

Southern Copper Corp (SCCO)

\$44.41 (As of 01/13/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/14/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: D

Summary

For 2019, Southern Copper projects total copper production of 991,000 tons, 12% higher than 2018 levels. Metal prices have been impacted by the trade war, concerns over Brexit and slowdown in manufacturing sector, which are likely to continue weighing on Southern Copper's performance in the days ahead. Southern Copper's earnings estimates for the current year have thus undergone downward revisions lately. However, metal prices will eventually pick up in the long term due to the impending demand-supply imbalance. The company will also benefit from cost-reduction programs, expansion actions and its industry leading copper reserves. Southern Copper will also gain on project pipeline and expansion actions; particularly in Peru given that the country's national output is expected to grow 27% by 2022.

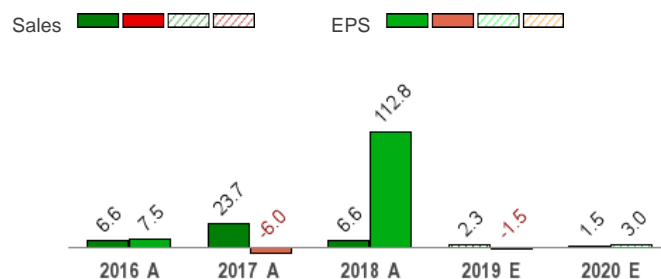
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.55 - \$29.39
20 Day Average Volume (sh)	554,039
Market Cap	\$34.3 B
YTD Price Change	4.5%
Beta	0.96
Dividend / Div Yld	\$1.60 / 3.6%
Industry	Mining - Non Ferrous
Zacks Industry Rank	Top 19% (49 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/11/2020
Earnings ESP	0.0%
P/E TTM	23.4
P/E F1	21.9
PEG F1	1.6
P/S TTM	4.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					7,364 E
2019	1,753 A	1,818 A	1,860 A	1,883 E	7,258 E
2018	1,841 A	1,837 A	1,724 A	1,695 A	7,097 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.47 E	\$0.48 E	\$0.51 E	\$0.51 E	\$2.03 E
2019	\$0.50 A	\$0.52 A	\$0.50 A	\$0.48 E	\$1.97 E
2018	\$0.61 A	\$0.53 A	\$0.48 A	\$0.38 A	\$2.00 A

*Quarterly figures may not add up to annual.

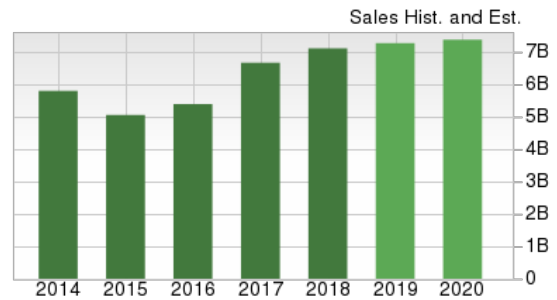
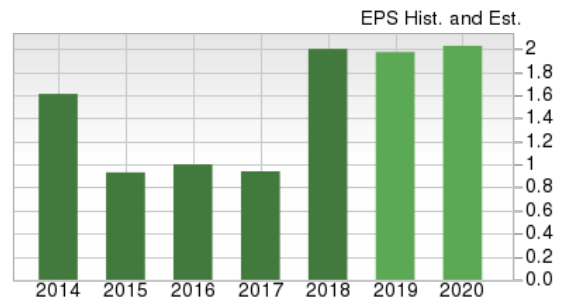
The data in the charts and tables, except sales and EPS estimates, is as of 01/13/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/14/2020.

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 2018 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 2018 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 2018 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 2018 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.



Reasons To Buy:

- ▲ For 2019, the company projects total copper production of 991,000 tons, 12% higher than the 883,689 tons generated in 2018. In 2019, the company anticipates producing 25,500 tons of molybdenum, an expected of 16%, aided by significant contribution of the molybdenum plant at the new Toquepala concentrator. Zinc production is anticipated to increase 10% year over year to 77,500 tons for the ongoing year, as a result of the partial recovery of production at San Martin mine. Silver production is expected to surge 14% year over year to 19.7 million ounces backed by contributions from the San Martin, Santa Barbara and Toquepala mines. Construction of the Toquepala concentrator expansion reached full capacity usage at the end of the June-end quarter. This expansion project will increase Toquepala's annual copper production to 257,000 tons in 2019, a 51% production increase for this operation compared with last year.
- ▲ The company continues to witness the benefits of cost-reduction programs and expansion actions. Considering this year's average prices for its main products, Southern Copper expects cash cost to average 80 cents per copper pound in 2019, an additional reduction of 8% year over year, fortifying its leadership as a low-cost producer. 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.
- ▲ Southern Copper's board approved projects in Peru with 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 (\$2.8 billion) projects, its total investment program in Peru runs to \$8.1 billion. Peru is currently the second largest producer of copper globally and its national output is expected grow 27% by 2022. In Mexico, the company has a planned investment of \$413 million in the Buenavista Zinc – Sonora project. 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. 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 2026.
- ▲ Even though metal prices remain subdued in the near term, the long term prospects remain solid. 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 and expected mine production shutdowns. Further, silver prices will gain eventually given its industrial use and impending demand-supply imbalance.

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

Reasons To Sell:

- ▼ In July 2019, Southern Copper received the construction permit for its \$1.4-billion Tia Maria copper mine project in Peru. On completion, the facility is likely to produce 120,000 tons of copper cathodes annually over a lifespan of 20 years. In July, anti-mining groups staged a violent demonstration, followed by filing of three complaints, sponsored by groups opposing the Tia Maria project, before the Mining Council, the Peruvian administrative authority responsible for investigating these complaints. The Mining Council temporarily suspended the construction permit on Aug 8, 2019, until a decision is reached on the complaints.
- ▼ Copper prices have been down this year owing to the market uncertainty with regard to the U.S.-China trade war and Brexit concerns. Further, the global slowdown in manufacturing activity will continue to drag copper prices. Lower demand from China, which accounts for half of global copper consumption, is also weighing on copper prices. According to the IMF, China's GDP will slow to 5.8% in 2020 from 6.1% in 2019 and 6.6% in 2018.
- ▼ The company's debt-to-equity ratio is currently at 102%, which is a cause of concern. High debt levels and the consequent increase in interest expenses remain headwinds.

Low copper prices and high-debt levels will affect Southern Copper's near-term results. Also, the suspension of the construction permit for the Tia Maria project in Peru remains an overhang.

Last Earnings Report

Southern Copper Q3 Earnings & Sales Top Estimates

Southern Copper Corporation reported third-quarter 2019 earnings of 50 cents per share, which beat the Zacks Consensus Estimate of 49 cents. The figure also improved 4% from prior-year quarter figure of 48 cents. The improved results reflect the benefits from the new Toquepala concentrator, which reached full capacity usage in the first-half 2019, and lower cash cost and other cost reductions.

Net sales came in at \$1,860 million, up 8% year over year. The top line improved on higher sales volume of copper, silver and molybdenum, and higher silver prices. However, lower copper and zinc prices somewhat offset these gains. Further, the reported sales figure surpassed the Zacks Consensus Estimate of \$1,826 million.

In the reported quarter, operating cash cost per pound of copper net of by-product revenues was 82 cents, down 9% from the prior year quarter. This can be attributed to higher by-product revenues and the unit cost effect of higher production.

Adjusted EBITDA improved 5% year over year to \$907.7 million in the third quarter of 2018. Adjusted EBITDA margin was 48.8% compared with the prior-year quarter figure of 50.4%.

Operating Highlights

Copper: Southern Copper mined 252,380 tons of copper during the reported quarter, up 12.7% year over year, owing to higher production at the Peruvian Toquepala and Buenavista mines in Mexico. However, lower production at the Cuacone mine thanks to lower ore grades impacted overall production.

Molybdenum: The company mined 7,130 tons of molybdenum during the reported quarter, indicating year-over-year growth of 23.8% driven by higher production at the Toquepala mine from the new molybdenum plant that commenced production in April 2019.

Zinc: The company's zinc production declined 1.2% year over year to 17,259 tons in third-quarter 2019 on account of lower production at IMMSA mines, which offset the higher production at the San Martin mine.

Silver: Southern Copper's silver production surged 27.3% year over year to 5,388,000 ounces. The increase can be attributed to higher production at Toquepala, Buenavista and IMMSA operations.

Financials

The company generated net cash from operating activities of \$1,371 million in the nine-month period ended Sep 30, 2019 compared with \$1788.9 million reported in the prior-year comparable period.

Cash and cash equivalents were at \$1,935 million at the end of the third quarter, up from \$967.3 million recorded at the end of the prior-year quarter. Long-term debt increased to \$6,540 million at the end of the reported quarter from \$5,959.3 million at the end third-quarter 2018.

The company made capital investments worth \$536 million during nine-month period ended Sep 30, 2019. These are in sync with Southern Copper's growth program, which aims to reach annual production of 1.5 million tons of copper by 2026.

Quarter Ending **09/2019**

Report Date	Oct 25, 2019
Sales Surprise	1.82%
EPS Surprise	0.00%
Quarterly EPS	0.50
Annual EPS (TTM)	1.90

Valuation

Southern Copper's shares are up 44.7% over the trailing 12-month period. Stocks in the Zacks Mining-Non Ferrous industry and the Zacks Basic Materials sector are up 28.8% and 2.6% over the past year, respectively.

The S&P 500 index is up 25% in the past year.

The stock is currently trading at 21.95X forward 12-month earnings, which compares with 20.98X for the Zacks sub-industry, 13.61X for the Zacks sector and 19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.39X and as low as 11.33X, with a five-year median of 19.65X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$47 price target reflects 23.23X 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	21.95	20.98	13.61	19
	5-Year High	33.39	27.42	21.12	19.34
	5-Year Low	11.33	11.12	9.76	15.17
	5-Year Median	19.65	15.16	13.77	17.44
EV/EBITDA TTM	Current	10.91	11.67	9.54	12.12
	5-Year High	16.91	17.18	18.35	12.86
	5-Year Low	8.08	4.56	7.33	8.48
	5-Year Median	12.23	8.84	10.55	10.67
P/B TTM	Current	5	1.77	2.33	4.49
	5-Year High	7.02	3.11	3.54	4.49
	5-Year Low	3.26	0.96	1.34	2.85
	5-Year Median	4.27	1.76	2.18	3.61

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 19% (49 out of 254)



Top Peers

BHP Group Limited (BHP)	Neutral
Coeur Mining, Inc. (CDE)	Neutral
Cleveland-Cliffs Inc. (CLF)	Neutral
Freeport-McMoRan Inc. (FCX)	Neutral
HudBay Minerals Inc (HBM)	Neutral
Rio Tinto PLC (RIO)	Neutral
VALE S.A. (VALE)	Neutral
Buenaventura Mining Company Inc. (BVN)	Underperform

Industry Comparison Industry: Mining - Non Ferrous				Industry Peers		
	SCCO Neutral	X Industry	S&P 500	BHP Neutral	FCX Neutral	VALE Neutral
VGM Score	D	-	-	B	D	A
Market Cap	34.33 B	124.69 M	24.31 B	87.93 B	19.63 B	68.31 B
# of Analysts	3	2.5	13	4	7	2
Dividend Yield	3.60%	0.00%	1.76%	5.70%	1.48%	4.43%
Value Score	C	-	-	B	A	A
Cash/Price	0.06	0.08	0.04	0.18	0.12	0.15
EV/EBITDA	11.00	3.91	14.12	4.26	4.14	5.87
PEG Ratio	1.62	1.91	2.05	3.32	NA	1.53
Price/Book (P/B)	5.00	1.12	3.34	1.70	1.12	1.60
Price/Cash Flow (P/CF)	15.48	6.24	13.66	5.75	4.95	5.35
P/E (F1)	21.94	23.82	18.82	13.77	30.24	8.89
Price/Sales (P/S)	4.82	1.84	2.64	NA	1.37	1.83
Earnings Yield	4.57%	3.37%	5.29%	7.27%	3.33%	11.26%
Debt/Equity	0.95	0.12	0.72	0.45	0.57	0.35
Cash Flow (\$/share)	2.87	0.17	6.94	9.52	2.73	2.49
Growth Score	C	-	-	B	F	C
Hist. EPS Growth (3-5 yrs)	NA%	5.16%	10.56%	NA	-4.94%	71.11%
Proj. EPS Growth (F1/F0)	2.71%	20.94%	7.49%	8.67%	15,762.73%	16.58%
Curr. Cash Flow Growth	57.98%	-5.17%	14.83%	-3.87%	15.94%	20.98%
Hist. Cash Flow Growth (3-5 yrs)	1.94%	5.84%	9.00%	-6.96%	-6.79%	-4.56%
Current Ratio	2.92	1.24	1.23	1.89	2.47	1.38
Debt/Capital	48.77%	17.00%	42.99%	30.89%	36.11%	26.04%
Net Margin	20.68%	-0.22%	11.08%	NA	-0.22%	9.79%
Return on Equity	21.86%	-0.76%	17.16%	NA	0.91%	20.52%
Sales/Assets	0.46	0.46	0.55	NA	0.35	0.40
Proj. Sales Growth (F1/F0)	1.45%	1.45%	4.23%	-1.14%	6.35%	-1.97%
Momentum Score	D	-	-	C	F	C
Daily Price Chg	3.30%	0.00%	0.73%	0.66%	4.88%	2.70%
1 Week Price Chg	3.47%	0.00%	0.39%	-0.29%	0.78%	-2.41%
4 Week Price Chg	7.71%	0.00%	1.84%	-0.80%	4.48%	1.22%
12 Week Price Chg	27.07%	7.19%	6.48%	13.17%	37.78%	17.05%
52 Week Price Chg	37.79%	-16.67%	23.15%	16.14%	17.14%	-5.73%
20 Day Average Volume	554,039	38,372	1,578,594	935,580	15,636,806	15,843,299
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-2.45%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-2.45%	0.00%
(F1) EPS Est 12 week change	-3.80%	-1.71%	-0.48%	-1.73%	3.04%	-5.79%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	-4.35%	0.00%

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 have an excellent 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.

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	C
Momentum Score	D
VGM Score	D

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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