

Southern Copper - Ticker: SCCO US, Price: US\$60, YE22 Price Target US\$69 +16%



Southern Copper Corp (SCCO) is an 88% owned subsidiary of Grupo Mexico (GMEX on Mexbol). It has a 75-year history in Copper and associated metals mining in Peru and Mexico. At present its ore reserves stand at over 60yrs, the largest in the world and produces near 1m MT of copper.

Southern is integrated and sells mostly refined metals to achieve premium pricing and greater market flexibility. This may become more relevant as China demand falls or stagnates in the face of lower residential construction i.e., 3 red lines policy. China has the largest smelter and refining capacity, thus sales to US/Europe in concentrate form could play against miners without refining capacity.

The company has an aggressive expansion plan with a goal to increase output 80% by YE28 to 1.8mMT. However, through YE22 production should decline on lower ore grades.

SCCO has one of the lowest cash costs in the industry at under US\$1 lb. of copper that provides for substantial free cash flow to fund expansion capex and pay dividends.

So far Peru's and Mexico's political volatility has not been detrimental to current operating framework. However, pressure from local communities in Peru has caused sever delays for greenfields i.e., Tia Maria.

Main risks : Apart from Copper prices and political/regulation risk, higher capex to meet expansion plans.

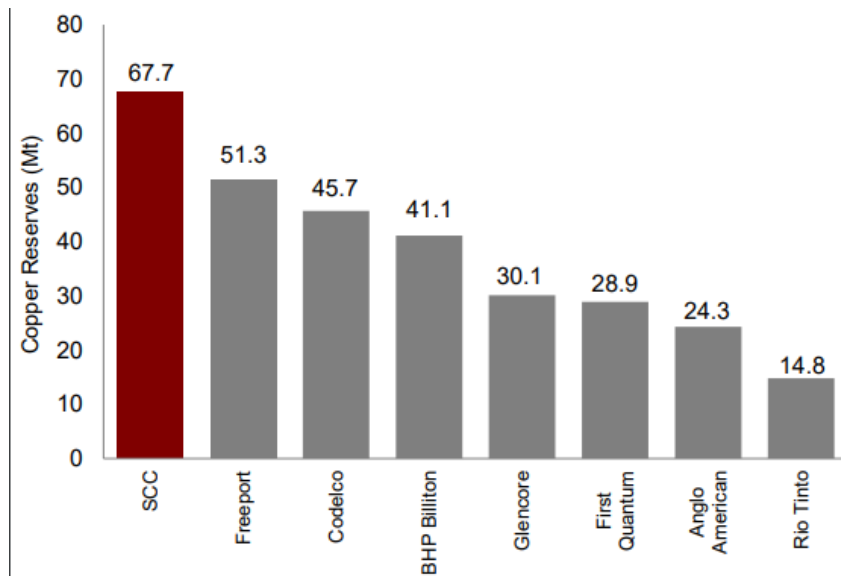
Valuation: On our estimates, that assume US\$4.5lb CU prices forward, the stock has a decent 16% upside plus a 4% dividend yield at a 7.5x EV/EBITDA multiple. SCCO is one of the most well priced copper assets trading between 10x and 8x EV/EBITDA in the last decade, due to low cash cost and high reserves.

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SCCO Update : Overview



- Main production is out of Mexico, but new capacity is coming from Peru.
- Total Life of Mine at current production is over 60yrs.
- The company refines much of its production, adding to overall capital intensity but providing sales safety as it does no rely on concentrate sales to smelters



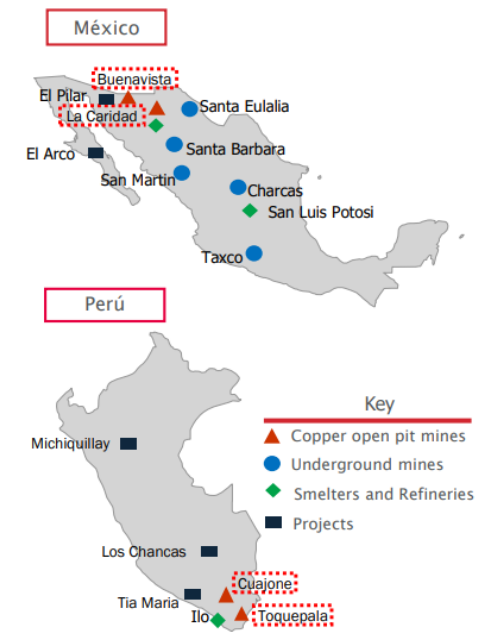
Source	10K	10K	Annual Rep.	20F	Reserve Rep.	Annual Rep.	Annual Rep.	Annual Rep.
Period	Dec.31, 2020	Dec.31, 2020	Dec.31, 2020	Jun. 30, 2020	Dec. 31, 2020	Dec. 31, 2020	Dec. 31, 2020	Dec. 31, 2020
Cu Price	\$3.00	\$2.50	N/A	N/A	N/A	\$3.00	N/A	N/A

Copper Reserves ¹: 67.7 mmt
 2020 Cash Cost \$ 0.69/lb.

2021 Estimates (@ \$4.00 x Lb of Cu):
 Copper Production: 951 kt
 Sales: \$ 9.8 B
 EBITDA: \$ 5.8 B
 1Q21 Cash Cost 0.74

#1 copper company by reserves ²
 #5 copper producer ³
 #10 copper smelter ³
 #7 refinery ³

Source: Company Filings
 Notes:
 1 Copper contained in reserves based on US\$3.00 per pound of copper as of December 31, 2020
 2 Based on available companies reports
 3 Wood Mackenzie Limited



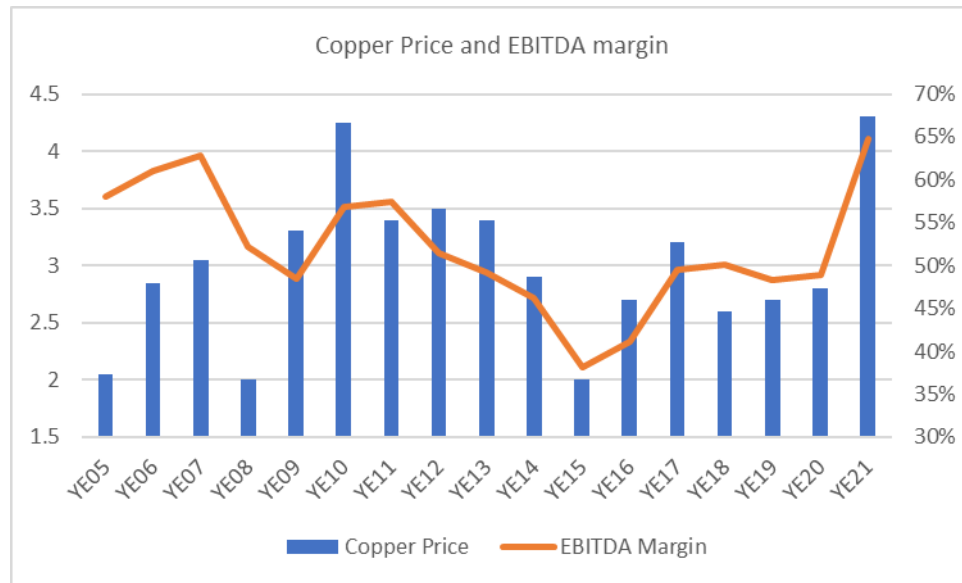
SCCO Update: A low-cost producer



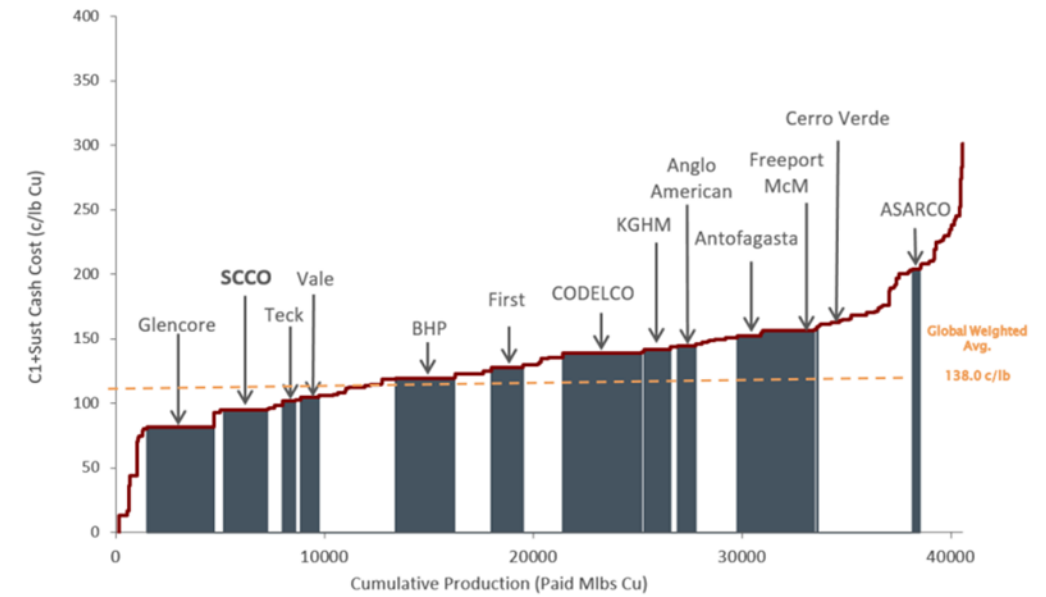
Copper represents 80% of revenue with Moly a major associated metal that dilutes operating costs.

Southern has consistently maintained low cash cost and solid margins in the face of volatile copper prices.

Southern can still generate FCF with Copper price near US\$2lb



SCCO has one of the lowest cash costs in the industry



Source Wood Mackenzie Copper Mine Cost model, WMQ12019

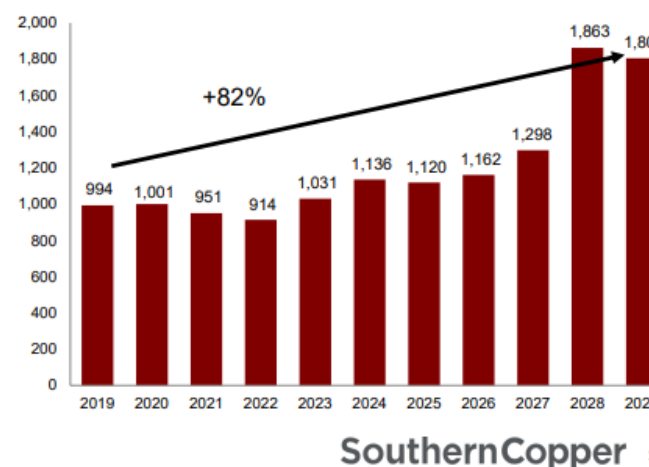
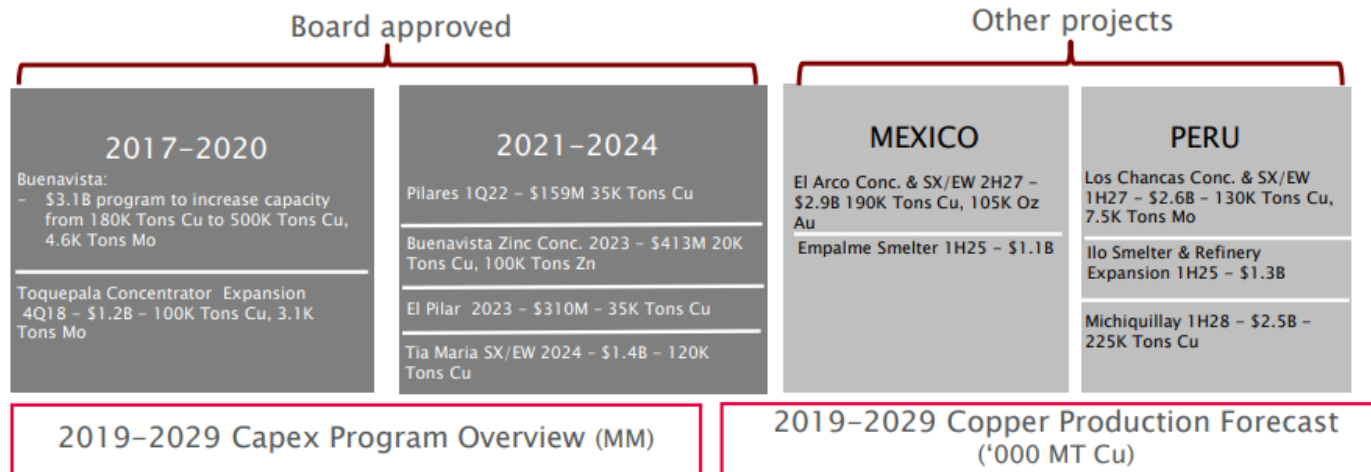
SCCO Update : Capacity Expansion



The company is planning, but not yet board approved, a significant capacity expansion of 80% by YE28

However, this will depend on two very important factors. That copper prices stay above US\$4lb and environmental/local permit and licensing agreements in Peru.

Capex commitment will need to accelerate in YE22 forward to make the expansion possible, which is in our estimates but may hinder long term share value.



SCCO Update: Financials



- Assume flat price for all metals going forward
- Volume growth in line with company guidance
- Capex increase should not impact leverage or dividend payout

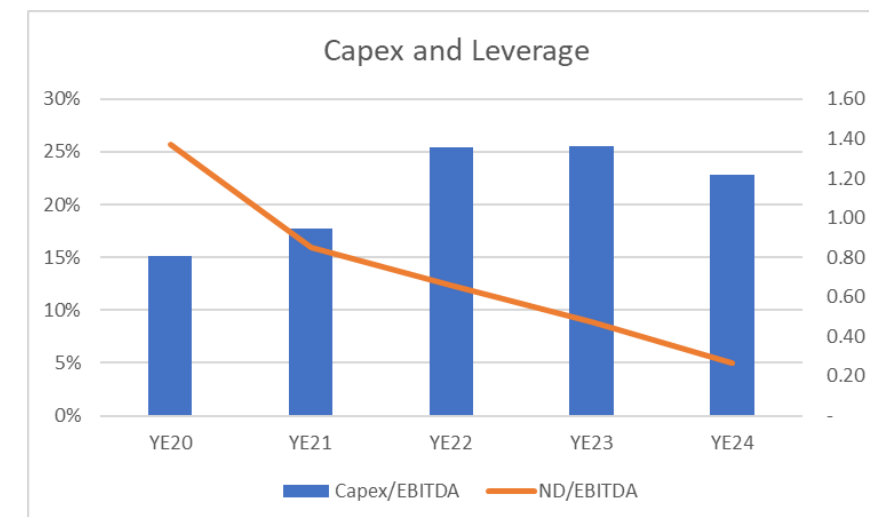
SCCO US\$m	YE15	YE16	YE17	YE18	YE19	YE20e	YE21e	YE22e	YE23e	YE24e
Share Price	26	25	36	41	38	38	60	60	60	60
Shares Out	785	773	773	773	773	773	773	773	773	773
Mkt Cap	20,253	19,325	28,044	31,477	29,250	29,065	46,380	46,380	46,380	46,380
Net Debt	4,572	5,564	5,478	5,968	5,118	5,350	6,204	5,167	4,091	2,578
EV	24,825	24,889	33,522	37,445	34,368	34,415	52,584	51,547	50,471	48,958

Ratios										
PE	27.52	24.87	38.47	20.40	19.68	18.51	12.52	11.77	10.64	9.38
EV/EBITDA	12.90	11.26	10.19	10.53	9.77	8.81	7.18	6.56	5.86	5.08
P/BV	3.85	3.31	4.59	4.79	4.30	4.02	5.43	4.36	3.56	2.94
ROIC	8%	9%	8%	14%	12%	13%	24%	24%	24%	25%
FCF Conversio	-5%	-4%	14%	16%	16%	26%	14%	25%	24%	26%
Div Yld	1%	1%	2%	3%	4%	4%	2%	4%	4%	5%
ND/EBITDA	2.38	2.52	1.67	1.68	1.45	1.37	0.85	0.66	0.47	0.27

Financial										
Revenue	5,046	5,380	6,655	7,097	7,286	7,985	11,311	11,661	12,752	14,201
EBITDA	1,925	2,211	3,290	3,555	3,518	3,905	7,320	7,855	8,615	9,636
Margin	38%	41%	49%	50%	48%	49%	65%	67%	68%	68%
Net Income	736	777	729	1,543	1,486	1,571	3,704	3,939	4,357	4,942
Dividends	271	139	456	1,082	1,237	1,159	956	1,852	1,970	2,179
FCF	(546)	(337)	491	28	(35)	956	642	1,037	1,076	1,513
Nopat	949	1,063	1,026	1,827	1,808	1,955	4,087	4,320	4,708	5,247
Invested Capi	11,759	12,321	12,695	13,353	15,495	15,632	16,765	17,997	19,507	20,941
Equity	5,263	5,832	6,108	6,567	6,810	7,225	8,540	10,627	13,015	15,779

Valuation	YE22e	YE23e	YE24e
EV/EBITDA	7.5	7.5	7.5
PT	69.53	78.29	90.16
Upside	16%	30%	50%

in Tons	YE19	YE20	YE21	YE22	YE23	YE24
Copper	2,190	2,206	2,136	2,029	2,212	2,455
Moly	59	67	66	58	63	70
Silver	12	12	11	14	15	17
Zinc	163	161	186	269	350	455



SCCO Update: Copper Price Sensitivity

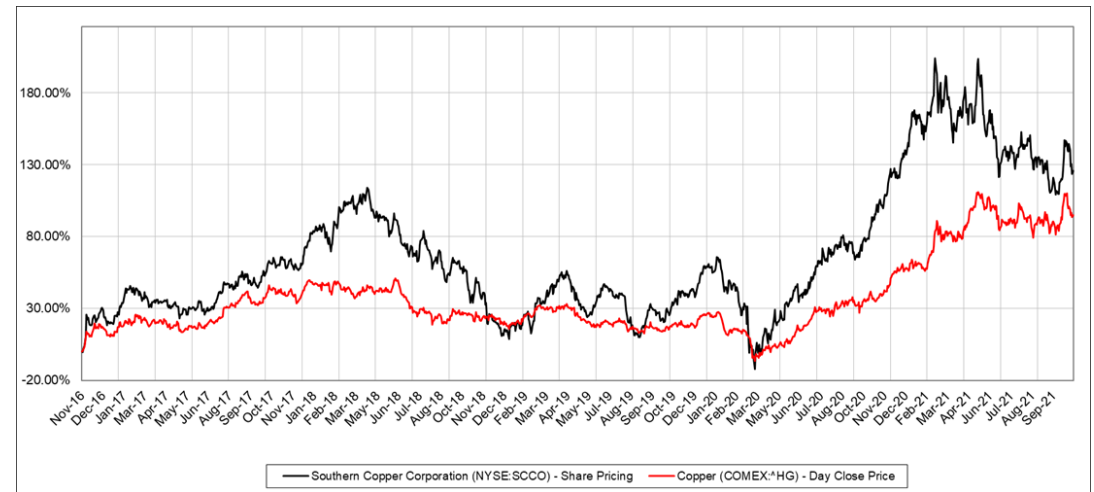


Copper represents 80% of revenue and as such its price has a direct impact of the SCCO valuation. A 10% move in the CU price has about a 20% impact of share price

Copper price sensitivity for share price

Share price has moved at a multiple of copper

CU Price	3.00	3.50	4.00	4.50	5.00	5.50
PT YE22	37.7	48.3	59	69	80	90.5
Upside	-37%	-20%	-2%	15%	33%	51%



SCCO Update: 3Q21 results



3Q21 results were 5% below consensus on a lack of volume growth and the company guided for declining production in 4Q21 and YE22 before new capacity ramp up.

Moly prices jumped 33% QoQ and 143% YoY and boosted overall EBITDA.

Net Debt rose on higher capex and over US\$690m in dividend payout.

SCCO US\$m	3Q20	3Q21	YoY	Consensus	vs Cons
Revenue	2,129	2,681	26%	2,824	-5%
EBITDA	1,140	1,711	50%	1,769	-3%
Margin	54%	64%		63%	
Net Income	506	868	71%	921	-6%
FCF	695	1,128	62%		
Net Debt	5,367	6,063	13%		

Revenue			
Copper	1,609	2,317	44%
Moly	128	329	157%
Silver	130	118	-10%
Zinc	40	51	26%

Volume			
Copper	543	545	0%
Moly	17	18	6%
Silver	5,300	4,847	-9%
Zinc	38	37	-2%