

## Southern Copper Corp (SCCO)

**\$71.18** (As of 01/07/21)

Price Target (6-12 Months): **\$75.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 09/21/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: D

### Summary

Southern Copper has the largest copper reserves in the industry and operates high-quality, world-class assets. It is poised for growth backed by its commitment to increase low-cost production. The company's approved projects in Peru calls for a total capital budget of \$2.8 billion. This holds promise, considering that Peru is currently the second largest producer of copper and boasts 13% of the world's copper reserves. Copper prices have been gaining courtesy of increase in demand from China. Pickup in industrial activity has led to higher silver prices. This will aid the company's results. Estimates for the company's earnings for fiscal 2021 have undergone positive revisions lately. However, resurgence of coronavirus cases might lead to further closures and impact the company's operations and results.

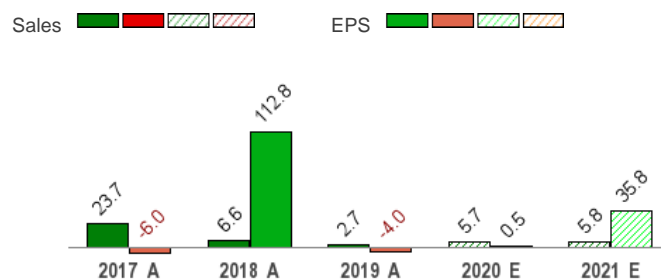
### Price, Consensus & Surprise



### Data Overview

52-Week High-Low	<b>\$71.46 - \$23.43</b>
20-Day Average Volume (Shares)	<b>751,747</b>
Market Cap	<b>\$55.0 B</b>
Year-To-Date Price Change	<b>9.3%</b>
Beta	<b>1.16</b>
Dividend / Dividend Yield	<b>\$2.00 / 2.8%</b>
Industry	<b>Mining - Non Ferrous</b>
Zacks Industry Rank	<b>Bottom 9% (229 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>14.0%</b>
Last Sales Surprise	<b>7.8%</b>
EPS F1 Estimate 4-Week Change	<b>-3.8%</b>
Expected Report Date	<b>02/23/2021</b>
Earnings ESP	<b>1.5%</b>
P/E TTM	<b>42.6</b>
P/E F1	<b>27.2</b>
PEG F1	<b>2.0</b>
P/S TTM	<b>7.4</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,153 E
2020	1,720 A	1,785 A	2,129 A	1,969 E	7,704 E
2019	1,753 A	1,818 A	1,860 A	1,855 A	7,286 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.69 E	\$0.74 E	\$0.59 E	\$0.47 E	\$2.62 E
2020	\$0.28 A	\$0.34 A	\$0.65 A	\$0.66 E	\$1.93 E
2019	\$0.50 A	\$0.52 A	\$0.50 A	\$0.40 A	\$1.92 A

\*Quarterly figures may not add up to annual.

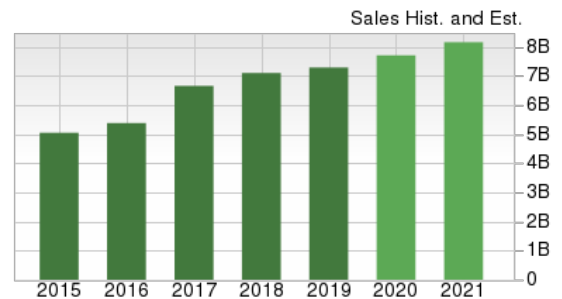
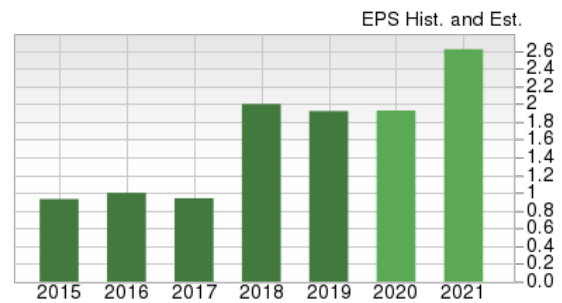
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/07/2021. The reports text is as of 01/08/2021.

## Overview

Phoenix, AZ-based Southern Copper Corporation engages in mining, exploring, smelting, and refining copper and other minerals. The company conducts exploration activities in Argentina, Chile, Ecuador, Mexico and Peru.

Southern Copper reports results under three reportable segments. Each consist of a groups of mines with similar economic characteristics, type of products, processes and support facilities, regulatory environments as well as employee bargaining contracts.

- Peruvian operations** (36% of the company's revenues) includes the Toquepala and Cuajone mine complexes and the smelting and refining plants, industrial railroad and port facilities that service both mines. The Peruvian operations produce copper, with significant by-product production of molybdenum, silver and other materials.
- Mexican Open-Pit** (58% of revenues) includes La Caridad and Buenavista mine complexes, the smelting and refining plants and support facilities, which service both mines. The Mexican open pit operations produce copper, with significant by-product production of molybdenum, silver and other materials.
- Mexican underground operations** (6% of revenues) (IMMSA unit) includes five underground mines that produce zinc, lead, copper, silver and gold, a coal mine which produces coal and coke, and several industrial processing facilities for zinc, copper and silver.



The geographic breakdown of the company's sales is as follows – Americas (50% of revenues), Europe (32%) and Asia (18%).

In the last three years, approximately 80% of the company's revenue came from the sale of copper, 6% from molybdenum and 10% from silver and zinc.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ In 2020, Southern Copper anticipates 21.6 million ounces of silver (its first by-product) that reflects an increase of 6.7% from 2019, primarily attributable to a significant contribution by the San Martin operation and Santa Barbara operations at IMMSA. The San Martin operation is expected to produce 2.9 million ounces of silver, up significantly from the 1.2 million ounces in 2019. The Toquepala concentrator expansion project has increased Toquepala's annual copper production by 100,000 tons.

Molybdenum (second by-product) production increased 7.8% in third-quarter 2020, driven by higher production at the Toquepala mine. A new molybdenum plant, which commenced operations last year, has also contributed significantly to the Toquepala mine output. In 2020, the company expects to produce 29,400 tons of molybdenum, indicating growth of 9.5% over 2019 production levels, primarily owing to the contribution of the plant.

- ▲ The company continues to witness the benefits of cost-reduction programs and expansion actions. Southern Copper has the largest copper reserves in the industry and operates high-quality, world-class assets in investment grade countries, such as Mexico and Peru. Backed by its constant commitment to increasing low-cost production and growth investments, the company is well poised to continue delivering enhanced performance.

Also, Southern Copper's total debt-to-total capital ratio is at 0.48, higher than the industry's 0.41. Even though debt profile is on the higher side, Southern Copper's times interest earned ratio is at 7.1, which is much higher than the industry's 3.1. Further, its cash balance has seen a CAGR of 49% over the past three years. The company has a cash balance of around \$2.1 billion as of Sep 30, 2020. Its current ratio is at 3.73, better than the industry's 1.76. This indicates that the company is in a good position to fulfill its debt obligations. Recently, the company's board of directors hiked quarterly dividend by 25% to 50 cents per share.

- ▲ Southern Copper's approved projects in Peru calls for a total capital budget of \$2.8 billion of which \$1.6 billion has already been invested. Including the Michiquillay (\$2.5 billion) and Los Chancas (\$2.6 billion) projects, its total investment program in Peru runs to \$7.9 billion. Peru is currently the second largest producer of copper globally and its national output has surged 93% over the 2009-2019 time frame. It is expected grow to 245,000 tons in 2022, per Trading Economics. Notably, Peru holds 13% of the world's copper reserves.

In Mexico, the company has a planned investment of \$413 million in the Buenavista Zinc – Sonora project. When completed, this new facility will double the company's zinc production capacity. An investment of \$159 million is estimated for Pilares – Sonora project in Mexico which consists of an open pit mine operation with an annual production capacity of 35,000 tons of copper in concentrates. This project will significantly improve the overall mineral ore grade.

The El Pilar project, with an investment of \$310 million is expected to be completed in 2023, will add 35,000 tons of copper annually. These projects, along with other investments in Mexico, will enhance the company's Mexican operations' copper production by 16% and zinc production by 93%. The company has number of other projects that it may develop in the future which will help it attain copper volume production target of 1.5 million tons by 2028.

- ▲ Copper prices have been gaining lately as demand in China has picked up while production has been declining in Chile, which is the top producer. Further, pickup in industrial activity bodes well for the metal. The long-term outlook for copper is positive as copper demand is expected to grow, driven by electric vehicles and renewable energy and infrastructure investments. However, grade decline, rising input costs, water constraints and scarcity of high-quality future development opportunities continue to constrain the industry's supply. This demand supply imbalance will push copper prices north.

Molybdenum prices are set to increase on the back of healthy demand from the oil and gas industry and reduced supply. Molybdenum is primarily utilized for the production of special alloys of stainless steel that require significant hardness, corrosion and heat resistance. A new use for this metal is in lubricants and sulfur filtering of heavy oils and shale gas production. Long-term fundamentals for zinc remain strong due to its significant industrial consumption. Further, silver prices will gain eventually given its industrial use and impending demand-supply imbalance as well as on safe-haven demand.

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Southern Copper is poised to grow on the back of its copper reserves, expansion projects and benefits of cost-reduction programs. Further, solid long-term outlook for metal prices bodes well.

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## Reasons To Sell:

- ▼ The Peruvian government has given Southern Copper permission to resume construction at its \$1.4 billion Tia Maria project. The company had to cancel work in August 2019, as authorities suspended the construction license. This was due to violent demonstrations by anti-mining groups in July 2019, followed by filing of three complaints, sponsored by groups opposing the Tia Maria project, before the Mining Council.

The company has undergone several setbacks since the announcement of the project in 2010. The construction plan had been halted and readjusted in 2011 and 2015, thanks to fierce opposition by locals due to concerns of Tia Maria's environmental impacts and the possibility of an open-pit mine damaging crops and water supplies. In third-quarter 2020, the company received the results of a review of the social environment in the Tia Maria project.

The company has been implementing social programs and striving to improve community relations in this area.

- ▼ Metal producers worldwide had to suspend production, slow project construction or curb their operations to critical activities as governments imposed restrictions to contain the spread of coronavirus. As of Sep 30, 2020, Southern Copper's operations in Mexico and Peru were working at approximately 96% of their production capacity. The company has restarted exploration activities at all of its locations with the exception of Chile due to local restrictions. The company has incurred COVID-19 related production costs of approximately \$18.9 million till Sep 30, 2020 that include protection equipment and labor costs. Resurgence of cases might lead to the further restrictions and impact the company's operations and results.
- ▼ Copper production declined 2.3% year-over-year to 246,560 tons in the third quarter of 2020. This was primarily due to a decrease in production at Peruvian mines, which was, in turn, attributable to lower ore grades. This effect was partially offset by higher production at Mexican mines, particularly at Buenavista, which increased its production by 2.3% due to higher ore grades. In 2020, Southern Copper expects to produce 996,500 tons of copper, in line with 2019 production and slightly lower than its initial production plan of 997,100 tons. The company expects to produce 72,600 tons of zinc, which is expected to be down 2% from 2019, attributable to a shut down at the Santa Eulalia mine on account of severe flooding. Worsening of the coronavirus situation might impact this guidance.

The coronavirus situation might impact metal prices and weigh on Southern Copper's results in the near-term. Further, frequent opposition for the Tia Maria project in Peru remains an overhang.

## Last Earnings Report

### Southern Copper Q3 Earnings, Revenues Beat Estimates

Southern Copper reported third-quarter 2020 adjusted earnings of 65 cents per share, which beat the Zacks Consensus Estimate of 57 cents. The figure improved 30% from prior-year quarter figure of 50 cents primarily owing to increased sales volumes, and higher silver and copper prices.

Net sales were \$2,129 million, up 15% year over year. Moreover, the top line surpassed the Zacks Consensus Estimate of \$1,975 million. Increased volumes of copper, silver, zinc and molybdenum, and higher silver and copper prices led to improved sales in the quarter. However, lower molybdenum prices were a drag.

Total operating costs rose 3% year over year to \$1,185 million. Operating profit increased 32% to \$944 million on higher sales. Adjusted EBITDA improved 24% year over year to \$1,126 million in third-quarter 2020. Adjusted EBITDA margin was 53% compared with the prior-year quarter figure of 49%.

### Operating Highlights

**Copper:** Southern Copper mined 246,560 tons of copper during the reported quarter, down 2.3% year over year. The downside was due to lower production at its Peruvian mines on account of lower ore grades. However, a 2.3% increase in production at the company's Buenavista mine in Mexico somewhat offset the impact.

**Molybdenum:** The company mined 7,685 tons of molybdenum during the reported quarter, indicating year-over-year growth of 8%. Higher production at its Peruvian mines and La Caridad mines was negated by lower production from the Buenavista mine.

**Zinc:** The company's zinc production was down 0.4% year over year to 17,198 tons in the quarter under review as higher production at the San Martin mine was offset by lower production at other IMMSA zinc operations.

**Silver:** Southern Copper's silver production declined 1.3% year over year to 5,317,000 ounces. Lower production at the Toquepala, Buenavista and IMMSA operations was mitigated by higher production at La Caridad and Cuajone mines.

### Financials

The company generated net cash from operating activities of \$1,688 million in the first nine-month period of 2020 compared with \$1,371 million in the prior-year comparable period driven by strong cash generation at operations, due to an increase in both sales volumes and cost control efficiencies.

Cash and cash equivalents were at \$2,145 million at the end of third-quarter 2020 compared with \$1,925 million as of fiscal 2019 end. Long-term debt was \$6,543 million at the quarter end compared with \$6,541 million as of 2019 end. The company made capital investments worth \$349 million during the first nine-month period of 2020.

Quarter Ending	09/2020
Report Date	Oct 26, 2020
Sales Surprise	7.78%
EPS Surprise	14.04%
Quarterly EPS	0.65
Annual EPS (TTM)	1.67

## Valuation

Southern Copper's shares are up 76.5% over the trailing six-month period and 68.5% over the trailing 12-month period. Stocks in the Zacks Mining-Non Ferrous industry and the Zacks Basic Materials sector are up 90.7% and 37.3% in the trailing six-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 80.1% and 31.3%, respectively.

The S&P 500 index is up 19.6% in the year-to-date period and up 16.3% in the past year.

The stock is currently trading at 27.38X forward 12-month earnings, which compares with 16.83X for the Zacks sub-industry, 13.64X for the Zacks sector and 22.97X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.39X and as low as 11.03X, with a 5-year median of 20.85X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$75 price target reflects 28.85X forward 12-month earnings.

The table below shows summary valuation data for SCCO:

Valuation Multiples - SCCO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	27.38	16.83	13.64	22.97
	5-Year High	33.39	33.02	21.04	23.79
	5-Year Low	11.03	10.86	10.25	15.3
	5-Year Median	20.85	16.53	13.51	17.82
EV/EBITDA TTM	Current	17.19	14.19	11.68	16.98
	5-Year High	17.19	16.5	18.21	17.02
	5-Year Low	6.57	1.23	6.45	9.56
	5-Year Median	12.22	8.62	9.69	13.21
P/B TTM	Current	7.78	2.85	3.44	6.44
	5-Year High	7.78	3.16	3.44	6.46
	5-Year Low	2.65	0.81	1.22	3.74
	5-Year Median	4.44	1.95	2.23	4.94

As of 01/07/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 9% (229 out of 253)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
BHP Group Limited (BHP)	Outperform	1
ClevelandCliffs Inc. (CLF)	Outperform	1
Rio Tinto PLC (RIO)	Outperform	1
VALE S.A. (VALE)	Outperform	1
Coeur Mining, Inc. (CDE)	Neutral	3
FreeportMcMoRan Inc. (FCX)	Neutral	3
HudBay Minerals Inc (HBM)	Neutral	3
Teck Resources Ltd (TECK)	Neutral	4

The positions listed should not be deemed a recommendation to buy, hold or sell.

Industry Comparison Industry: Mining - Non Ferrous				Industry Peers		
	SCCO	X Industry	S&P 500	BHP	FCX	VALE
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	1	3	1
VGM Score	C	-	-	C	B	B
Market Cap	55.03 B	240.48 M	27.00 B	NA	45.29 B	97.08 B
# of Analysts	3	2.5	13	4	6	4
Dividend Yield	2.81%	0.00%	1.43%	3.01%	0.16%	1.32%
Value Score	C	-	-	D	C	C
Cash/Price	0.04	0.05	0.06	NA	0.06	0.10
EV/EBITDA	16.82	-0.60	14.94	NA	22.61	21.47
PEG F1	2.00	2.06	2.64	3.31	NA	0.26
P/B	7.78	1.76	3.75	2.25	2.58	2.92
P/CF	24.45	13.71	14.29	7.75	31.17	8.16
P/E F1	27.23	16.25	20.74	13.71	16.25	6.46
P/S TTM	7.35	3.51	2.97	NA	3.33	2.76
Earnings Yield	3.68%	4.39%	4.71%	7.30%	6.16%	15.48%
Debt/Equity	0.93	0.08	0.70	0.42	0.57	0.42
Cash Flow (\$/share)	2.91	0.03	6.93	9.45	1.00	2.32
Growth Score	B	-	-	C	B	C
Historical EPS Growth (3-5 Years)	NA%	-4.33%	9.71%	NA	-38.67%	22.69%
Projected EPS Growth (F1/F0)	35.81%	35.73%	12.21%	49.09%	265.45%	67.19%
Current Cash Flow Growth	1.48%	-24.77%	5.22%	-0.80%	-63.46%	-8.34%
Historical Cash Flow Growth (3-5 Years)	4.82%	11.17%	8.33%	-0.52%	-24.40%	7.50%
Current Ratio	3.73	1.40	1.38	1.45	2.61	1.64
Debt/Capital	48.07%	29.50%	41.97%	29.67%	36.24%	29.72%
Net Margin	17.17%	-0.73%	10.40%	NA	-0.73%	7.33%
Return on Equity	18.67%	-0.99%	15.20%	NA	1.56%	25.65%
Sales/Assets	0.46	0.45	0.50	NA	0.34	0.41
Projected Sales Growth (F1/F0)	5.84%	3.07%	5.91%	22.76%	32.58%	18.76%
Momentum Score	D	-	-	A	B	B
Daily Price Change	3.23%	1.21%	0.85%	2.05%	3.35%	4.24%
1-Week Price Change	1.59%	3.55%	1.16%	0.29%	4.96%	-0.77%
4-Week Price Change	20.30%	24.92%	3.64%	13.02%	25.38%	11.35%
12-Week Price Change	48.35%	63.59%	13.45%	41.25%	81.12%	69.32%
52-Week Price Change	68.51%	71.61%	8.02%	34.92%	140.51%	45.73%
20-Day Average Volume (Shares)	751,747	104,290	1,694,173	1,946,549	16,683,690	24,069,082
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	4.10%	1.05%	2.18%
EPS F1 Estimate 4-Week Change	-3.80%	0.00%	0.08%	12.66%	0.45%	21.96%
EPS F1 Estimate 12-Week Change	10.88%	4.07%	2.45%	19.07%	8.13%	24.15%
EPS Q1 Estimate Monthly Change	4.55%	0.00%	0.00%	NA	-1.25%	60.00%

Source: Zacks Investment Research

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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## Disclosures

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## Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

**Returns quoted represent past performance which is no guarantee of future results.** Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

## Glossary of Terms and Definitions

**52-Week High-Low:** The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

**20-Day Average Volume (Shares):** The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

**Daily Price Change:** This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

**1-Week Price Change:** This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

**4-Week Price Change:** This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

**12-Week Price Change:** This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

**52-Week Price Change:** This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

**Market Cap:** The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

**Year-To-Date Price Change:** Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

**# of Analysts:** Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

**Beta:** A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

**Dividend:** The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

**Dividend Yield:** The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

**S&P 500 Index:** The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

**Industry:** One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

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**Zacks Industry Rank:** The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

**Last EPS Surprise:** The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

**Last Sales Surprise:** The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

**Expected Report Date:** This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

**Earnings ESP:** The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

**Periods:**

**TTM:** Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

**F1:** Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

**F2:** Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

**F12M:** Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

**P/E Ratio:** The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

**PEG Ratio:** The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

**P/S Ratio:** The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

**Cash/Price Ratio:** The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

**EV/EBITDA Ratio:** The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

**EV/Sales Ratio:** The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

**EV/CF Ratio:** The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

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**EV/FCF Ratio:** The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

**P/EBITDA Ratio:** The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

**P/B Ratio:** The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

**P/TB Ratio:** The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

**P/CF Ratio:** The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

**P/FCF Ratio:** The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

**Earnings Yield:** The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ( $3/35 = 0.0857$ ) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

**Debt/Equity Ratio:** The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

**Cash Flow (\$/share):** Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

**Current Ratio:** The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

**Debt/Capital Ratio:** Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

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**Net Margin:** Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

**Return on Equity:** Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

**Sales/Assets Ratio:** The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

**Historical EPS Growth (3-5 Years):** This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

**Projected EPS Growth (F1/F0):** This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

**Current Cash Flow Growth:** It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

**Historical Cash Flow Growth (3-5 Years):** This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

**Projected Sales Growth (F1/F0):** This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

**EPS F1 Estimate 1-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

**EPS F1 Estimate 4-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

**EPS F1 Estimate 12-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

**EPS Q1 Estimate Monthly Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.