

Southern Copper Corp (SCCO)

\$35.03 (As of 02/26/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: A

Summary

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 commitment to increasing low-cost production and expansion projects, particularly in Peru, the company is well poised to continue delivering improved earnings. However, metal prices have been impacted by the trade war and weak manufacturing sector over the past year. Lower demand from China, which accounts for half of global copper consumption, is also weighing on prices. The recent coronavirus outbreak has dealt a fresh blow to copper, zinc and molybdenum prices. Metal prices will eventually pick up in the long term due to the impending demand-supply imbalance. Further, the company's high debt level remains a headwind.

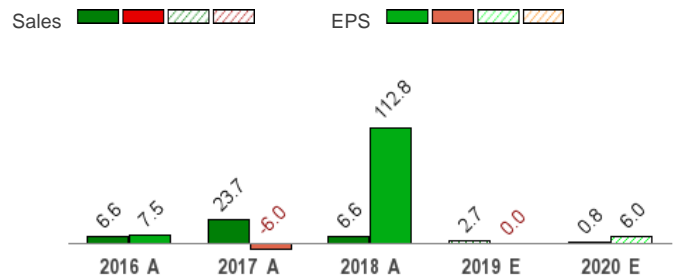
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.82 - \$29.39
20 Day Average Volume (sh)	706,526
Market Cap	\$27.1 B
YTD Price Change	-17.5%
Beta	0.97
Dividend / Div Yld	\$1.60 / 4.6%
Industry	Mining - Non Ferrous
Zacks Industry Rank	Bottom 17% (212 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	6.0%
Expected Report Date	03/03/2020
Earnings ESP	-4.2%
P/E TTM	18.4
P/E F1	16.5
PEG F1	1.2
P/S TTM	3.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					7,347 E
2019	1,753 A	1,818 A	1,860 A	1,832 E	7,290 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	\$0.44 E	\$0.46 E	\$0.47 E	\$0.49 E	\$2.12 E
2019	\$0.50 A	\$0.52 A	\$0.50 A	\$0.48 E	\$2.00 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.

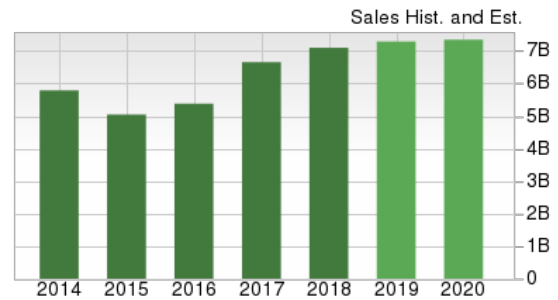
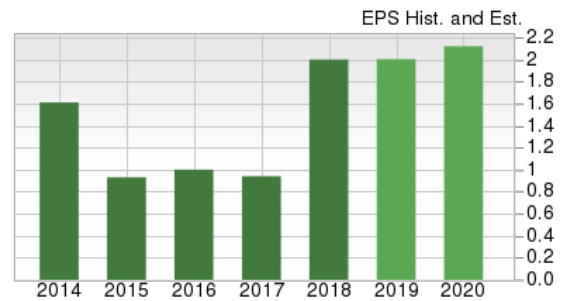
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/26/2020. The reports text is as of 02/27/2020.

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 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.



Reasons To Buy:

- ▲ In 2019, Southern Copper produced around \$1.02 million tons of copper — a new milestone in the company's history. Production also came in higher than the company's guidance of 991,000 tons. Higher copper production at the Toquepala mine and the Buenavista mine as result of operating improvements at its SX-EW plants led to an increase of 12.5% in production from 2018. Construction of the Toquepala concentrator expansion reached full capacity usage at the end of the June-end quarter. This expansion project has increased Toquepala's annual copper production by 100,000 tons.
- ▲ Molybdenum production reached 26,885 tons in 2019, a 22.3% increase from 2018 and above the guidance of 25,500 tons. This was driven by higher production at all of the mines, particularly led by Toquepala mine as result of its new molybdenum plant that set off production in April 2019. Mined silver production increased 17.1% in 2019 backed by the Toquepala, Buenavista and IMMSA operations. Mined zinc production increased 4.4% in 2019 due to higher production at Santa Barbara and San Martin mines. The company has resumed operations at its San Martin mine, which is expected to contribute to the company's production.
- ▲ 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.
- ▲ 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 that it may develop in the future which will help it attain copper volume production target of 1.5 million tons by 2028.
- ▲ 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 its copper reserves, expansion projects and benefits of cost-reduction programs. Further, solid long-term outlook for metal prices bodes well.

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, 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. Notably, 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.
- ▼ Copper prices have been down over the past 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 continues to drag copper prices given its widespread use in the industrial sector.
- ▼ Lower demand from China, which accounts for half of global copper consumption, has been weighing on copper prices. The Chinese economy advanced 6.1% in 2019 — the slowest pace in 29 years. The International Monetary Fund predicts China's economy to grow by 6% in 2020. The outbreak of the coronavirus dealt another blow to copper prices. Concerns that it will impact industrial activity in China — the world's biggest metals consumer, it led to a fresh plunge in copper prices. Now with the virus spreading to other parts of the world, concerns over its impact on the global economy is weighing on prices of copper, zinc and molybdenum. This will impact Southern Copper's results until the situation stabilizes.
- ▼ 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 metal prices due to the impact of coronavirus and high-debt levels will affect Southern Copper's results. Further, frequent opposition for the Tia Maria project in Peru remains an overhang.

Recent News

Southern Copper Q4 Earnings Lag Estimates, Sales Beat - Feb 25, 2020

Southern Copper reported fourth-quarter 2019 adjusted earnings of 40 cents per share, which missed the Zacks Consensus Estimate of 48 cents. However, the figure improved 4% from prior-year quarter figure of 38 cents.

Net sales came in at \$1,855 million, up 9% year over year. The top line improved on higher sales volume of copper, silver and molybdenum, and rising silver prices. However, lower copper, molybdenum and zinc prices somewhat offset these gains. Further, the reported sales figure surpassed the Zacks Consensus Estimate of \$1,832 million. Adjusted EBITDA dipped 1% year over year to \$787 million in fourth-quarter 2019. Adjusted EBITDA margin was 42% compared with the prior-year quarter figure of 47%.

Operating Highlights

Copper: Southern Copper mined 256,461 tons of copper during the reported quarter, up 9% year over year.

Molybdenum: The company mined 7,881 tons of molybdenum during the reported quarter, indicating year-over-year growth of 39%.

Zinc: The company's zinc production improved 16% year over year to 20,364 tons in fourth-quarter 2019.

Silver: Southern Copper's silver production surged 31.7% year over year to 5,663,000 ounces.

Financials

The company generated net cash from operating activities of \$1,912 million in 2019 compared with \$2235 million reported in the prior year. Cash and cash equivalents were at \$1,925 million at the end of 2019, up from \$845 million recorded at the end of the prior year. Long-term debt increased to \$6,541 million at the 2019 end from \$5,960 million at the end of the prior end.

The company made capital investments worth \$707 million during 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 2028.

Production Update

In 2019, copper production reached over 1 million tons, which is a new milestone in the company's history. It also marks year-over-year increase of 12.5% primarily due to higher copper production at the Toquepala mine from the successful ramping up of the new concentrator at this facility; and the Buenavista mine as result of operating improvements at its SX-EW plants. However, lower production at the Cuajone mine due to lower ore grades was a minor concern.

2019 Results

Southern Copper reported adjusted earnings per share of \$1.92 in 2019, down 4% from the prior year. Earnings missed the Zacks Consensus Estimate of \$2.02. Sales were a record \$7,286 million in 2019, up 3% from the previous year. The top line also missed the Zacks Consensus Estimate of \$7,290 million.

Valuation

Southern Copper's shares are down 4.6% over the trailing 12-month period. Stocks in the Zacks Mining-Non Ferrous industry are down 4.4% while the Zacks Basic Materials sector are down 14.3% over the past year.

The S&P 500 index is up 11.2% in the past year.

The stock is currently trading at 16.60X forward 12-month earnings, which compares with 17.88X for the Zacks sub-industry, 12.79X for the Zacks sector and 17.88X 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 19.73X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$37 price target reflects 17.53X 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	16.6	17.88	12.79	17.88
	5-Year High	33.39	27.42	21.15	19.34
	5-Year Low	11.33	11.12	9.82	15.18
	5-Year Median	19.73	15.16	13.63	17.47
EV/EBITDA TTM	Current	9.78	11.06	9.39	12
	5-Year High	16.91	17.18	18.15	12.87
	5-Year Low	8.08	4.56	7.41	8.48
	5-Year Median	12.32	8.86	10.59	10.77
P/B TTM	Current	3.94	1.49	2.11	4.52
	5-Year High	7.02	3.11	3.54	4.9

	5-Year Low	3.26	0.96	1.34	2.85
	5-Year Median	4.3	1.76	2.19	3.62

As of 02/26/2020

Industry Analysis Zacks Industry Rank: Bottom 17% (212 out of 254)



Top Peers

BHP Group Limited (BHP)	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
Coeur Mining, Inc. (CDE)	Underperform

Industry Comparison Industry: Mining - Non Ferrous				Industry Peers		
	SCCO Neutral	X Industry	S&P 500	BHP Neutral	FCX Neutral	VALE Neutral
VGM Score	B	-	-	A	C	A
Market Cap	27.08 B	105.10 M	22.59 B	74.58 B	15.18 B	52.21 B
# of Analysts	3	2.5	13	4	7	1
Dividend Yield	4.57%	0.00%	1.92%	6.72%	1.91%	5.80%
Value Score	B	-	-	A	A	A
Cash/Price	0.07	0.07	0.04	0.18	0.12	0.17
EV/EBITDA	8.95	2.76	13.29	3.70	9.83	4.45
PEG Ratio	1.22	1.44	1.93	2.87	NA	1.16
Price/Book (P/B)	3.94	0.87	3.03	1.42	0.87	1.34
Price/Cash Flow (P/CF)	12.21	7.56	12.33	4.88	10.46	33.77
P/E (F1)	16.52	16.52	17.79	11.88	31.97	6.74
Price/Sales (P/S)	3.80	1.30	2.47	NA	1.04	1.39
Earnings Yield	6.05%	1.12%	5.60%	8.42%	3.15%	14.83%
Debt/Equity	0.95	0.12	0.70	0.43	0.56	0.34
Cash Flow (\$/share)	2.87	0.17	7.02	9.52	1.00	0.30
Growth Score	C	-	-	B	F	C
Hist. EPS Growth (3-5 yrs)	NA%	2.63%	10.85%	NA	-18.02%	71.11%
Proj. EPS Growth (F1/F0)	5.83%	15.69%	6.79%	6.83%	1,535.70%	17.51%
Curr. Cash Flow Growth	57.98%	-2.15%	6.53%	-3.87%	-63.46%	-88.09%
Hist. Cash Flow Growth (3-5 yrs)	1.94%	6.39%	8.38%	-6.96%	-24.40%	-4.56%
Current Ratio	2.92	1.36	1.22	1.62	2.47	1.23
Debt/Capital	48.77%	29.02%	42.37%	30.07%	36.01%	25.59%
Net Margin	20.68%	-1.40%	11.57%	NA	-1.12%	-4.57%
Return on Equity	21.86%	-0.76%	16.80%	NA	0.18%	7.32%
Sales/Assets	0.46	0.46	0.54	NA	0.36	0.40
Proj. Sales Growth (F1/F0)	0.79%	0.00%	4.06%	-0.28%	4.90%	-4.94%
Momentum Score	A	-	-	C	B	A
Daily Price Chg	-0.06%	-0.06%	-0.98%	-0.73%	-2.52%	-1.26%
1 Week Price Chg	-3.59%	0.00%	-0.94%	-2.48%	-2.45%	-3.79%
4 Week Price Chg	-9.27%	-10.26%	-6.27%	-12.25%	-7.35%	-14.81%
12 Week Price Chg	-7.08%	-10.46%	-3.33%	-9.68%	-5.85%	-15.87%
52 Week Price Chg	-4.60%	-34.60%	6.81%	-14.44%	-20.52%	-18.50%
20 Day Average Volume	706,526	51,207	2,109,774	2,226,027	24,841,510	26,187,460
(F1) EPS Est 1 week change	-0.16%	0.00%	0.00%	0.00%	0.00%	0.50%
(F1) EPS Est 4 week change	6.00%	0.00%	-0.08%	-2.80%	0.00%	-4.43%
(F1) EPS Est 12 week change	0.47%	-8.42%	-0.22%	-0.76%	-28.88%	-2.83%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.61%	NA	0.00%	1.67%

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	B
Growth Score	C
Momentum Score	A
VGM Score	B

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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