



Southern Copper Corp. (SCCO)

Updated October 29th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$61	5 Year CAGR Estimate:	14.6%	Market Cap:	\$46.8 B
Fair Value Price:	\$80	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	11/09/2021
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.5%	Dividend Payment Date²:	11/23/2021
Dividend Yield:	5.2%	5 Year Price Target	\$102	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	11.1%

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 \$46.8 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 October 26th, Southern Copper released third quarter results. Third quarter net sales were \$2.68 billion, a significant 26% increase over the same prior year period net sales of \$2.13 billion. The growth in net sales was primarily driven by a large increase in metal prices for copper (+44%), molybdenum (+144%) and zinc (+28%).

Third quarter net income grew 72% year-over-year, to \$868 million. Net income margin grew from 23.8% to 32.4% in 3Q21. Income per share grew 72%, or \$0.47, to \$1.12 from \$0.65 in the prior year period. In the first nine months of fiscal 2021, SCCO's income per share has grown 161.4% from \$1.27 to \$3.32.

Impressively, the operating cash cost per pound of copper was \$0.58 in 3Q21, compared to \$0.56 in the same prior year period. The 9.9% decrease was due to a significant increase in by-product revenue credits.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.73	\$2.65	\$1.92	\$1.61	\$0.93	\$1.00	\$1.90	\$2.00	\$1.92	\$2.03	\$4.43	\$5.65
DPS	\$2.43	\$3.71	\$0.68	\$0.46	\$0.34	\$0.18	\$0.59	\$1.40	\$1.60	\$1.50	\$3.20	\$4.08
Shares³	850.0	845.6	835.3	812.6	775.9	773.0	773.0	773.1	773.1	773.1	773.0	773.0

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 \$4.43 this year. From this point on, we estimate that SCCO can continue to compound net income per share by roughly 5% going forward. The dividend has also risen and fallen frequently, and we are forecasting 5% growth to \$4.08 in 2026, eclipsing 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 trillion dollar plus 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

¹ Estimate

² Estimate

³ 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	13.6	18.0
Avg. Yld.	7.0%	11.2%	2.2%	1.5%	1.2%	0.7%	1.5%	3.1%	4.4%	3.5%	5.3%	3.8%

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 13.6 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 5.5% gain due to valuation expansion. The yield of 5.2% 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%	72%	72%

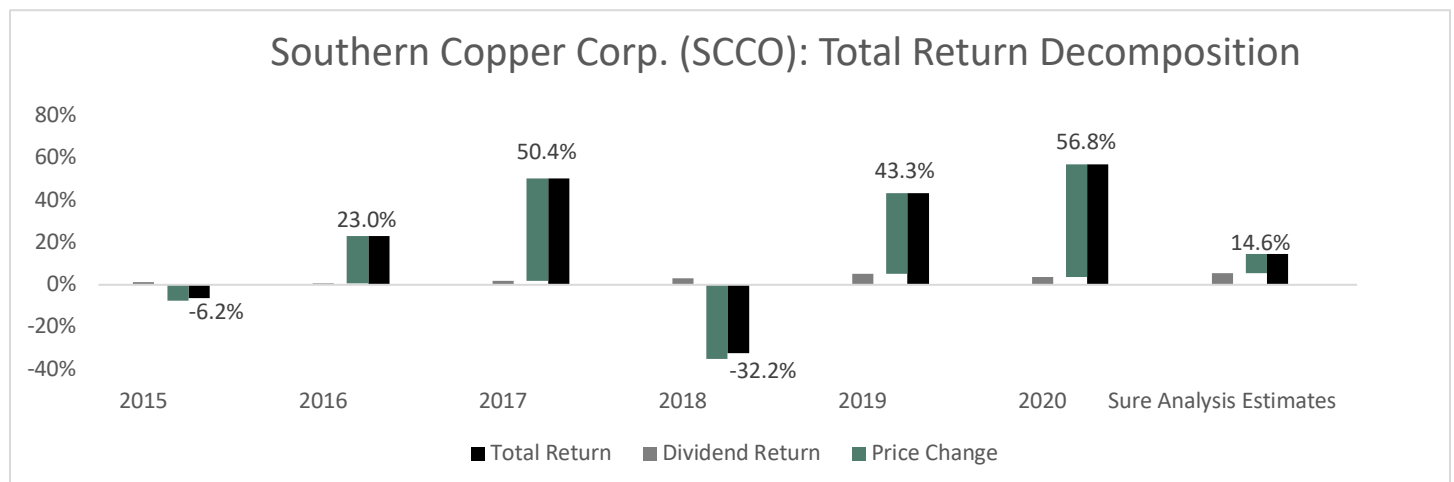
Southern Copper is a power player in the copper mining, smelting, and refining businesses. SCCO has the world's largest copper reserves, with over 67.7 million tonnes (Mt). Southern also has the #1 mine life among copper producers and is the world's 5th largest producer of mined copper. The corporation 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 14.6% in the near term, and currently trades at 76% 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
Revenue	6,819	6,669	5,953	5,788	5,046	5,380	6,655	7,097	7,286	7,985
Gross Profit	3,767	3,574	2,686	2,502	1,608	1,699	2,731	3,013	2,915	3,280
Gross Margin	55.3%	53.6%	45.1%	43.2%	31.9%	31.6%	41.0%	42.5%	40.0%	41.1%
SG&A Exp.	104	101	103	103	99	94	93	103	132	126
Operating Profit	3,625	3,425	2,532	2,233	1,414	1,564	2,619	2,881	2,753	3,121
Operating Margin	53.2%	51.4%	42.5%	38.6%	28.0%	29.1%	39.4%	40.6%	37.8%	39.1%
Net Profit	2,336	1,935	1,619	1,333	736	777	729	1,543	1,486	1,570
Net Margin	34.3%	29.0%	27.2%	23.0%	14.6%	14.4%	10.9%	21.7%	20.4%	19.7%
Free Cash Flow	1,467	952	156	(174)	(270)	(195)	953	1,114	1,204	2,191
Income Tax	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
Total Assets	8,063	10,384	10,996	11,394	12,593	13,234	13,780	14,288	16,407	16,947
Cash & Equivalents	848	2,459	1,673	364	275	546	1,005	845	1,925	2,184
Accounts Receivable	695	669	533	540	449	669	976	822	833	1,069
Inventories	636	696	694	836	857	1,010	1,042	1,033	1,069	950
Total Liabilities	110	109	110	124	155	154	153	148	148	143
Accounts Payable	4,026	5,595	5,434	5,557	7,294	7,363	7,631	7,675	9,549	9,671
Long-Term Debt	443	476	493	547	647	584	660	673	598	595
Shareholder's Equity	2,746	4,214	4,205	4,181	5,952	5,954	5,957	5,960	6,941	6,544
D/E Ratio	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
Return on Assets	28.9%	21.0%	15.1%	11.9%	6.1%	6.0%	5.4%	11.0%	9.7%	9.4%
Return on Equity	59.1%	44.1%	31.4%	23.5%	13.3%	14.0%	12.2%	24.3%	22.2%	22.4%
ROIC	34.7%	24.5%	17.2%	13.5%	6.9%	6.7%	6.1%	12.5%	11.3%	11.4%
Shares Out.	850.0	845.6	835.3	812.6	775.9	773.0	773.0	773.1	773.1	773.1
Revenue/Share	7.98	7.86	7.06	6.99	6.35	6.95	8.61	9.18	9.42	10.33
FCF/Share	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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