



# Southern Copper Corp. (SCCO)

Updated February 19<sup>th</sup>, 2023 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$74	<b>5 Year CAGR Estimate:</b>	3.9%	<b>Market Cap:</b>	\$57 B
<b>Fair Value Price:</b>	\$60	<b>5 Year Growth Estimate:</b>	2.5%	<b>Ex-Dividend Date<sup>1</sup>:</b>	02/13/2023
<b>% Fair Value:</b>	122%	<b>5 Year Valuation Multiple Estimate:</b>	-4.0%	<b>Dividend Payment Date<sup>1</sup>:</b>	03/01/2023
<b>Dividend Yield:</b>	5.4%	<b>5 Year Price Target</b>	\$68	<b>Years Of Dividend Growth:</b>	3
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## 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 \$57 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.

On February 2<sup>nd</sup>, 2023, Southern Copper reported fourth quarter and full year 2022 results. Fourth quarter net sales were \$2.82 billion, which was in line with Q4 2021 results. Volumes increased for copper, silver, and zinc, but came in lower for Molybdenum. Additionally, molybdenum price rose during the quarter, while copper, silver, and zinc prices declined.

At the same time, operating cost rose 12% to \$1.45 billion. Net income was \$902 million, an 8.3% decrease year-over-year. Net income per share rose by 8.3% to \$1.17 from \$1.08 in the prior year period.

The operating cash cost per pound of copper (net of by-product revenues) was \$0.45 in Q4 2022, a highly favorable comparison to \$0.76 in the year-ago quarter. This increase was largely due to higher by-product revenue credits.

A \$1.00 quarterly dividend was declared, which was a significant increase from the previous quarter's \$0.50 dividend, which itself was a decrease from the prior \$0.75 per share paid in the quarter before.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$1.92	\$1.61	\$0.93	\$1.00	\$1.90	\$2.00	\$1.92	\$2.03	\$4.39	\$3.41	<b>\$3.36</b>	<b>\$3.80</b>
<b>DPS</b>	\$0.68	\$0.46	\$0.34	\$0.18	\$0.59	\$1.40	\$1.60	\$1.50	\$3.20	\$3.50	<b>\$4.00</b>	<b>\$4.42</b>
<b>Shares<sup>2</sup></b>	835.3	812.6	775.9	773.0	773.0	773.1	773.1	773.1	773.1	773.1	<b>773.1</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 grown by 6.6% on average over the last nine years, it has grown by 12% on average in the last five. The business is largely cyclical. A significant increase in precious metals prices caused significant growth in earnings in recent years, which led to blowout results in 2021. From this point on, we estimate that SCCO can continue to compound net income per share by roughly 2.5% going forward.

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

<sup>1</sup> Estimate

<sup>2</sup> In millions

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company has long-term projects in place, such as starting up new mines, and a total investment program of \$7.9 billion for projects in Peru. So far, more than \$1.5 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 2029. 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 generally 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.3	18.6	30.5	27.2	20.2	22.8	18.8	21.1	22.0	14.7	<b>22.0</b>	<b>18.0</b>
Avg. Yld.	2.2%	1.5%	1.2%	0.7%	1.5%	3.1%	4.4%	3.5%	3.8%	6.4%	<b>5.4%</b>	<b>6.5%</b>

Southern Copper has traded at a price-to-net income of 21.2 and 19.9 on average over the past nine and five years. Today shares are trading at a premium at 22.0 times net income. We estimate that shares are worth 18.0 times net income, implying the potential for a valuation headwind. The yield of 5.4% is above the five-year average 4.2% yield.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	35%	29%	37%	18%	31%	70%	83%	74%	73%	103%	<b>119%</b>	<b>116%</b>

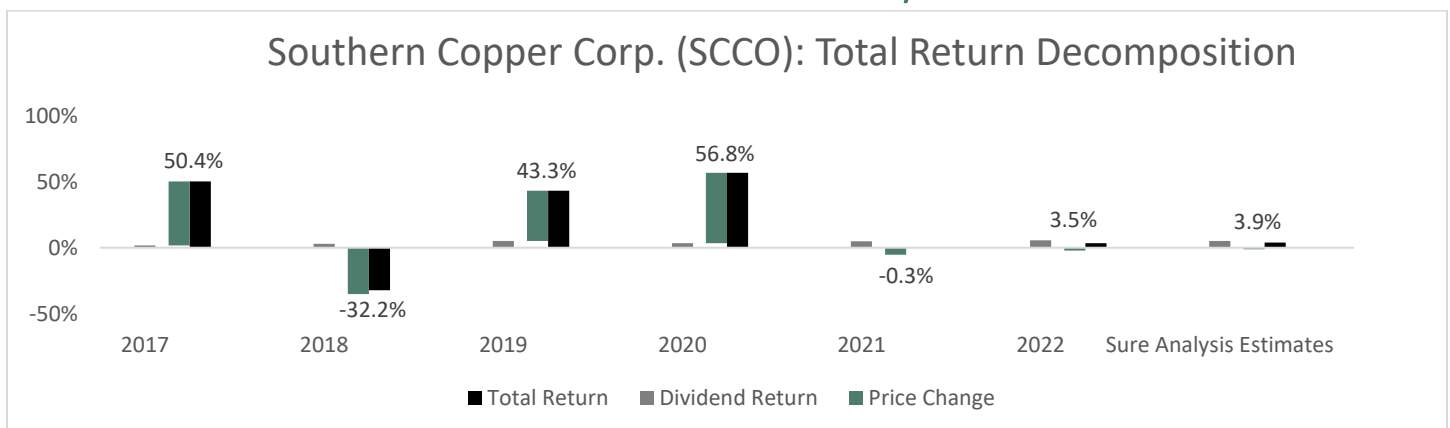
Southern Copper is a power player in the copper mining, smelting, and refining businesses. SCCO has the world's largest copper reserves. Southern also has the #1 mine life among copper producers and is one of the world's largest producer of mined copper. The corporation also has one of the lowest cash 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. We estimate SCCO can produce total annualized returns of 3.9% in the intermediate term, and currently trades at 122% of our estimated fair value. We rate SCCO as a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	5,953	5,788	5,046	5,380	6,655	7,097	7,286	7,985	10,934	10,048
<b>Gross Profit</b>	2,686	2,502	1,608	1,699	2,731	3,013	2,915	3,280	6,234	4,603
<b>Gross Margin</b>	45.1%	43.2%	31.9%	31.6%	41.0%	42.5%	40.0%	41.1%	57.0%	45.8%
<b>SG&amp;A Exp.</b>	103	103	99	94	93	103	132	126	125	125
<b>Operating Profit</b>	2,532	2,233	1,414	1,564	2,619	2,881	2,753	3,121	6,065	4,436
<b>Operating Margin</b>	42.5%	38.6%	28.0%	29.1%	39.4%	40.6%	37.8%	39.1%	55.5%	44.1%
<b>Net Profit</b>	1,619	1,333	736	777	729	1,543	1,486	1,570	3,397	2,639
<b>Net Margin</b>	27.2%	23.0%	14.6%	14.4%	10.9%	21.7%	20.4%	19.7%	31.1%	26.3%
<b>Free Cash Flow</b>	156	-174	-270	-195	953	1,114	1,204	2,191	3,400	1,854
<b>Income Tax</b>	769	755	465	501	1,593	1,054	945	1,174	2,299	1,612

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	10,996	11,394	12,593	13,234	13,780	14,288	16,407	16,947	18,298	17,277
<b>Cash &amp; Equivalents</b>	1,673	364	275	546	1,005	845	1,925	2,184	3,002	2,070
<b>Accounts Receivable</b>	533	540	449	669	976	822	833	1,069	1,447	1,474
<b>Inventories</b>	694	836	857	1,010	1,042	1,033	1,069	950	973	1,014
<b>Total Liabilities</b>	5,434	5,557	7,294	7,363	7,631	7,675	9,549	9,671	10,090	9,131
<b>Accounts Payable</b>	493	547	647	584	660	673	598	595	592	658
<b>Long-Term Debt</b>	4,205	4,181	5,952	5,954	5,957	5,960	6,941	6,544	6,548	6,251
<b>Shareholder's Equity</b>	5,534	5,805	5,263	5,832	6,108	6,567	6,810	7,225	8,149	8,084
<b>LTD/E Ratio</b>	0.76	0.72	1.13	1.02	0.98	0.91	1.02	0.91	0.80	0.77

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	15.1%	11.9%	6.1%	6.0%	5.4%	11.0%	9.7%	9.4%	19.3%	14.8%
<b>Return on Equity</b>	31.4%	23.5%	13.3%	14.0%	12.2%	24.3%	22.2%	22.4%	44.2%	32.5%
<b>ROIC</b>	17.2%	13.5%	6.9%	6.7%	6.1%	12.5%	11.3%	11.4%	23.8%	18.1%
<b>Shares Out.</b>	835.3	812.6	775.9	773.0	773.0	773.1	773.1	773.1	773.1	773.1
<b>Revenue/Share</b>	7.06	6.99	6.35	6.95	8.61	9.18	9.42	10.33	14.14	13.00
<b>FCF/Share</b>	0.18	-0.21	-0.34	-0.25	1.23	1.44	1.56	2.83	4.40	2.40

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

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