



Southern Copper Corp. (SCCO)

Updated August 6th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$84	5 Year CAGR Estimate:	3.7%	Market Cap:	\$65 B
Fair Value Price:	\$62	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	08/08/2023
% Fair Value:	135%	5 Year Valuation Multiple Estimate:	-5.8%	Dividend Payment Date¹:	08/23/2023
Dividend Yield:	4.8%	5 Year Price Target	\$79	Years Of Dividend Growth:	3
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	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 has been listed on the NYSE and the Lima Stock Exchange since 1996, under the ticker symbol SCCO. SCCO has a market capitalization of \$65 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 July 27th, 2023, Southern Copper reported second quarter 2023 results. Second quarter net sales were \$2.3 billion, which was down by just 0.3% compared to second quarter 2022 results. Volumes increased for copper, silver, and zinc, and molybdenum. Additionally, molybdenum and silver prices rose during the quarter, while copper, and zinc prices declined.

At the same time, operating costs declined 6.6% to \$1.40 billion. Net income was \$548 million, a 27% increase year-over-year. Net income per share rose by 27% to \$0.71 from \$0.56 in the prior year period.

The operating cash cost per pound of copper (net of by-product revenues) was \$1.12 in Q2 2023, 4% higher than in the year-ago quarter. This increase was largely due to higher production cost and lower by-product revenue credits.

A \$1.00 quarterly dividend was declared, which was in line with last quarter's dividend.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.92	\$1.61	\$0.93	\$1.00	\$1.90	\$2.00	\$1.92	\$2.03	\$4.39	\$3.41	\$3.45	\$4.40
DPS	\$0.68	\$0.46	\$0.34	\$0.18	\$0.59	\$1.40	\$1.60	\$1.50	\$3.20	\$3.50	\$4.00	\$4.42
Shares²	835.3	812.6	775.9	773.0	773.0	773.1	773.1	773.1	773.1	773.1	773.1	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 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 5.0% 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

¹ Estimate

² In millions

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company has long-term projects in place, such as starting up new mines, and a total investment program above \$15 billion for this decade. These investments are for projects in Mexico and Peru.

Some notable projects 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 2032. Los Chancas is anticipated to start producing 130,000 tons of copper and 7,500 tons of molybdenum annually in 2030. 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 in 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	24.3	18.0
Avg. Yld.	2.2%	1.5%	1.2%	0.7%	1.5%	3.1%	4.4%	3.5%	3.8%	6.4%	4.8%	5.6%

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 24.3 times net income. We estimate that shares are worth 18.0 times net income, implying the potential for a meaningful valuation headwind. The yield of 4.8% 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%	116%	100%

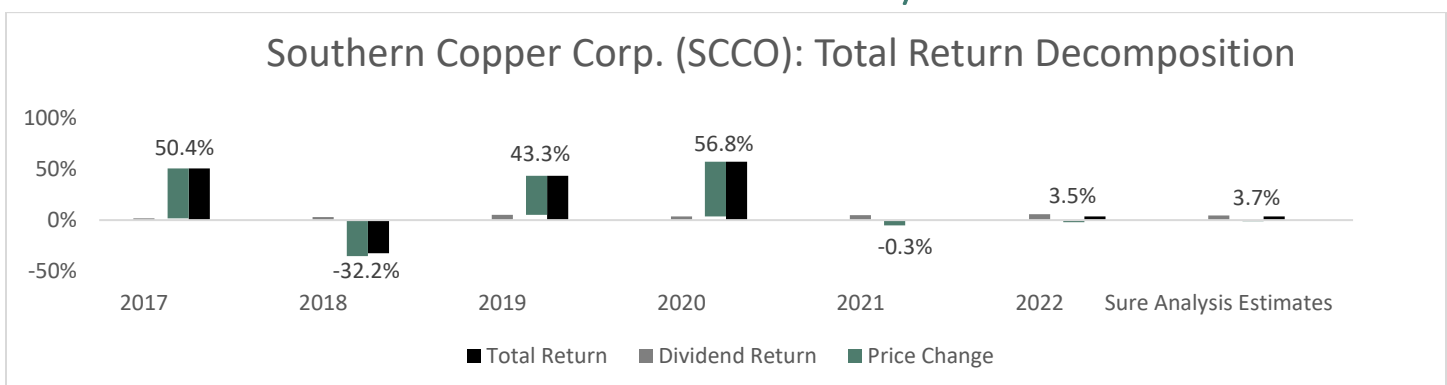
Southern Copper is a power player in the copper mining, smelting, and refining businesses. SCCO has the world's largest copper reserves. Southern also has the #1 mine life among copper producers and is one of the world's largest producer of mined copper. The corporation also has one of the lowest cash 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 3.7% in the intermediate term, and currently trades at 135% 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
Revenue	5,953	5,788	5,046	5,380	6,655	7,097	7,286	7,985	10,934	10,048
Gross Profit	2,686	2,502	1,608	1,699	2,731	3,013	2,915	3,280	6,234	4,603
Gross Margin	45.1%	43.2%	31.9%	31.6%	41.0%	42.5%	40.0%	41.1%	57.0%	45.8%
SG&A Exp.	103	103	99	94	93	103	132	126	125	125
Operating Profit	2,532	2,233	1,414	1,564	2,619	2,881	2,753	3,121	6,065	4,436
Operating Margin	42.5%	38.6%	28.0%	29.1%	39.4%	40.6%	37.8%	39.1%	55.5%	44.1%
Net Profit	1,619	1,333	736	777	729	1,543	1,486	1,570	3,397	2,639
Net Margin	27.2%	23.0%	14.6%	14.4%	10.9%	21.7%	20.4%	19.7%	31.1%	26.3%
Free Cash Flow	156	-174	-270	-195	953	1,114	1,204	2,191	3,400	1,854
Income Tax	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
Total Assets	10,996	11,394	12,593	13,234	13,780	14,288	16,407	16,947	18,298	17,277
Cash & Equivalents	1,673	364	275	546	1,005	845	1,925	2,184	3,002	2,070
Accounts Receivable	533	540	449	669	976	822	833	1,069	1,447	1,474
Inventories	694	836	857	1,010	1,042	1,033	1,069	950	973	1,014
Total Liabilities	5,434	5,557	7,294	7,363	7,631	7,675	9,549	9,671	10,090	9,131
Accounts Payable	493	547	647	584	660	673	598	595	592	658
Long-Term Debt	4,205	4,181	5,952	5,954	5,957	5,960	6,941	6,544	6,548	6,251
Shareholder's Equity	5,534	5,805	5,263	5,832	6,108	6,567	6,810	7,225	8,149	8,084
LTD/E Ratio	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
Return on Assets	15.1%	11.9%	6.1%	6.0%	5.4%	11.0%	9.7%	9.4%	19.3%	14.8%
Return on Equity	31.4%	23.5%	13.3%	14.0%	12.2%	24.3%	22.2%	22.4%	44.2%	32.5%
ROIC	17.2%	13.5%	6.9%	6.7%	6.1%	12.5%	11.3%	11.4%	23.8%	18.1%
Shares Out.	835.3	812.6	775.9	773.0	773.0	773.1	773.1	773.1	773.1	773.1
Revenue/Share	7.06	6.99	6.35	6.95	8.61	9.18	9.42	10.33	14.14	13.00
FCF/Share	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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