



# Southern Copper Corp. (SCCO)

Updated November 1<sup>st</sup>, 2023 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$71	<b>5 Year CAGR Estimate:</b>	6.4%	<b>Market Cap:</b>	\$55 B
<b>Fair Value Price:</b>	\$59	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	11/07/2023
<b>% Fair Value:</b>	120%	<b>5 Year Valuation Multiple Estimate:</b>	-3.6%	<b>Dividend Payment Date<sup>1</sup>:</b>	11/22/2023
<b>Dividend Yield:</b>	5.6%	<b>5 Year Price Target</b>	\$76	<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 has been listed on the NYSE and the Lima Stock Exchange since 1996, under the ticker symbol SCCO. SCCO has a market capitalization of \$55 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 October 24<sup>th</sup>, 2023, Southern Copper reported third quarter 2023 results. Third quarter net sales were \$2.5 billion, a 16% increase compared to third quarter 2022 results. Volumes increased for molybdenum, but fell for copper, silver, and zinc. Additionally, molybdenum, copper, and silver prices rose during the quarter.

Net income was \$620 million, a 19% increase year-over-year. Net income per share rose by 19% to \$0.80 from \$0.67 in the prior year period.

The operating cash cost per pound of copper (including by-product revenue credits) was \$0.98 in Q3 2023, 5% lower than in the year-ago quarter.

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
<b>EPS</b>	\$1.92	\$1.61	\$0.93	\$1.00	\$1.90	\$2.00	\$1.92	\$2.03	\$4.39	\$3.41	<b>\$3.29</b>	<b>\$4.20</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 it operates and develops 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 increase its 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 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.

<sup>1</sup> Estimate

<sup>2</sup> In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Southern Copper Corp. (SCCO)

Updated November 1<sup>st</sup>, 2023 by Quinn Mohammed

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. The company expects to increase its production capacity to 1.6 million tons of copper over the next ten years.

## 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	21.6	18.0
Avg. Yld.	2.2%	1.5%	1.2%	0.7%	1.5%	3.1%	4.4%	3.5%	3.8%	6.4%	5.6%	5.8%

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 21.6 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 5.6% 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%	122%	105%

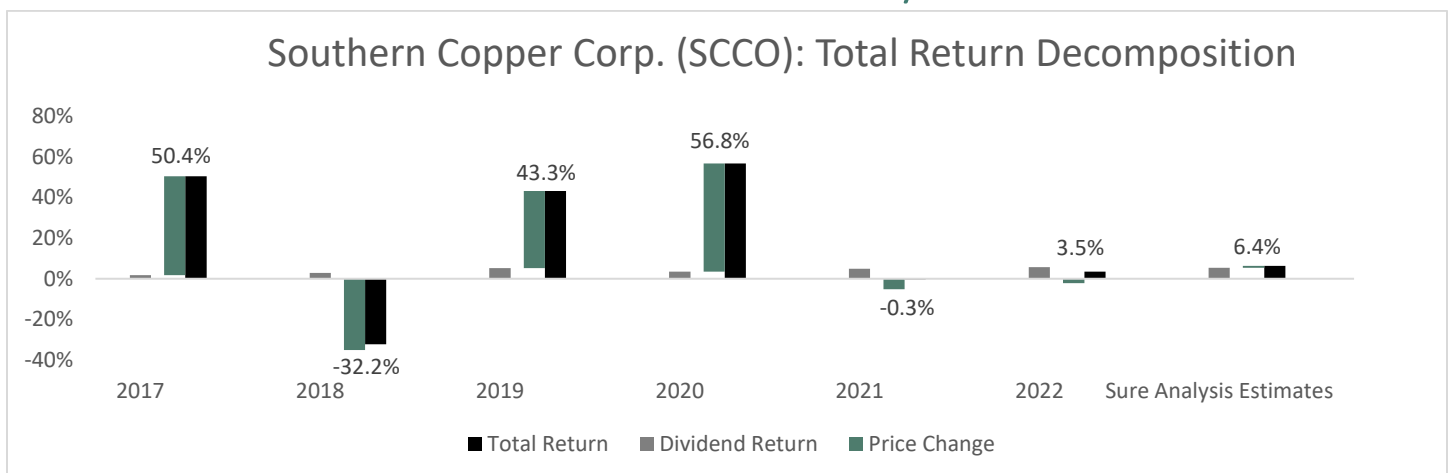
Southern Copper is a power player in the copper mining, smelting, and refining businesses. SCCO has the world's largest copper reserves. Southern also has the #1 mine life among copper producers and is one of the world's largest producer of mined copper. The corporation also has one of the lowest cash 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 6.4% in the intermediate term, and currently trades at 120% of our estimated fair value. We rate SCCO as a hold.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Southern Copper Corp. (SCCO)

Updated November 1<sup>st</sup>, 2023 by Quinn Mohammed

## 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.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.