



Southern Copper Corp. (SCCO)

Updated May 7th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$61	5 Year CAGR Estimate:	13.7%	Market Cap:	\$47 B
Fair Value Price:	\$75	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	05/16/2022
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.0%	Dividend Payment Date²:	05/31/2022
Dividend Yield:	8.1%	5 Year Price Target	\$91	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

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 \$47 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 15,000 employees.

On April 27th, 2022, Southern Copper released first quarter 2022 results. First quarter net sales were \$2.76 billion, a 9% increase over the same prior year period. The growth in net sales was primarily drive by a large increase in metal prices for copper (+18%), molybdenum (+70%) and zinc (+36%). These large prices increases were offset by lower volumes for copper, molybdenum, and silver.

Net income was \$785 million, a 2.7% increase year-over-year. Net income margin fell from 30.2% to 28.4% in 2022. Income per share rose marginally to \$1.02 from \$0.99 in the prior year period.

Impressively, the operating cash cost per pound of copper was \$0.56 in Q1 2022, compared to \$0.74 in 2021. The 25% decrease was due to a significant increase in by-product revenue credits.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.65	\$1.92	\$1.61	\$0.93	\$1.00	\$1.90	\$2.00	\$1.92	\$2.03	\$4.39	\$4.15	\$5.05
DPS	\$3.71	\$0.68	\$0.46	\$0.34	\$0.18	\$0.59	\$1.40	\$1.60	\$1.50	\$3.20	\$5.00	\$5.80
Shares³	845.6	835.3	812.6	775.9	773.0	773.0	773.1	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 grown by 5.8% on average over the last nine years, it has grown by 34% on average in the last five. The business is largely cyclical. A significant increase in precious metals prices has caused significant growth in earnings in recent quarters, which led to blowout results in 2021, and we forecast a small reduction in 2022. From this point on, we estimate that SCCO can continue to compound net income per share by roughly 4.0% going forward. The dividend has also risen and fallen frequently, and we are forecasting 1% growth to \$5.26 in 2027.

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 a significant increase in copper production in 2021. Additionally, government infrastructure packages can cause increases in copper demand, as it's a fundamental element to green energy. The company has long-term projects in place, such as starting up new mines, and a total investment program of \$7.9 billion

¹ Estimate

² Estimate

³ In millions

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for projects in Peru. So far, \$1.6 billion has already been invested. Most notable are Michiquillay (\$2.5B) and Los Chancas (\$2.6B). Michiquillay is expected to produce 225,000 tons of copper per year (and by-products) for more than 25 years with a start-up date by 2028. Los Chancas is anticipated to start producing 130,000 tons of copper and 7,500 tons of molybdenum annually in 2027. 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. The company is also investing into increasing production at their existing mines and constructing other new mines.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.5	16.3	18.6	30.5	27.2	20.2	22.8	18.8	21.1	22.0	14.8	18.0
Avg. Yld.	11%	2.2%	1.5%	1.2%	0.7%	1.5%	3.1%	4.4%	3.5%	3.8%	8.1%	5.8%

Southern Copper has traded at a price-to-net income of 21 on average in the past nine and five years. Today shares are trading at a fair discount of 14.8 times net income due to strong net income forecasts without a large rise in share price. We estimate that shares are worth 18.0 times net income and estimate a 4.0% gain due to valuation expansion. The yield of 8.1% today is quite impressive for a mining company.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	140%	35%	29%	37%	18%	31%	70%	83%	74%	73%	120%	104%

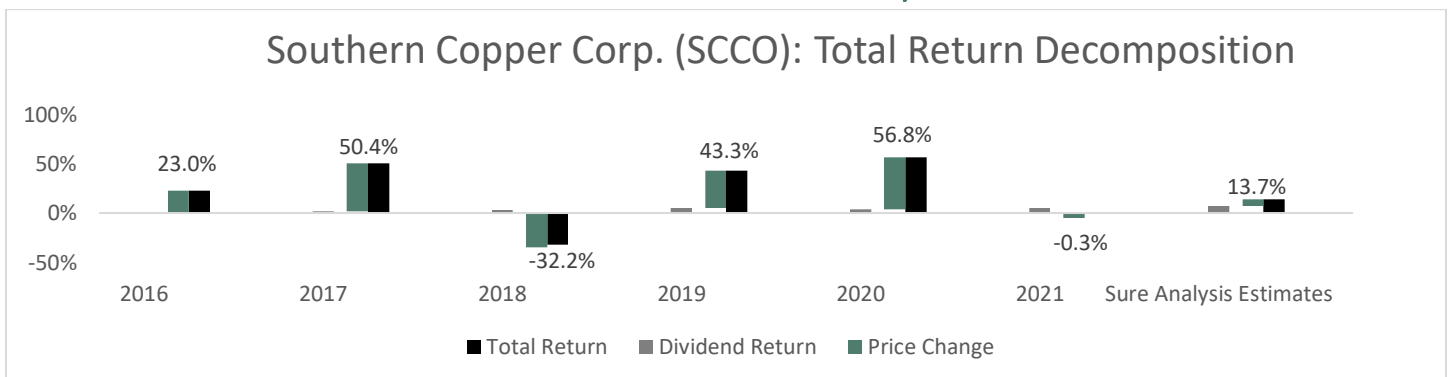
Southern Copper is a power player in the copper mining, smelting, and refining businesses. SCCO has the world's largest copper reserves. Southern also has the #1 mine life among copper producers and is one of the world's largest producer of mined copper. The corporation also has one of the lowest cash cost for produced 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 posted record results in 2021 and we anticipate them to be lower but not far off in 2022 and it appears as if the share price has not kept up with this estimation. We estimate SCCO can produce total annualized returns of 13.7% in the intermediate term, and currently trades at 82% of our estimated fair value, thus we rate SCCO a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	6,669	5,953	5,788	5,046	5,380	6,655	7,097	7,286	7,985	10,934
Gross Profit	3,574	2,686	2,502	1,608	1,699	2,731	3,013	2,915	3,280	6,234
Gross Margin	53.6%	45.1%	43.2%	31.9%	31.6%	41.0%	42.5%	40.0%	41.1%	57.0%
SG&A Exp.	101	103	103	99	94	93	103	132	126	125
Operating Profit	3,425	2,532	2,233	1,414	1,564	2,619	2,881	2,753	3,121	6,065
Operating Margin	51.4%	42.5%	38.6%	28.0%	29.1%	39.4%	40.6%	37.8%	39.1%	55.5%
Net Profit	1,935	1,619	1,333	736	777	729	1,543	1,486	1,570	3,397
Net Margin	29.0%	27.2%	23.0%	14.6%	14.4%	10.9%	21.7%	20.4%	19.7%	31.1%
Free Cash Flow	952	156	-174	-270	-195	953	1,114	1,204	2,191	3,400
Income Tax	1,081	769	755	465	501	1,593	1,054	945	1,174	2,299

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	10,384	10,996	11,394	12,593	13,234	13,780	14,288	16,407	16,947	18,298
Cash & Equivalents	2,459	1,673	364	275	546	1,005	845	1,925	2,184	3,002
Accounts Receivable	669	533	540	449	669	976	822	833	1,069	1,447
Inventories	696	694	836	857	1,010	1,042	1,033	1,069	950	973
Total Liabilities	5,595	5,434	5,557	7,294	7,363	7,631	7,675	9,549	9,671	10,090
Accounts Payable	476	493	547	647	584	660	673	598	595	592
Long-Term Debt	4,214	4,205	4,181	5,952	5,954	5,957	5,960	6,941	6,544	6,548
Shareholder's Equity	4,765	5,534	5,805	5,263	5,832	6,108	6,567	6,810	7,225	8,149
LTD/E Ratio	0.88	0.76	0.72	1.13	1.02	0.98	0.91	1.02	0.91	0.80

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	21.0%	15.1%	11.9%	6.1%	6.0%	5.4%	11.0%	9.7%	9.4%	19.3%
Return on Equity	44.1%	31.4%	23.5%	13.3%	14.0%	12.2%	24.3%	22.2%	22.4%	44.2%
ROIC	24.5%	17.2%	13.5%	6.9%	6.7%	6.1%	12.5%	11.3%	11.4%	23.8%
Shares Out.	845.6	835.3	812.6	775.9	773.0	773.0	773.1	773.1	773.1	773.1
Revenue/Share	7.86	7.06	6.99	6.35	6.95	8.61	9.18	9.42	10.33	14.14
FCF/Share	1.12	0.18	-0.21	-0.34	-0.25	1.23	1.44	1.56	2.83	4.40

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

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