



# Southern Copper Corp. (SCCO)

Updated July 26<sup>th</sup>, 2021 by Quinn Mohammed

## Key Metrics

|                             |      |  |       |   |            |
|-----------------------------|------|--|-------|---|------------|
| <b>Current Price:</b>       | \$65 | <b>5 Year CAGR Estimate:</b>               | 13.7% | <b>Market Cap:</b>                        | \$50.3 B   |
| <b>Fair Value Price:</b>    | \$80 | <b>5 Year Growth Estimate:</b>             | 6.0%  | <b>Ex-Dividend Date<sup>1</sup>:</b>      | 08/11/2021 |
| <b>% Fair Value:</b>        | 81%  | <b>5 Year Valuation Multiple Estimate:</b> | 4.3%  | <b>Dividend Payment Date<sup>2</sup>:</b> | 08/26/2021 |
| <b>Dividend Yield:</b>      | 4.3% | <b>5 Year Price Target</b>                 | \$107 | <b>Years Of Dividend Growth:</b>          | 0          |
| <b>Dividend Risk Score:</b> | F    | <b>Retirement Suitability Score:</b>       | C     | <b>Last Dividend Increase:</b>            | 16.7%      |

## Overview & Current Events

Southern Copper Corporation is one of the largest integrated copper producers in the world. The corporation produces copper, molybdenum, zinc, lead, coal, and silver. All mining, smelting, and refining facilities are located in Peru and Mexico. Exploration activities are conducted in Peru, Mexico, and Chile. Southern Copper is listed on the NYSE and the Lima Stock Exchange since 1996, under the ticker symbol SCCO. SCCO has a market capitalization of \$50.3 billion. Southern Copper Corp. is an indirect subsidiary of Grupo Mexico, which owns 88.9% of SCCO capital stock through its wholly owned Americas Mining Corporation. SCCO has nearly 14,000 employees.

On July 26<sup>th</sup>, Southern Copper released second quarter results. Second quarter net sales were \$2.90 billion, a significant 62.3% increase over the same prior year period net sales of \$1.79 billion. The growth in net sales was primarily driven by a large increase in metal prices for copper (+82%), silver (+62%) and zinc (+48%).

Second quarter net income grew 259.4% year-over-year, to \$932.7 million. Net income margin grew from 14.5% one year ago to 32.2% in 2Q21. Income per share grew 255.9%, or \$0.87, to \$1.21 from \$0.34 in the prior year period. In the first six months of fiscal 2021, SCCO's income per share has grown 259% from \$0.61 to \$2.19.

Impressively, the operating cash cost per pound of copper was \$0.59 in 2Q21, compared to \$0.66 in the same prior year period. The 7.5% decrease was due to a significant increase in by-product revenues.

## Growth on a Per-Share Basis

| Year                      | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021          | 2026          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$2.73 | \$2.65 | \$1.92 | \$1.61 | \$0.93 | \$1.00 | \$1.90 | \$2.00 | \$1.92 | \$2.03 | <b>\$4.46</b> | <b>\$5.97</b> |
| <b>DPS</b>                | \$2.43 | \$3.71 | \$0.68 | \$0.46 | \$0.34 | \$0.18 | \$0.59 | \$1.40 | \$1.60 | \$1.50 | <b>\$2.80</b> | <b>\$3.57</b> |
| <b>Shares<sup>3</sup></b> | 850.0  | 845.6  | 835.3  | 812.6  | 775.9  | 773.0  | 773.0  | 773.1  | 773.1  | 773.1  | <b>773.0</b>  | <b>773.0</b>  |

Southern Copper Corp has a very choppy earnings history as their growth is highly reliant on ever-changing commodity prices, primarily copper but also silver, zinc, and others. Even so, the company expects that the quality of the assets they operate and develop will fuel growth over the long term. While net income per share has fallen by 3.2% on average over the last nine years, and it has grown by 16.9% on average in the last five. A significant increase in precious metals prices has caused significant growth in earnings in recent quarters, and we forecast a massive increase in net income per share to \$4.46 this year. From this point on, we estimate that SCCO can continue to compound net income per share by roughly 6% going forward. The dividend has also risen and fallen frequently, and we are forecasting 5% growth to \$3.57 in 2026, still below its peak in 2012.

Southern Copper's growth is underpinned by solid fundamentals in the copper market. The automobile industry's global recovery was part of the cause for an 89% increase in copper production in 1Q21. Additionally, the \$2.0 trillion infrastructure package is estimated to cause a significant increase in copper demand, as it's a fundamental element to green energy. All this can cause a 2021 market deficit due to the large recovery in demand, which would cause an even

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> In millions

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larger increase in copper prices, directly adding to SCCO's top line. Southern also has some of the lowest cash cost for producing copper, and still, they are able to lower this and fuel bottom line growth. Finally, the company is investing into increasing production at their existing mines and constructing new mines.

## Valuation Analysis

| Year      | 2011 | 2012  | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now  | 2026 |
|-----------|------|-------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 12.7 | 12.5  | 16.3 | 18.6 | 30.5 | 27.2 | 20.2 | 22.8 | 18.8 | 21.1 | 14.6 | 18.0 |
| Avg. Yld. | 7.0% | 11.2% | 2.2% | 1.5% | 1.2% | 0.7% | 1.5% | 3.1% | 4.4% | 3.5% | 4.3% | 3.3% |

Southern Copper has traded at a price-to-net income of 20.1 and 22.0 on average in the past nine and five years. Today shares are trading at a large discount of 14.6 times net income due to an expected spike in net income for the 2021 fiscal year. We estimate that shares are worth 18.0 times net income and expect to see a 4.3% gain due to valuation expansion. The yield of 4.3% today is quite healthy for a mining company.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 89%  | 140% | 35%  | 29%  | 37%  | 18%  | 31%  | 70%  | 83%  | 74%  | 63%  | 60%  |

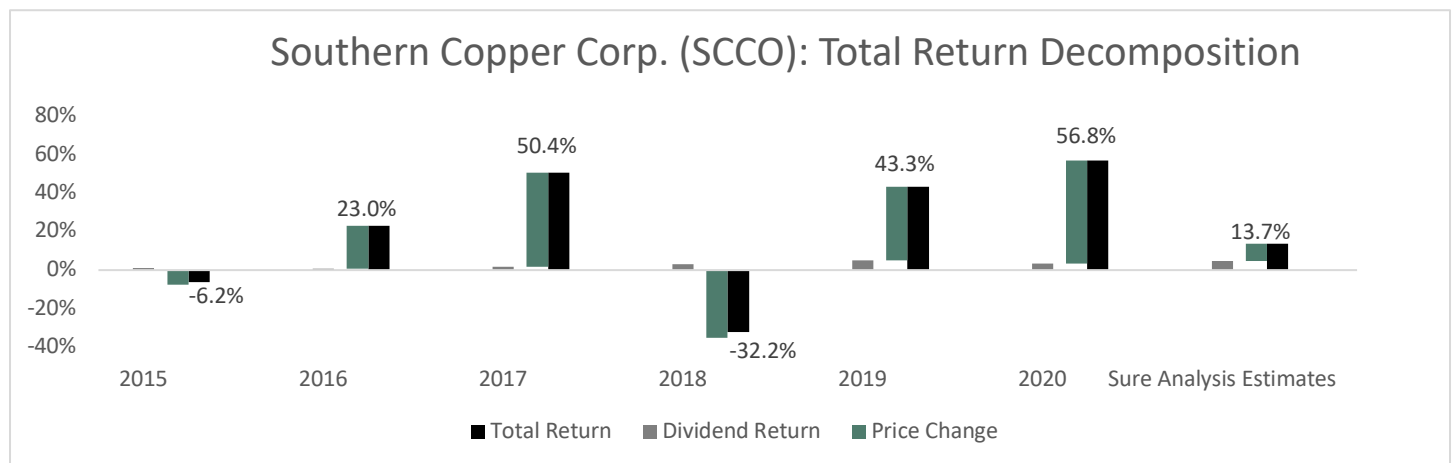
Southern Copper is a power player in the copper mining, smelting, and refining businesses. SCCO has the world's largest copper reserves, with 67.7 million tonnes (Mt) (the second largest is Freeport with 51.3 Mt). Southern also has the #1 mine life among copper producers and is the world's 5<sup>th</sup> largest producer of mined copper. The corporation also had the second lowest cash cost for producer copper among its peer group, which is yet another advantage.

SCCO was negatively affected by the great financial crisis, and earnings dropped in half from 2007 to 2009, which forced a reduction in the dividend from \$2.24 to \$0.44. While precious metals prices may increase during tough economic conditions, demand for the metals are likely to decrease.

## Final Thoughts & Recommendation

Southern Copper is a copper behemoth with the world's largest copper reserves. The company is experiencing a strong 2021 due to an increase in precious metals prices, and it appears as if the share price has not kept up with this estimation. We estimate SCCO can produce total returns of 13.7% in the near term, and currently trades at 81% of our estimated fair value, thus we rate SCCO a Buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                    | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Revenue</b>          | 6,819 | 6,669 | 5,953 | 5,788 | 5,046 | 5,380 | 6,655 | 7,097 | 7,286 | 7,985 |
| <b>Gross Profit</b>     | 3,767 | 3,574 | 2,686 | 2,502 | 1,608 | 1,699 | 2,731 | 3,013 | 2,915 | 3,280 |
| <b>Gross Margin</b>     | 55.3% | 53.6% | 45.1% | 43.2% | 31.9% | 31.6% | 41.0% | 42.5% | 40.0% | 41.1% |
| <b>SG&amp;A Exp.</b>    | 104   | 101   | 103   | 103   | 99    | 94    | 93    | 103   | 132   | 126   |
| <b>Operating Profit</b> | 3,625 | 3,425 | 2,532 | 2,233 | 1,414 | 1,564 | 2,619 | 2,881 | 2,753 | 3,121 |
| <b>Operating Margin</b> | 53.2% | 51.4% | 42.5% | 38.6% | 28.0% | 29.1% | 39.4% | 40.6% | 37.8% | 39.1% |
| <b>Net Profit</b>       | 2,336 | 1,935 | 1,619 | 1,333 | 736   | 777   | 729   | 1,543 | 1,486 | 1,570 |
| <b>Net Margin</b>       | 34.3% | 29.0% | 27.2% | 23.0% | 14.6% | 14.4% | 10.9% | 21.7% | 20.4% | 19.7% |
| <b>Free Cash Flow</b>   | 1,467 | 952   | 156   | (174) | (270) | (195) | 953   | 1,114 | 1,204 | 2,191 |
| <b>Income Tax</b>       | 1,104 | 1,081 | 769   | 755   | 465   | 501   | 1,593 | 1,054 | 945   | 1,174 |

## Balance Sheet Metrics

| Year                          | 2011  | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   |
|-------------------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Total Assets</b>           | 8,063 | 10,384 | 10,996 | 11,394 | 12,593 | 13,234 | 13,780 | 14,288 | 16,407 | 16,947 |
| <b>Cash &amp; Equivalents</b> | 848   | 2,459  | 1,673  | 364    | 275    | 546    | 1,005  | 845    | 1,925  | 2,184  |
| <b>Accounts Receivable</b>    | 695   | 669    | 533    | 540    | 449    | 669    | 976    | 822    | 833    | 1,069  |
| <b>Inventories</b>            | 636   | 696    | 694    | 836    | 857    | 1,010  | 1,042  | 1,033  | 1,069  | 950    |
| <b>Total Liabilities</b>      | 110   | 109    | 110    | 124    | 155    | 154    | 153    | 148    | 148    | 143    |
| <b>Accounts Payable</b>       | 4,026 | 5,595  | 5,434  | 5,557  | 7,294  | 7,363  | 7,631  | 7,675  | 9,549  | 9,671  |
| <b>Long-Term Debt</b>         | 443   | 476    | 493    | 547    | 647    | 584    | 660    | 673    | 598    | 595    |
| <b>Shareholder's Equity</b>   | 2,746 | 4,214  | 4,205  | 4,181  | 5,952  | 5,954  | 5,957  | 5,960  | 6,941  | 6,544  |
| <b>D/E Ratio</b>              | 4,015 | 4,765  | 5,534  | 5,805  | 5,263  | 5,832  | 6,108  | 6,567  | 6,810  | 7,225  |

## Profitability & Per Share Metrics

| Year                    | 2011  | 2012  | 2013  | 2014   | 2015   | 2016   | 2017  | 2018  | 2019  | 2020  |
|-------------------------|-------|-------|-------|--------|--------|--------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 28.9% | 21.0% | 15.1% | 11.9%  | 6.1%   | 6.0%   | 5.4%  | 11.0% | 9.7%  | 9.4%  |
| <b>Return on Equity</b> | 59.1% | 44.1% | 31.4% | 23.5%  | 13.3%  | 14.0%  | 12.2% | 24.3% | 22.2% | 22.4% |
| <b>ROIC</b>             | 34.7% | 24.5% | 17.2% | 13.5%  | 6.9%   | 6.7%   | 6.1%  | 12.5% | 11.3% | 11.4% |
| <b>Shares Out.</b>      | 850.0 | 845.6 | 835.3 | 812.6  | 775.9  | 773.0  | 773.0 | 773.1 | 773.1 | 773.1 |
| <b>Revenue/Share</b>    | 7.98  | 7.86  | 7.06  | 6.99   | 6.35   | 6.95   | 8.61  | 9.18  | 9.42  | 10.33 |
| <b>FCF/Share</b>        | 1.72  | 1.12  | 0.18  | (0.21) | (0.34) | (0.25) | 1.23  | 1.44  | 1.56  | 2.83  |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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