

Southern Copper Corp (SCCO)

\$36.30 (As of 05/27/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: C

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. However, its operations are likely to be impacted as these countries have imposed restrictions in order to curb the spread of coronavirus. Notably, the pandemic has hit metal prices. Further, lower demand from China, which accounts for half of global copper consumption, is also weighing on prices. This will have a bearing on the company's results in the near term. Nevertheless, it will continue to benefit from cost-reduction programs and expansion actions. The company's project pipeline remains solid. Despite the current weakness, metal prices will eventually pick up in the long term on account of the impending demand-supply imbalance.

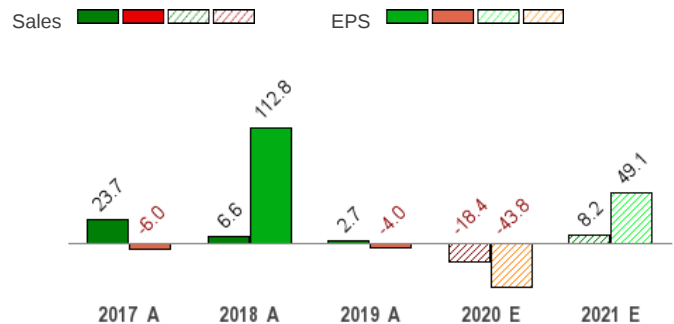
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.82 - \$23.43
20 Day Average Volume (sh)	701,978
Market Cap	\$28.1 B
YTD Price Change	-14.6%
Beta	1.05
Dividend / Div Yld	\$0.80 / 2.2%
Industry	Mining - Non Ferrous
Zacks Industry Rank	Top 13% (32 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-28.2%
Last Sales Surprise	5.1%
EPS F1 Est- 4 week change	-2.1%
Expected Report Date	07/22/2020
Earnings ESP	-7.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,434 E
2020	1,720 A	1,174 E	1,390 E	1,397 E	5,947 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	\$0.42 E	\$0.42 E	\$0.43 E	\$0.43 E	\$1.61 E
2020	\$0.28 A	\$0.13 E	\$0.23 E	\$0.28 E	\$1.08 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.

P/E TTM	21.4
P/E F1	33.6
PEG F1	2.5
P/S TTM	3.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/27/2020. The reports text is as of 05/28/2020.

Overview

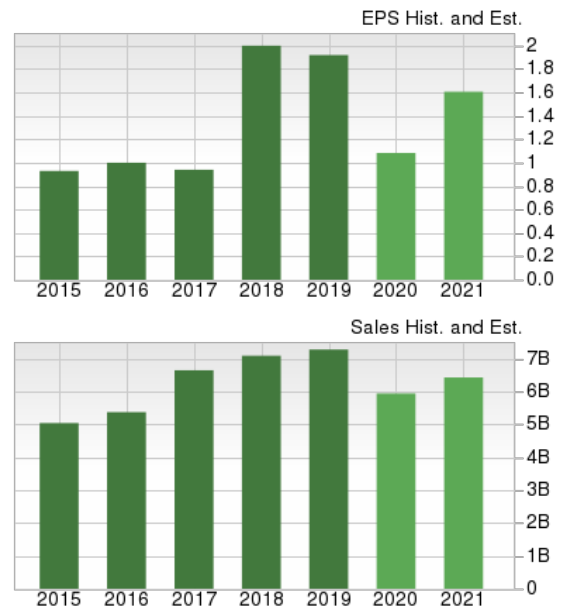
Phoenix, AZ-based Southern Copper Corporation engages in mining, exploring, smelting, and refining copper and other minerals. The company conducts exploration activities in Argentina, Chile, Ecuador, Mexico and Peru.

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:

- ▲ The company's copper production increased 5.8% year over year in first-quarter 2020 to 241,967 tons courtesy of higher production at Peruvian mines (+17.8%) as result of the new Toquepala concentrator and higher ore grades and recoveries in the Cuajone mine. Construction of the Toquepala concentrator expansion reached full capacity usage at the end of the June-end quarter last year. This expansion project has increased Toquepala's annual copper production by 100,000 tons. Molybdenum mine production increased 39.7% in the quarter due to significantly higher production at the Toquepala mine and Cuajone mine. A new molybdenum plant, which had started operating last year, has contributed significantly to the Toquepala mine output. Mined silver production increased 21.6% year over year driven by higher production at all the operations. Zinc mine production increased 3.8% to 19,263 tons in first-quarter 2020, primarily driven by new production coming from the San Martin mine, and increased production in the Charcas and Santa Barbara mines.
- ▲ 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's long-term debt has witnessed a CAGR of 3% over the 2016-2019 timeframe and is currently at \$6.5 billion. The company's total debt-to-total capital ratio is at 0.51, higher than the industry's 0.43. Even though debt profile is on the higher side, Southern Copper's times interest earned ratio is at 7.2, which is much higher than the industry's 1.9. Further, its cash balance has seen a CAGR of 49% over the past three years. The company has a cash balance of around \$2 billion as of Mar 31, 2020 and current ratio is at 2.98, much better than the industry's 1.50. This indicates that the company is in a good position to fulfill its debt obligations.

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 in the past year owing to the market uncertainty with regard to the U.S.-China trade war and Brexit concerns. Notably, given copper's widespread use in the industrial sector, the global slowdown in manufacturing activity continues to weigh on copper prices this year too. The outbreak of the coronavirus also dealt another blow to copper prices. Lower demand from China, which accounts for half of global copper consumption, has been weighing on copper prices. The International Monetary Fund predicts the global economy to contract 3% in 2020. China's economy is expected to grow a meager 1.2% in 2020 following growth of 6.1% in 2019. Concerns over the impact of the pandemic on the global economy are weighing on prices of copper, zinc and molybdenum. This will impact Southern Copper's results until the situation stabilizes.
- ▼ Metal producers worldwide are suspending production, slowing project construction or curbing their operations to critical activities as governments are imposing restrictions to contain the spread of coronavirus. The Peruvian Government has closed its borders, declaring a state of national emergency that has been extended until the end of June. Chile has also declared a 90 day state of catastrophe and Mexico is in lockdown. Given that Southern Copper has operations in these countries, its production and operations are likely to be impacted.

Low metal prices due to the impact of coronavirus will continue to affect Southern Copper's results. Further, frequent opposition for the Tia Maria project in Peru remains an overhang.

Last Earnings Report

Southern Copper Q1 Earnings Lag Estimates, Sales Beat

Southern Copper Corporation reported first-quarter 2020 adjusted earnings of 28 cents per share, which missed the Zacks Consensus Estimate of 39 cents. The figure also declined 44% from prior-year quarter figure of 39 cents primarily owing to lower sales and higher operating costs.

Net sales came in at \$1,720 million, down 2% year over year. However, the top line surpassed the Zacks Consensus Estimate of \$1,637 million. While the company witnessed higher volumes of copper, silver and molybdenum and zinc, lower metal prices led to lower sales in the quarter.

Total operating costs flared up 12% year over year to \$1,186 million. Operating profit plunged 23% to \$533 million on lower sales and higher operating costs. Adjusted EBITDA declined 19% year over year to \$719 million in first-quarter 2020. Adjusted EBITDA margin was 42% compared with the prior-year quarter figure of 51%.

Operating Highlights

Copper: Southern Copper mined 241,967 tons of copper during the reported quarter, up 6% year over year.

Molybdenum: The company mined 7,185 tons of molybdenum during the reported quarter, indicating year-over-year growth of 40%.

Zinc: The company's zinc production improved 4% year over year to 19,263 tons in the quarter under review.

Silver: Southern Copper's silver production surged 22% year over year to 5,278,000 ounces.

Financials

The company generated net cash from operating activities of \$475 million in first-quarter 2020 compared with \$371 million in the prior-year quarter.

Cash and cash equivalents were at \$2,051.6 million at the end of first-quarter 2020, up from \$737 million recorded at the end of the prior year and \$1,925 million as of fiscal 2019 end. Long-term debt was \$6,542 million at the quarter end compared with \$6,541 million as of 2019 end and \$5,960 million as of the prior-year quarter end. The company made capital investments worth \$101 million during the reported quarter.

On Apr 23, 2020, Southern Copper's board of directors authorized a dividend of 20 cents per share payable on May 26, 2020, to shareholders of record at the close of business on May 13, 2020. Due to the uncertainty of the metal markets and world economy, and its planned expansions, the board has slashed the dividend to 50% of its former payout.

Quarter Ending 03/2020

Report Date	Apr 27, 2020
Sales Surprise	5.05%
EPS Surprise	-28.21%
Quarterly EPS	0.28
Annual EPS (TTM)	1.70

Valuation

Southern Copper's shares are down 14.5% over the year-to-date period and up 6.3% over the trailing 12-month period. Stocks in the Zacks Mining-Non Ferrous industry and the Zacks Basic Materials sector are down 22.9% and 12.0%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 5.4% and 3.7%, respectively.

The S&P 500 index is down 5.7% in the year-to-date period and up 8.9% in the past year.

The stock is currently trading at 28.02X forward 12-month earnings, which compares with 29.20X for the Zacks sub-industry, 16.30X for the Zacks sector and 21.75X 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 five-year median of 19.86X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$38 price target reflects 29.33X 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	28.02	29.2	16.3	21.75
	5-Year High	33.39	33.02	21.06	21.75
	5-Year Low	11.03	10.86	9.79	15.23
	5-Year Median	19.86	15.62	13.49	17.49
EV/EBITDA TTM	Current	9.76	8.94	8.76	11.07
	5-Year High	16.91	22.39	18.31	12.86
	5-Year Low	6.57	4.44	6.48	8.26
	5-Year Median	11.53	8.93	10.5	10.8
P/B TTM	Current	4.15	1.28	2.63	4.09
	5-Year High	7.02	3.16	3.43	4.56
	5-Year Low	2.65	0.81	1.22	2.83
	5-Year Median	4.27	1.89	2.18	3.65

As of 05/27/2020

Industry Analysis Zacks Industry Rank: Top 13% (32 out of 248)



Top Peers

Company (Ticker)	Rec	Rank
BHP Group Limited (BHP)	Neutral	3
Buenaventura Mining Company Inc. (BVN)	Neutral	3
Coeur Mining, Inc. (CDE)	Neutral	2
ClevelandCliffs Inc. (CLF)	Neutral	3
FreeportMcMoRan Inc. (FCX)	Neutral	3
HudBay Minerals Inc (HBM)	Neutral	3
Rio Tinto PLC (RIO)	Neutral	3
VALE S.A. (VALE)	Neutral	3

Industry Comparison Industry: Mining - Non Ferrous				Industry Peers		
	SCCO	X Industry	S&P 500	BHP	FCX	VALE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	A	D	B
Market Cap	28.06 B	103.16 M	21.39 B	74.21 B	13.49 B	49.08 B
# of Analysts	3	3	14	4	7	4
Dividend Yield	2.20%	0.00%	1.97%	5.63%	1.61%	6.17%
Value Score	C	-	-	A	B	A
Cash/Price	0.08	0.08	0.06	0.20	0.13	0.28
EV/EBITDA	9.21	4.31	12.63	NA	9.29	11.33
PEG Ratio	2.51	2.64	2.91	3.16	NA	NA
Price/Book (P/B)	4.15	0.80	2.99	1.42	0.79	1.48
Price/Cash Flow (P/CF)	12.47	5.91	11.80	4.85	9.29	4.12
P/E (F1)	34.06	40.51	21.42	13.10	NA	9.64
Price/Sales (P/S)	3.87	1.78	2.29	NA	0.99	1.35
Earnings Yield	2.98%	-2.05%	4.44%	7.64%	-2.05%	10.34%
Debt/Equity	0.97	0.12	0.76	0.43	0.58	0.53
Cash Flow (\$/share)	2.91	0.03	6.96	9.52	1.00	2.32
Growth Score	D	-	-	A	F	D
Hist. EPS Growth (3-5 yrs)	NA%	4.42%	10.87%	NA	-14.74%	30.98%
Proj. EPS Growth (F1/F0)	-43.58%	0.00%	-10.41%	-3.62%	-1,035.70%	-37.97%
Curr. Cash Flow Growth	1.48%	-24.77%	5.46%	-3.87%	-63.46%	-8.34%
Hist. Cash Flow Growth (3-5 yrs)	4.82%	9.52%	8.55%	-6.96%	-24.40%	7.50%
Current Ratio	2.98	1.44	1.29	1.62	2.34	1.72
Debt/Capital	49.17%	32.60%	44.54%	30.07%	36.69%	34.61%
Net Margin	18.10%	-3.92%	10.59%	NA	-5.05%	0.54%
Return on Equity	19.25%	-1.55%	16.29%	NA	-1.55%	16.43%
Sales/Assets	0.45	0.46	0.55	NA	0.33	0.40
Proj. Sales Growth (F1/F0)	-18.38%	0.00%	-2.34%	-4.62%	-17.40%	-17.45%
Momentum Score	C	-	-	C	D	B
Daily Price Chg	0.92%	0.00%	2.29%	0.61%	0.32%	5.05%
1 Week Price Chg	7.22%	1.84%	4.99%	10.04%	3.07%	8.59%
4 Week Price Chg	4.79%	0.16%	2.47%	9.74%	0.32%	9.25%
12 Week Price Chg	1.37%	-0.92%	-6.13%	0.94%	-11.10%	-9.38%
52 Week Price Chg	6.26%	-25.69%	0.67%	-12.22%	-7.01%	-23.19%
20 Day Average Volume	701,978	52,960	2,423,651	2,225,796	21,194,182	24,490,196
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.11%	0.00%	-2.07%	-0.56%	0.76%	-17.29%
(F1) EPS Est 12 week change	-49.69%	0.00%	-16.07%	-9.78%	-157.21%	-34.27%
(Q1) EPS Est Mthly Chg	5.41%	2.70%	-3.59%	NA	0.00%	-41.13%

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	D
Momentum Score	C
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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