Southern Copper Corp (3Q20 Earnings)

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Corporate Speakers:

- Raul Jacob Ruisanchez; Southern Copper Corporation; VP of Finance, Treasurer & CFO

Participants:

- Andreas Bokkenheuser; UBS Investment Bank; Executive Director, Head of LatAm Mining & Basic Materials and Research Analyst
- Thiago Lofiego; Banco Bradesco BBI S.A.; Director & Head of the LatAm Pulp & Paper and Metals & Mining Equity Research
- Jonathan Brandt; HSBC; Head of LatAm Cement, Construction & Real Estate Equity Research Team
- Jens Spiess; Morgan Stanley; Research Associate
- Leopoldo Silva; LarrainVial; Analyst
- Jean Bruny; BBVA Corporate and Investment Bank; Chief Analyst
- Rodolfo De Angele; JPMorgan Chase & Co; Head of Brazil Equity Research and Senior Analyst
- Rodrigo Garcilazo; GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa; Head of Research of Andean Region
- Rodrigo Salazar; AM Advisors; Associate Equity Analyst

PRESENTATION

Operator: Good morning, and welcome to Southern Copper Corporation's Third Quarter 2020 Results Conference Call. With us this morning, we have Southern Copper Corporation, Mr. Raul Jacob, Vice President, Finance, Treasurer and CFO, who will discuss the results of the company for the third quarter 2020 as well as answer any questions that you might have.

The information discussed on today's call may include forward-looking statements regarding the company's results and prospects, which are subject to risks and uncertainties. Actual results may differ materially, and the company cautions to not place undue reliance on these forward-looking statements. Southern Copper Corporation undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. All results are expressed in full U.S. GAAP.

Now I will pass the call on to Mr. Raul Jacob.

Raul Jacob Ruisanchez: Thank you very much, Gigi. Good morning to everyone, and welcome to Southern Copper's Third Quarter of 2020 Results Conference Call. Before we go into the details of the past quarter, let me first express my best wishes for you and your loved ones during these trying times.

In today's call, we will begin with an update on the measures that we have taken to keep the COVID-19 at bay and the impact that the pandemic has had on our operations. We will then review the copper market and Southern Copper's key results for production, sales, operating costs, financial results and expansion projects. Subsequently, we will open the session for questions.

Well, as I mentioned, we continue to fight the COVID-19 pandemic by prioritizing efforts to safeguard the health and well-being of our workforce, their families and nearby communities. Our company is operating in total compliance with emergency levels required by local, regional and national governments, and we have implemented rigorous hygiene, sanitation and safety protocols at all of our facilities.

As of September 30 of this year, our operations are at 96% of capacity usage. About 97% of our labor is working in Mexico and 67% of the workforce in Peru is working at the operation sites or at home. In July, we opened up our premises to our most essential contractors, all of whom must comply with very strict protocols, including testing for COVID-19, ongoing health monitoring and mandatory quarantine.

We're enforcing measures to limit our workforce exposure to the disease by imposing travel restriction, prohibiting face-to-face meetings, urgent frequent hand washing and require adherence to all other health, safety and social distancing measures decreed by government authorities. From the beginning of the pandemic, Southern Copper has worked to implement strong prevention measures to protect the health of its workers, their families and their communities.

For this purpose, the company approved and subsequently executed a budget of $14.6 million for donations and general support for the populations of Peru and Mexico. Of that budget, 95% has been already executed. To date, we maintain a dialogue with the communities and local authorities to strengthen the fight against COVID-19.

To bolster response to the pandemic, we have donated 290,000 medical item supplies and 213 ventilators for breathing support at hospitals in the communities where we operate. In Mexico, we have set up 49 confined beds in company-owned housing in Sonora for people who require isolation or primary hospital care. In Peru, we have donated 18 temporary hospitals with a total capacity of 250 beds under oxygen supply.

In Peru also, the company has donated 318,000 liters of liquid oxygen to national hospitals to treat the population infected with COVID-19 in the regions of Arequipa and Moquegua in the southern part of Peru. On top of this initiative, we are donating a COVID-19 molecular testing laboratory to Moquegua and two medicinal oxygen plants; one in Tacna with 720 cubic meters per day of capacity and another one for Puno that has a capacity of 222 cubic meters per day of oxygen, medicinal oxygen.

We have also donated over 63,600 kits for personal protection equipment to medical staff and 25,000 personal hygiene kits to our workers and to the population in our areas of influence. These donations include information for the population about COVID-19, its spread and symptoms. We have also donated cleaning and personal protection equipment to members of the National Guard of Mexico and of the Peruvian Police and Army. Additionally, we're helping vulnerable individuals, such as the elderly or disabled persons and pregnant women, by donating more than 45,900 kits containing food and personal hygiene items.

In addition to the aforementioned efforts, we have installed more than 310 portable sinks in strategic areas of the communities to ensure access to preventive hand washing. Moreover, to encourage compliance with the stay-at-home measures, the company is offering 3,742 sports, cultural and educational workshops online to the community. The company sponsors 11 schools with 3,677 students that since the beginning of the pandemic have received 470,483 online courses, so they can continue their education with quality. Additionally, throughout our community care service, we offer free medical, psychological and employment counseling 24 hours a day.

Other initiatives include special programs that benefit communities around us. For the elderly people, more than 313 community volunteers have participated in a letter exchange program with messages delivered and virtual visits. In order to develop urban orchards, we have provided 2,199 supply kits. Community volunteers have participated in making more than 40,000 face masks.

Considering the current environment and the impact of the COVID-19 pandemic, we believe that mining production and investment will play an important role in the recovery of both the Mexican and the Peruvian economies. As such, we will continue to develop our projects, consistent with our belief that Southern Copper's operations constitute a risk control generator of economic resources that provide well-remunerated employment and tax revenues to the countries in which we operate.

Now let us focus on the copper market, the core of our business. In the third quarter of this year, 2020, the London Metal Exchange copper price increased from an average of $2.63 per pound in the third quarter of 2019 to a price of $2.96 or 12.5% higher price. As of today, we're seeing prices at about $3.10 per pound, which reflects the impact of the COVID-19 crisis on both the supply and demand for copper and the effect of the combined liquidity provided by central banks in developed economies.

At this point, the copper price seems to be driven by 2 important factors: expectations of lower supply coming from Chile, a major producer, due to labor negotiations and an increase in demand from China and other Asian economies in a scenario of economic recovery. Considering the current market outlook for supply and demand, we have a positive view of the long-term evolution of the copper price.

Now let me focus at Southern Copper's production for the past quarter and 2020. For copper, it represented 82.2% of our sales in the third quarter of 2020. Copper production registered a decrease of 2.3% with regard to the figure reported in the third quarter of last year and situated at 246,560 tons in the third quarter of 2020. This was primarily due to a decrease in production at our Peruvian mines, which was, in turn, attributable to lower ore grades. This effect was partially offset by higher production at our Mexican mines, particularly at Buenavista, which increased its production by 2.3% due to higher ore grades. In 2020, we expect to produce 996,500 tons of copper, in line with last year's production and slightly lower than our production plan.

For molybdenum, it represented 5.6% of the company's sales value in the third quarter of 2020, and it's currently our second by-product. Molybdenum prices averaged $7.57 per pound in the quarter, and that compared to $11.76 in the third quarter of 2019. This represents a decrease of 35.6%. Molybdenum production increased by 7.8% in the third quarter of this year compared to the same period of 2019, principally due to significantly higher production at our Toquepala mine.

Toquepala increased its molybdenum production by 23.3% and of that additional production, 1,114 tons were produced at the new molybdenum plant of Toquepala. Also, Cuajone production increased by 24.5% due to higher grades and recoveries. This was partially offset by lower production at our Buenavista mine. In 2020, we expect to produce 29,400 tons of molybdenum, which represent an increase of 9.5% over our 2019 production level of 26,900 tons.

Silver represented 6.2% of our sales value in the third quarter of this year with an average price of $24.59 per ounce in the quarter, up 44.8% from the third quarter of last year. Silver is currently our first by-product. So silver is the first one, molybdenum is the second one. Mined silver production decreased by 1.3% in this past quarter due to a decrease in production at Toquepala, Buenavista and IMMSA. We had a positive increase in production at the San Martin mine, which increased its production by 10%.

Also, we had higher production at the La Caridad that increased its silver production by 23.4% and Cuajone. Refined silver production decreased by 8.6% in the third quarter versus the third quarter of 2019. In 2020, we expect to produce 21.6 million ounces of silver, an increase of 6.7% when compared to last year's production. This is mainly attributable to a significant contribution by the San Martin operation.

We are expecting to produce 2.9 million ounces of silver in San Martin, and that compares to 1.2 million ounces in 2019. Regarding silver, we believe that prices will be supported by the intensive industrial use of this metal and the fact that silver, like gold, is considered a value shelter in times of economic uncertainty.

Zinc represented 2.9% of our sales value in the third quarter of 2020 with an average price of $1.06 per pound in the quarter, in line with the average price of the third quarter of 2019. Zinc mine production registered a slight decrease of 0.4% quarter-on-quarter and situated at 17,198 tons. This was primarily due to the shutdown of our Santa Eulalia operation in the first quarter of this year due to severe flooding.

We're currently evaluating different options to supply the concentrator at Santa Eulalia. These negative variances in zinc production were mostly offset by a production increase of 1,315 tons, that is a 63.5% increase at the San Martin mine and an 11.4% increase in production at the Santa Barbara mine. Refined zinc production increased by 1.5% in the third quarter compared to the same period of last year.

For our financial results in the third quarter of 2020, sales were $2.1 billion, which represents an increase of $269.5 million over the sales reported in the third quarter of 2019. This is a 14.5% increase in sales. For copper sales volume, it increased by 2.1% and the value by 18.4% in a scenario of better prices.

Regarding our main by-products, we reported higher sales of silver, that increased by 50% due to a slight increase in volume and much better prices. Zinc sales rose by 8.7% due to an increase in volume of 7% and no variation in prices. These positive results were partially offset by lower sales of molybdenum that decreased by 23.5% due to a drop in prices. As I mentioned, prices decreased by 35.6%, which was, in turn, partially compensated by the better volume that we had of 10.7%.

Our total operating cost and expenses increased by $39.4 million or 3.4% when compared to the third quarter of 2019. Main cost increments has been in purchased copper, lower capitalized leachable material, workers participation and sales expenses. These cost increments were partially offset by a decrease in the use of operations contractors, diesel and fuel cost, inventory consumption and operating and repair materials.

The adjusted EBITDA in the third quarter of 2020 was $1,125.9 million, which represented an increase of 24% with regard to the $907.7 million registered in the third quarter of last year. The adjusted EBITDA margin in this past quarter was situated at 52.9% versus 48.8% in the third quarter of 2019. On a quarter-on-quarter basis, EBITDA was 46.2% higher than in the second quarter of 2020.

Operating cash cost per pound of copper before by-product credits was $1.36 per pound in the third quarter of 2020. This represents an increase of $0.092 over the value reported in the second quarter of this year. This 7.3% increase in the operating cash cost is a result of an increase in cost per pound from production cost, treatment and refining charges and administrative expenses and was partially offset by an increase in the premium to refined copper sales.

Southern Copper's operating cash cost, including the benefit of by-product credit, was $0.645 per pound in the third quarter of 2020. This cash cost was $0.025 lower than the cash cost of $0.67 we reported in the second quarter of 2020.

Regarding by-products, we had a total credit of $374.3 million or $0.711 per pound in the third quarter of 2020. These figures represent a 19.8% increase when compared with the credit of $321.5 million or $0.593 per pound that we had in the second quarter of 2020. Total credits have increased for molybdenum, zinc, silver and sulfuric acid.

The third quarter of 2020 net income of $506 million or diluted earnings per share of $0.65 was 29.9% higher than the third quarter of 2019 net income. The net income margin for this past quarter was 23.8% versus 21% in the same quarter of 2019. This increase was mainly attributable to higher sales. On a quarter-on-quarter basis, net income was 95% higher than the one in the second quarter of 2020.

Capital expenditures. Southern Copper investment philosophy is not based on the outlook for copper prices but on the quality of the assets that we operate and develop. Throughout the years, our strong financial discipline has consistently allowed us to make ongoing investments in our considerable asset portfolio.

The conditions generated by the COVID-19 pandemic has prompted us to introduce new measures to reduce vulnerability at our project execution level. Sanitary measures include frequent COVID-19 testing, daily temperature checks, mask provision and mandatory use, social distancing at work sites and in the mine camps and an obligatory quarantine period for our own and contractors personnel.

In locations where infections are on the rise, some activity has been pushed back or scaled down, particularly at construction sites where personnel are required to work closely. All other engineering, procurement and construction activities that are not personnel intensive, or where social distancing can be applied, are being executed at a normal pace. At this point, we do not expect significant delays in project execution.

For the Peruvian projects, our current portfolio for approved projects totaled \$2.8 billion in Peru, \$1.6 billion of which has already been invested, mainly at the Toquepala concentrator expansion. If we include the up and coming Michiquillay \$2.5 billion of CapEx and Los Chancas \$2.6 billion of CapEx, our total investment program in Peru show a commitment of \$7.9 billion. For the Tia Maria project in the Arequipa region of Peru, Southern Copper has been consistently working to promote the welfare of the Islay province population.

As part of these efforts, we have implemented successful social programs in education, health care and productive development to improve the quality of life in the region. We also promoted agriculture and livestock activities in the Tambo valley and supported growth in manufacturing, fishing and tourism in Islay. In the third quarter of 2020, we received the results of a review of the social environment in the Tia Maria project, which was conducted by a global leader in environmental, social and government assessments. This evaluation concluded the following regarding our project.

The company has improved its community relations and the plan for water management system in place for the Tia Maria project is aligned with international standards. The company has aligned its corporate-wide practices with the voluntary principles on security and human rights, a multi-stakeholder initiative that promotes principles to guide extracting companies in the process to provide security for their operations in a manner that respects human rights.

We're pleased and encouraged by these results, which reflects the positive impact of our company's social programs in Tia Maria area of influence and in the Arequipa region. We reiterate our view that the initiation of construction activities at Tia Maria will generate significant economic opportunities for the Islay province and the Arequipa region. Given the current Peruvian economic situation, it is crucial to move ahead on projects that will stimulate a sustainable growth cycle.

During the construction and operation phase, we will make it a priority to hire local labor to fill the 9,000 jobs that we expect to generate during the Tia Maria's construction phase. When operating, we expect Tia Maria to directly employ 600 workers and indirectly provide jobs for another 4,200 workers. Additionally, from day 1 of our operations, we will generate significant contribution to revenues in the Arequipa region via royalties and taxes.

We expect the Peruvian government to acknowledge the significant progress the project has made on the social front and the important contributions that Tia Maria will generate for Peru's economy and consequently, take the necessary steps to provide Southern Copper with adequate support to initiate construction.

For the Mexican projects, particularly on Buenavista, we have the new zinc concentrator for our Buenavista facility. This project is located within the facility and includes the development of a new concentrator to produce approximately 80,000 tons of zinc and 20,000 tons of copper per year. We have completed the basic engineering study, and the detailed engineering has reached 75% of completion. In order to continue with the project, stronger preventive measures to combat COVID-19 has been put in place.

Purchase orders have been placed for major equipment, some of which is currently being manufactured. The project has all the necessary permits and the capital budget is $413 million. We expect to initiate operations in the third quarter of 2022. When completed, this new facility will double the company's zinc production capacity and will provide 490 direct jobs and 1,470 indirect jobs.

For the Pilares project, also in Sonora, this is a project that is located 6 kilometers from our operation of La Caridad. This project consists of an open pit mine operation with an annual production capacity of 35,000 tons of copper in concentrate.

A new 25-meter wide off-road facility for mine trucks is under construction and will be used to transport the ore from the pit to the primary crushers at the La Caridad copper concentrator. This project will significantly improve the overall mineral ore grade combining the 0.78% expected ore grade from Pilares with the 0.34% ore grade from La Caridad. The budget for Pilares is $159 million, and we expect the project to begin production in the first half of 2022.

In Sonora, we also have a project named El Pilar. This is a low capital intensity copper greenfield project that is strategically located approximately 45 kilometers from our Buenavista mine. Its copper oxide mineralization contains estimated proven and probable reserves of 325 million tons of ore with an average copper grade of 0.287%, which is a very good ore grade for leachable material.

We anticipate that El Pilar will operate as a conventional open pit mine with an annual production capacity of 36,000 tons of copper cathodes. This operation will use highly cost-efficient and environmentally friendly SX-EW technology. The budget for El Pilar is $310 million, and we expect the project to start production in 2023 with an expected mine life of 13 years. The results from experimental pads in the leaching process have confirmed adequate levels of copper recovery.

We're adding to our projects discussion, El Arco, which is a project in Baja California. El Arco is a world-class copper deposit located in the central part of the Baja California peninsula with ore reserves over 2.4 billion tons, an ore grade of 0.426% and 0.3 billion tons of leach material with an ore grade of 0.288%. And it also has as a byproduct gold, which has 0.11 grams of gold per ton of mineral.

This product includes an open pit mine combining concentrator and SX-EW operations. Annual production is expected to situate at about 190,000 tons of copper and 105,000 ounces gold with an estimated capital budget of $2.9 billion. The company has started the baseline study and is reviewing the basic engineering analysis to request the environmental impact permits. We're currently in the final stage of land acquisition process for the project.

Regarding dividends, as you know, it is the company policy to review the company's cash position, expected cash flow generation from operations, capital investment plan and other financial needs at each Board meeting to determine the appropriate quarterly dividend. Accordingly, as announced to the market on October 22, the Board of Directors authorized a cash dividend of $0.50 per share of common stock payable on November 24 to shareholders of record at the close of business on November 11 this year.

Well, with this in mind, ladies and gentlemen, thank you very much for joining us today, and we would like now to open up the forum for questions.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Our first question comes from the line of Andreas Bokkenheuser from UBS.

Andreas Bokkenheuser: Just 2 quick questions from me. Number one, on Tia Maria, obviously, you mentioned there's been some progress there in the third quarter. Can you just talk a little bit about what are the next kind of milestones over the next 3 to 6 months?

Are there any dates we should be looking after for or any signposts and kind of also how you're thinking about the political environment in Peru vis-à-vis developing Tia Maria? So that's the first question.

I'm sorry, could you just clarify one second question on the by-products. Sorry, did you say that cost before by-products went up? Or did they go down? I missed that.

Raul Jacob Ruisanchez: Certainly, thank you, Andreas. Okay. On the Tia Maria, well, we do have all the permits now. So the next step will be to initiate the construction. That will be the basic next step that we're expecting to move on.

In terms of the political environment, well, Peru is approaching elections. It will be on April 11 of next year. Obviously, when there is elections at the sight, usually that makes a little bit harder to initiate new projects. And we are certainly considering that as part of our current outlook for the project.

Regarding the by-products, well, we have -- at the press release, we indicated a reduction in our cash cost when compared to the third quarter of 2019. It was $0.82 in the third quarter of 2019, and it's been $0.65, that's 21.7% reduction year-on-year. Quarter-on-quarter, we had a slight variance, an increase, and that was the one that I mentioned in my report today. So before by-product credits, we have $1.36 per pound in this quarter, this past quarter. It was a little bit higher than the second quarter of 2020 cash cost by $0.092. I hope that this clarifies your concern.

Andreas Bokkenheuser: Yes. No, that's very clear. Just a follow-up there. The reason for the slightly higher cost before by-products, what was that again, sorry?

Raul Jacob Ruisanchez: Yes. The reason is that we had to -- in the second quarter, in particularly, we had to slow down our operations quite significantly. In the third quarter, we are recuperating the pace, not only in terms of mined material but also in some other operations. For instance, certain maintenances that were postponed in the second quarter were tackled in the third one. So that's why we had a slight increase in our cash cost, still very, very good cash cost, by the way, but slightly higher before by-product, the increase in, was from about $1.27 to $1.36 per pound before credits.

Operator: Our next question comes from the line of Thiago Lofiego from Bradesco BBI.

Thiago Lofiego: Raul, 2 questions for me. First one on the dividends. Is there a chance that we see a higher dividend payout in the coming quarters or maybe a year while you don't have a final decision on the growth projects? I mean, the significant growth projects like Tia Maria or eventually if you go for another one.

And then the second question is related to that as well. So Tia Maria, I understand you guys are doing a lot of things there, the ESG study. But just to understand if this takes longer to become a reality, would you consider going for El Arco first? Or this is not in the cards for you?

Raul Jacob Ruisanchez: Okay. On dividends, well, the Board increased the dividend from $0.40 that we announced in July to $0.50 this past October 22. And it's always decided at the Board meeting what dividend to pay. We think that the company has a very consistent track record of sending any cash that is perceived as excess cash to the shareholders. That's what the company has done for quite a while.

But it's something that will have to be decided on an ongoing basis by the Board members. As you know, conditions are much more favorable price-wise in the products that we produce other than molybdenum. Molybdenum, sadly, is not keeping the price that it had last year, that was $12 per pound.

Now it's close to $8 per pound, it's 1/3 of value loss. But all the other prices of products have improved; for copper very significantly; silver and gold, obviously; well, zinc remains pretty much the same, but that's basically it. So I think that as long as the company has some cash available, the Board will consider if that should be paid as a dividend.

In the case of Tia Maria, well, the projects have an evolution that requires certain tasks to be accomplished. Currently, Tia Maria is the project that, on our side, has finished with all the permitting, and we have been doing a very strong and very successful, actually, social work in the area of the project. And we are willing to move on with it.

For El Arco, well, as I mentioned, it is initiating its work to get the environmental impact assessment. We're getting land that is required for the project. So there are certain steps that we have to comply with in order to move on with the project. I don't see these 2 projects as this or that. I think that whenever they're mature to move on, the company will put the resources to do so.

Thiago Lofiego: That's good. And just a follow-up here. In terms of projects that are more mature, less mature beyond Tia Maria, which ones are the ones that you see that are closer to be more mature anyway? So it would be El Arco, Michiquillay, what would be the order there?

Raul Jacob Ruisanchez: Well, the ones that we are reporting for our Mexican operations, El Pilar, Pilares and the zinc concentrator, the new zinc concentrator are the ones that are being developed right now. So those are -- those 3 in Mexico and Tia Maria, okay? Besides those, we have the greenfield projects that are in Mexico and Peru.

In the case of Peru, it is Tia Maria, and then we look at the project completion; Los Chancas is also a project that is well advanced. And Michiquillay is -- we're moving forward with it very nicely, actually. So we think that these projects are being developed at a proper pace. And in Mexico, another greenfield project is El Arco, which is the one I already commented on.

Operator: Our next question comes from the line of Jon Brandt from HSBC.

Jonathan Brandt: I just wanted to clarify something you said at the beginning. Did you say in Peru, there's about at 65%, 70% of the workers back actually working? So I'm just wondering if you can clarify sort of what the other 30% are doing. Is this going to have repercussions? I mean presumably, it's impacting things like stripping and things like that. So I'm just wondering, will we see an impact on production from this in the next couple of years?

And then secondly, I just wanted to ask you about the production versus sales volume numbers. I thought you said last -- during the call last quarter that destocking was pretty much done. But it seems like inventory has come down again, sales volumes were a bit higher than production again this quarter. So I'm just wondering if you're now running at a normalized inventory level? Or should we expect further improvement in working capital?

Raul Jacob Ruisanchez: Sure. Thank you for your questions, Jon. Well, for the Peruvian workforce, we have certain workers that for different reasons, we haven't asked them to come back to work, mainly because they have some restrictions due to certain health conditions. And that's a little bit more significant in Peru, given the protocols that the sanitary authorities has put in place than in Mexico.

That's why we have -- we're operating with, as I'd say, about 65% of the workforce. These employees are being recalled to come back to work as we speak. We're already doing that. The process is relatively slow, and we're trying to catch up and having most of our workforce in our operations in the next few weeks, the Peruvian workforce.

In the case of production versus sales, well, we're expecting to maintain a very close relationship between sales and production. Sometimes, as it happened in the last -- in the past quarter -- at the end of the second quarter, we couldn't ship all the material that we had already due to high seas at the Ilo port and some other inconveniences, but that -- well, obviously, we made an effort to catch up on that, and that's being reflected in our sales volumes this past quarter. So we are currently normal regarding inventories and expect to maintain a very close relationship between our production and our sales.

Jonathan Brandt: Great. And just a follow-up on the labor side. We've seen some issues in Chile with strikes and issues at MMG. So I mean are you expecting any sort of -- I guess if you could comment a little bit on your overall relationship with the unions and the communities, both in Peru and Mexico?

Raul Jacob Ruisanchez: Certainly, well, in the case of Peru, we had -- last year, we signed three-year labor contracts with our unions, with most of them. One of them had a slightly different time lag, but we do have a contract with them as well. So we don't see this as a problem now. We don't believe that we will have any inconveniences on that.

In the case of the Mexican operations, they have a different arrangement for discussion of salaries. So far, we are not seeing any inconveniences regarding our labor force in Mexico as well. So we're -- in that regard, we are okay, I believe. As you may imagine, Jon, many people is quite concerned on the difficulties that both Mexico and Peru are facing due to the COVID pandemic. So labor discipline, I believe, it's very, very high in both countries where we operate.

Operator: Our next question comes from the line of Jens Spiess from Morgan Stanley.

Jens Spiess: Just wanted to ask how much you still have to do in terms of stripping and how that will impact cost before by-products going forward? And in that sense, if you could provide an updated guidance for upcoming years? And also, do you have any notion of how much tax flow will be affected if Congress passes the nondeductibility of royalties in Mexico?

Raul Jacob Ruisanchez: I'm sorry, I couldn't get your second question, Jens.

Jens Spiess: Yes. In Congress, there's apparently a proposal for the upcoming, how do you call it, budget for the next year. Mining royalties will no longer be deductible from the income tax. So I was wondering if you already have an assessment of what's the impact on your tax bill for that.

Raul Jacob Ruisanchez: You mean on the Mexican tax legislation?

Jens Spiess: Correct.

Raul Jacob Ruisanchez: Okay. Let me first go into -- well, we reported a slight increase in our cash cost before byproduct credits. So far, we're expecting a cash cost of about $0.70 for this year. It will be either the same or slightly higher.

It depends on how much maintenance we can catch up in this fourth quarter -- for this year. Now for 2021, we are expecting to have -- we're certainly catching up on maintenance expenditures, some that will require some more contractors work. And our current view is that we should have a cash cost of about $1 next year; for 2022, $0.98; and $0.94 in 2023.

Let me mention that we will be including the production of the new projects in Mexico in these 2 years. 2022, we will have the Pilares operation already producing about a little bit more than 30,000 tons per year, 35,000 tons. And then in 2023, we will have El Pilar and the Buenavista zinc operation. That will certainly improve our production as well as our cost profile.

Regarding the second question, the proposal in the Mexican Congress, well, we don't want to speculate on this. When this is a firm decision by the Congress, we'll provide an idea of the impact, but at this point, we don't think that it's a good idea to mention on the impact because it's mainly speculative at this point.

Jens Spiess: Okay. And could you maybe repeat the cash cost guidance before the deduction of by-products?

Raul Jacob Ruisanchez: For next year or for now?

Jens Spiess: Yes. For this year and next year.

Raul Jacob Ruisanchez: Okay. For this year, we are expecting $1.35 before credits. And for next year, $1.64. By the way, at this quarter, we are usually doing a major review on the outlook for the company. So it may vary a little bit when we report our view of the operations in the next quarter in January.

Operator: Your next question comes from the line of Leopoldo Silva from LarrainVial.

Leopoldo Silva: So I have a first question regarding your growth projects. I see in the Los Chancas CapEx guidance that you have reduced it $200 million. What is the explanation for that? And then I have a follow-up.

Raul Jacob Ruisanchez: Sure. In the case of Los Chancas, we have made a complete review on the project. And as a consequence, we found that -- well, basically, we have changed the mining plan, the long-term mining plan of the project. As a consequence, we will be doing less stripping, and that will have an impact on the CapEx of the project because it will require less equipment at the beginning of the investment as well as pre-stripping. So those 2 components are the main explanation for the project reduction in CapEx.

Leopoldo Silva: Great. Very clear. And my second question is regarding your state after building all these projects in Peru and Mexico. How -- your sustaining CapEx, what level should you reach after all of these operations are up and running?

Raul Jacob Ruisanchez: Well, currently, we have a sustaining capital that's in the range of $500 million per year. Obviously, we -- and that's considering the current production capacity. So once we finish our projects, and that will mean that we will be producing almost 1.8 million tons of copper, that will be our capacity. Then we should have obviously a much higher maintenance CapEx.

Well, for a while, it will not press our expenditures because the new equipment usually requires less maintenance for a while and then you initiate a routine of maintenance. For now, we believe that should be at about $750 million for the long run. But that's something that we will be reviewing as we move on into 2028 when we believe we will be operating all the projects at full capacity.

Leopoldo Silva: Okay. So on a per ton basis, it should be relatively the same after the initial years?

Raul Jacob Ruisanchez: Yes, that's a fair assumption.

Leopoldo Silva: Okay. And now that you said you spent $500 million a year in CapEx. I believe this year, CapEx at the beginning of the year was going to be $1.1 billion, right? I know you have downsized it to $800 million, but those -- the $600 million difference with your sustaining CapEx, what -- as you're not spending on growth projects -- no, I mean, you are -- those $600 million, where are there going or where they were planned to go at the beginning of the year?

Raul Jacob Ruisanchez: We are rescheduling them. Well, this year, we had, as we mentioned, we had an initial budget that was much higher than what we expect to spend. And we are adjusting the current CapEx for 2020 to about $650 million. Of those, it has a mix of certain maintenance CapEx that we haven't been able to do. So we are not going to spend the money that we expected for maintenance CapEx for the reasons that I explained.

Certain capital-related activities cannot be performed. Let's say, for instance, a technical visit to evaluate an equipment in some other country, well, you may not been able to travel to that country where the operation of the equipment that you want to buy, it's located. So you have to postpone certain expenses for reasons, technical reasons as well as sanitary reasons. And so we have been reducing our CapEx on an ongoing basis this year.

At this point, we are not changing the view on the projects or the CapEx for maintenance that we have to do. We are in either event postponing a little bit expenses. The money that we have not spent through 2020, it's being distributed in the following years, 2021 and on.

Operator: Our next question comes from the line of Jean Bruny from BBVA.

Jean Bruny: Congratulations for the results. Maybe 2 quick ones for me. The first one on molybdenum. We have seen all prices of metals trading up to the first quarter but for molybdenum. Maybe what's your view on that. And the second one on the copper market.

I understand you're optimistic. Maybe what's your take as well on the dynamic, especially on the supply side? How much capacity do you think is currently due to COVID? And what's your take as well on the demand side? I understand that you're seeing a very strong demand from China. Give an update on the other part of the world.

Raul Jacob Ruisanchez: Okay. I got your second question. On the first one, I couldn't copy well what you said. Let me focus on that, and then we'll tackle your second. Okay. Well, so far, we are seeing a reduction in demand and a reduction in supply. This is a crisis, the COVID-19 crisis, economic crisis for copper, it's a different situation than what we usually faced in the past. Let me explain why.

Usually, when you had a market turmoil that reduced the economic growth worldwide, what we saw in the copper market was a reduction in demand, but supply remained basically intact. So adjustments in supply came after a while due to much lower prices than the ones that are sustainable long term.

So those lower prices had producers shutting down high-cost operations, and that's how the market moved on towards economic equilibrium for the copper market. That's, say, what happened in the 2008, 2009 recession, worldwide. We had lower demand, then lower supply.

In this case, due to the COVID impact in the operations of different copper producers, we had both, supply and demand decreased. And now we are at a much lower level of demand and supply. Our commercial team has indicated that they are expecting -- or they believe that demand has decreased in 2020 by about 700,000 tons and supply has decreased by about 350,000 tons. That's for 2020.

At the same time, we're seeing different events that are supporting copper prices. I mentioned the liquidity available at the different central banks, particularly the European Central Bank and the Fed has provided to the market. That is certainly helping to maintain economic activities and metal prices at a good level. Also a concern for different actors at this market is what is happening in Chile, where labor talks are affecting about 50% of the of Chile's supply in the next 12 months.

And that's on the supply side. And on the demand, we're seeing a very strong recovery from China and other Asian economies that are demanding copper. And we're expecting a positive outlook for this coming year. And that's why we have this positive view on the copper price. That's why I have to comment on that. Could you mention your second concern, please, Jean?

Jean Bruny: Yes. Yes, sure. Just 1 quick question on (technical difficulty) …

Raul Jacob Ruisanchez: We're not copying you.

Operator: It appears that his line has disconnected.

Raul Jacob Ruisanchez: Okay. Let's move on. He may reconnect and we'll take the call whenever he's back.

Operator: Our next question comes from the line of Rodolfo De Angele from JPMorgan.

Rodolfo De Angele: I guess we already discussed a lot. So I just wanted to confirm the numbers of your expectations for production of both copper and moly into this year that you mentioned in your opening remarks. I'm not sure I got it right. Can you repeat, please? That's all for me.

Raul Jacob Ruisanchez: Certainly. Good talking to you, Rodolfo. For copper, we're expecting 996,500 tons; for molybdenum, 29,400 tons.

Operator: Our next question comes from the line of Rodrigo Garcilazo from GBM.

Rodrigo Garcilazo: I have just a quick clarification. In the last conference call, you mentioned that you were expecting to have higher costs for about $170 million. Due to postponed maintenance and stripping costs, that amount will be spread out in the next 3 quarters. So considering your higher cash cost expectations for next year, the question is did you moved a big chunk of this additional cuts through 2021 and by how much? That's the first question.

Raul Jacob Ruisanchez: Okay. Well, we already commented on that, and we're following a plan to catch up on all the maintenance and some other activities that we have to postpone due to the pandemic. A portion of that has been already absorbed by our operations and will be the case for now and at least 2 quarters of next year.

At the same time, we're seeing certain synergies that we're getting by doing -- finding out different ways to do what we are doing now. And that is -- there are some saving opportunities that we are foreseen for the future. We will report on that when we have more clarity. But at this point, the plan is to do the maintenance that we have postponed and try to be as much efficient as we can by addressing these different works in the next few quarters.

Rodrigo Garcilazo: The next question is a quick follow-up regarding Peruvian workforce. Could you mention the effects in terms of costs and production once all the workforce returns in the next few weeks, please, in Peru?

Raul Jacob Ruisanchez: Well, they have been paid so we never stopped paying them. The Peruvian legislation, in this case, asked for them to recuperate the time that they have been not working. So we're developing a plan, so they can pay back that time. That's one thing. The other one is that we have incurred in certain expenditures related to this situation, we have to pay some extra labor time.

It was relatively speaking, a small amount, $16 million that we have spent in our operations due to COVID-19 labor or production inconveniences. So most of it is for extra labor for the ones that could work at the premises of the company. The ones that are not working, will have to pay back the salaries that they have received, and there are different ways that they can do that. And that's following the Peruvian legislation regarding this matter.

Operator: Our next question comes from the line of Rodrigo Salazar from AM Advisors.

Rodrigo Salazar: Just one question from my side. If you could give us an update on CapEx with these changes on payments? What do you expect for next year on CapEx? And how much of that is maintenance?

Raul Jacob Ruisanchez: Certainly. For next year, we are expecting to spend $1.4 billion; for 2022, $1.8 billion; in 2023, $2.2 billion; 2024, $2.9 billion. So basically, we're scheduling our expenses, the ones that we are not exercising this year and a little bit -- that has some kind of a waterfall in terms of rescheduling of expenditures for CapEx.

Rodrigo Salazar: Okay. And how much of that is maintenance for next year of the $1.4 billion?

Raul Jacob Ruisanchez: Well, it's -- there are some expenses that -- for instance, all the equipment that could be acquired, we have already put the purchase orders on that. Some of that will be paid, particularly for the new concentrator at Buenavista, will be paid this quarter, about $70 million of that. And then it varies depending on the different projects. It's not specific for different projects in this case.

Operator: Thank you. At this time, I'm showing no further questions. I would like to turn the call back over to management for closing remarks.

Raul Jacob Ruisanchez: Okay. I have the gentleman that disconnected has e-mailed us. His question is on the molybdenum market. He is indicating why molybdenum price is the only one that is going down. Well, that's a question that we also do ourselves. Actually, it's -- there is plenty of supply, and that's why -- this is Jean Bruny's question from BBVA.

It's basically excess supply in the market. Molybdenum it's also related to certain industries that, well, won't be favored by current circumstances, such as airplane manufacturing, for instance. That's one of the consumers of molybdenum in the stainless steel alloys that they use for this.

Okay. Well, with this we conclude our conference call for today. We certainly appreciate your participation and hope to have you back with us when we report for the fourth quarter of this year and the full year 2020. Thank you very much, and have a nice day today.

Operator: Ladies and gentlemen, this concludes today's conference call. Thanks for participating. You may now disconnect.