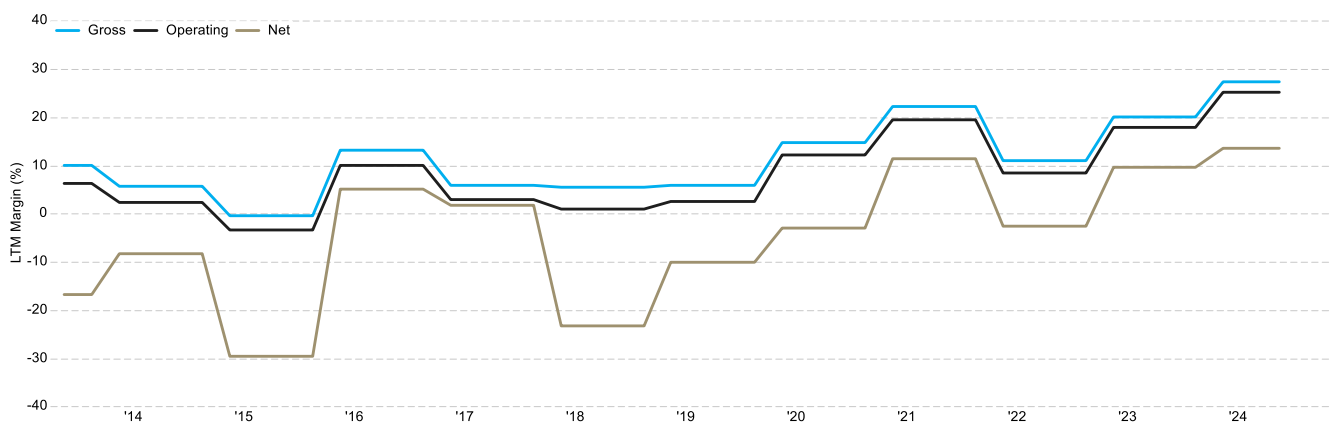
Income statement

Graph 17: Sales, operating income and net income



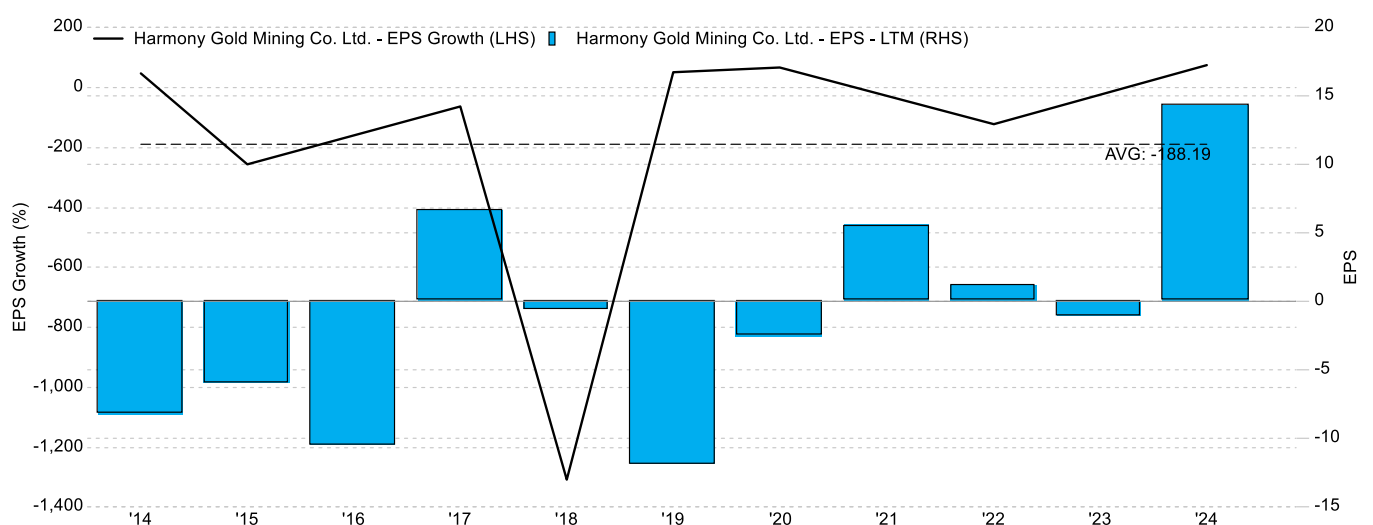
Source: FactSet

Graph 18: Gross, operating and net margins



Source: FactSet

Graph 19: EPS and EPS growth

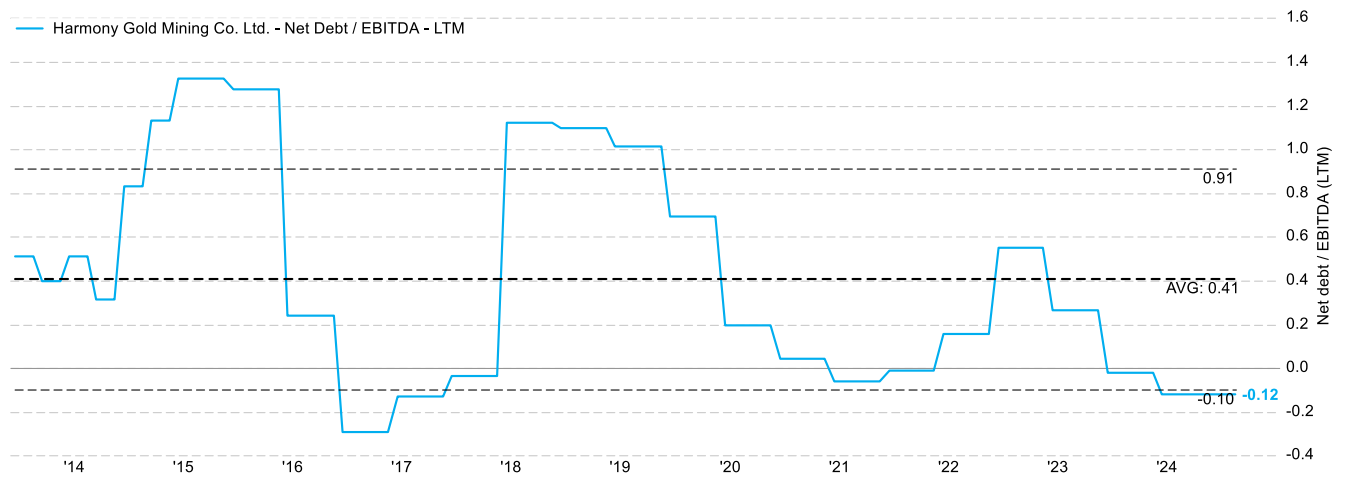


Source: FactSet



Balance sheet and liquidity

Graph 20: Net debt / EBITDA



Source: FactSet



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