

Southern Copper Corp (2Q20 Earnings)
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Corporate Speakers:

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

Participants:

- Thiago Lofiego; Banco Bradesco BBI S.A.; Analyst
- Jens Spiess; Morgan Stanley; Analyst
- Grant Sporre; Bloomberg Intelligence; Analyst
- Tim Lambert; Loomis, Sayles; Analyst
- John Tumazos; John Tumazos Very Independent Research, LLC; Analyst
- Andreas Bokkenheuser; UBS Investment Bank; Analyst
- Alejandra Andrade; JPMorgan Chase & Co.; Analyst

PRESENTATION

Operator: Good day, and welcome to Southern Copper Corporation Second Quarter 2021 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 second quarter 2021 as well as answer any questions that you may 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 not to 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. As a result, all results are expressed in full U.S. GAAP.

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

Raul Jacob: Thank you very much, Carmen. Good morning, everyone, and welcome to Southern Copper's second quarter 2021 results conference call. At today's conference, I'm accompanied by Mr. Oscar Gonzalez Rocha, Southern Copper CEO and Board member; and by Mr. Xavier Garcia de Quevedo, also a Board member.

Before we go into the details of the past quarter, let me first express my best wishes for you and your loved ones during this still trying times. In today's call, we will begin with an update on our view of the copper market. We will then review Southern Copper's key results related to production, sales, operating cost, financial results, expansion projects and ESG. After this, we will open the session for questions.

Now let us focus on the copper market, the core of our business. In the second quarter of this year, the London Metal Exchange copper price increased from an average of \$2.42 per pound in the second quarter of 2020 to \$4.40, that is an 81.8% increase. As of today, we're seeing prices at about \$4.50 per pound, which tops the year-to-date price of \$4.13 per pound and bodes a positive outlook for the company.

We believe the following factors are influencing the market: the strong demand that we're seeing in the U.S. and Europe, particularly in terms of cathode consumption; the combined inventories of the London Metal Exchange, COMEX, Shanghai and bonded warehouses, which remain at relatively low levels, particularly given the number of days of consumption considered; the uncertainty regarding future production from Chile and Peru, which, together, represent about 40% of the world supply.

The most important market intelligence houses for the copper market are expecting a market deficit of about 250,000 tons this year due to a recovery in demand, which should grow between 2% to 3.5%.

Now let us look at Southern Copper's production for the past quarter and 2021. Copper represented 81.1% of our sales in the second quarter of this year. Copper production registered a decrease of 6.3% compared to the second quarter of 2020 and stood at 237,110 tons in this past quarter. This result was driven by a drop in ore grade due to stripping and maintenance work that was rescheduled for this year after having been postponed in 2020 due to the COVID-19 pandemic.

On a year-on-year basis, copper production decreased 3.9% and totaled 475,512 tons. For 2021, we expect to produce 960,000 tons of copper.

For molybdenum, it represented 9.7% of the company's sales value in the second quarter of this year and is currently our first by-product. Molybdenum prices averaged \$13.89 per pound in the quarter compared to \$8.24 per pound in the second quarter of last year.

This is a 68.6% increase. In July, the average price for molybdenum stands at \$18.39 per pound, which improves our outlook for revenue generation in this third quarter and possibly for the rest of the year.

Molybdenum production decreased by 10.8% in the second quarter compared to the same period of 2020. This was mainly driven by a decrease in production at both the Toquepala and Buenavista mines due to lower ore grades. These results were partially offset by higher production at La Caridad and Cuajone.

Silver represented 4.1% of our sales value in the second quarter of this year, with an average price of \$26.78 per ounce in the quarter, up 61.9% from the same period of 2020. Silver is currently our second by-product.

Mined silver production decreased by 16.2% in this past quarter, as production fell at IMMSA, Buenavista and Toquepala, and this was partially offset by higher production at

the Cuajone and La Caridad mines. Refined silver production decreased 15.3% in the second quarter after production dropped at La Caridad and Ilo. This was also partially offset by an increase in production at IMMSA.

For zinc, it represented 2.8% of our sales value in the second quarter of this year, with an average price of \$1.32 per pound in the quarter, a 48.3% increase from the same period of 2020.

Zinc mine production increased by 8.9% quarter-on-quarter and totaled 17,111 tons. This was primarily driven by higher production at our Charcas and San Martin mines. Refined zinc production decreased by 2.8% in the second quarter of this year compared to the second quarter of 2020.

For our financial results, in the second quarter of 2020, sales were \$2.9 billion. That's \$1.1 billion higher than sales for the second quarter of last year. This is a 62.3% increase in sales. Copper sales volume decreased by 13.6%, while value increased by 59.8% in a scenario of better prices.

Regarding our main by-products, we registered higher sales for molybdenum that increased 163.7% due to better prices, but partially offset by a decrease in volume. Zinc sales increased by 68% due to better prices and an increase in volume. For silver, we had an increase in sales of 21.2% due to better prices, but partially offset by a decrease in volume.

Our total operating cost and expenses increased by \$13.6 million or 1.1% when compared to the second quarter of 2020. The main cost increments has been in workers' participation, fuel cost, repair materials, operating materials and supplies, operations contractors, energy and translation difference due to the Mexican peso appreciation. These cost increments were partially offset by a decrease in inventory consumption, purchased copper and capitalized leachable material.

Our second quarter 2021 adjusted EBITDA was \$1,862.4 million, which represented an increase of 141.9%, with regard to the \$770 million registered in the second quarter of last year. The adjusted EBITDA margin in the second quarter was 64.3% versus 43.1% in the same period of 2020.

For the 6 months of this year, the adjusted EBITDA was \$3,416 million. This is 129.5% higher than the adjusted EBITDA for the first half of 2020. The adjusted EBITDA margin in the 6 months of this year was 62.9%, and this compares with 42.5% for the same period of 2020.

Operating cash cost per pound of copper before byproduct credits was \$1.61 per pound in the second quarter of this year. This is \$0.101 higher than the value that we had in the first quarter of this year. This 6.7% increase in operating cash cost is a result of higher cost per pound from production cost, higher administrative expenses and lower premiums

for our cathodes; and this was partially offset by a decrease in treatment and refining charges.

Southern Copper's operating cash cost, including the benefit of by-product credits, was \$0.586 per pound in the second quarter of this year. This cash cost was \$0.154 lower than the cash cost of \$0.739 that we had per pound of copper in the first quarter of this year.

Regarding by-products, we had a total credit of \$521.2 million or \$1.02 per pound in the second quarter of 2021. These figures represent a 33.1% increase when compared to the credit of \$393.7 million or \$0.771 per pound that we had in the first quarter of this year. Total credits have increased for molybdenum and zinc; and decreased for silver and sulfuric acid.

For net income, this past quarter, we had a net income of \$932.7 million, which represented a 259.4% increase with regard to the \$259.5 million registered in the second quarter of 2020. The net income margin in the second quarter of this year was 32.2% versus 14.5% in the second quarter of 2020.

We believe that our aggressive capital investment program, which has spent \$10.6 billion in the last 10 years, worked alongside an improvement in market prices to drive growth in net income this quarter.

Through all these investments, our company has significantly increased its production in the last decade. For copper, for instance, we increased our production by 109%, for molybdenum by 49%, and for silver by 70%. And at the same time, we improved cost efficiency and productivity. On a year-on-year basis, net income was 257.7% higher than what we had in 2020.

For capital investments, Southern Copper's 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.

In the second quarter of this year, we spent \$219.8 million on capital investments, which reflected a 94% increase with regard to the same period of 2020 and represented 23.6% of net income this quarter. In the first half of the year, we spent \$452.4 million on capital investments, which represented 26.7% of net income.

Our current portfolio for approved projects in Peru totals \$2.8 billion, \$1.6 billion of which has already been invested. However, if we include the up and coming Michiquillay \$2.5 billion project, and Los Chancas \$2.6 billion project, our total investment program in Peru reflects a commitment of \$7.9 billion.

Regarding the Tia Maria project in the Arequipa region in Peru, Southern Copper has been consistently working to promote the welfare of the population of the Islay Province. 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 have also promoted agriculture and livestock activities in the Tambo Valley and supported growth in manufacturing, fishing and tourism in Islay.

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. 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.

When operating, we expect Tia Maria to directly employ 600 workers and indirectly provide jobs for another 4,200. 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 upcoming 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 SCC with adequate support to initiate construction.

For the Mexican projects, let me start by the Buenavista zinc concentrator, which is in the Sonora state. This project is located within the Buenavista facility and includes the development of a new concentrator to produce approximately 100,000 tons of zinc and 20,000 tons of copper per year.

We have completed the basic engineering study, and the detailed engineering study is 94% complete. In order to continue with the project, stronger preventive measures to combat COVID-19 has been put in place. Procurement has progressed 84%.

Additionally, construction site works are in progress. The project has all the necessary permits, and the capital budget is \$413 million. As of June 30 of this year, we have invested \$178.2 million in this project. We expect to initiate operations in 2023. When completed, this new facility will double the company's zinc production capacity and provide 490 direct jobs and 1,470 indirect jobs.

For the Pilares project, also located in Sonora, this is a project that is 6 kilometers away from 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 mining trucks has been built 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% current ore grade from La Caridad.

The project for Pilares is \$159 million, and we expect the project to begin production in the first quarter of 2022. As of June of this year, we have invested \$75.3 million in this project.

El Pilar, it's a low capital intensity copper greenfield project, which is strategically located in Sonora, Mexico. It is about 45 kilometers away from our Buenavista mine. Its copper oxide mineralization contains estimated proven and probable reserves of 281 million tons of ore, with an average copper grade of 0.31%. Let me comment that this ore grade is an excellent one for oxides, which is the kind of material that El Pilar SX-EW plant would process.

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. As of June 30, we have invested \$2 million in this project. We expect production to begin in 2023, and the mine life is estimated at 13 years. The results from experimental pads in the leaching process have confirmed adequate levels of copper recovery. The company continues developing the project basic engineering and site environmental activities.

For our world-class copper deposit, El Arco, which is in the Baja California state. This project is located at the central part of the Baja California peninsula, with ore reserves of over 2.4 billion tons with an ore grade of 0.422% and 0.11 grams of gold per ton.

The project includes an open pit mine combining concentrator and SX-EW operations. Annual production is expected to total 190,000 tons of copper and 105,000 ounces of gold, with an estimated capital budget of \$2.9 billion.

As of June 30 of this year, we have invested \$63.6 million in this project. The company has started the baseline study and is reviewing the basic engineering analysis to request the environmental impact permit. Several years back, we began to acquire the rights to all relevant mining concessions in the area. This process was completed in 2020.

Southern Copper is committed to improving its ESG record by adopting best practices and communicating to the investment community and other stakeholders our progress in these matters. Southern Peru, our Peruvian branch, signed an institutional cooperation agreement with the Ministry of Health of Peru that allows the company to support the government in efforts to organize and implement 26 vaccination sites in the regions of Arequipa, Moquegua, Tacna, Cajamarca and Apurimac.

The company will donate more than \$2.4 million to vaccinate 424,000 plus people over the next 2 months, which is equivalent to 40% of the population in these regions. The aforementioned agreement was the third of 3 agreements signed with the government of President Sagasti to aggressively fight the pandemic.

The first entailed a donation of 2,181 tons of medical oxygen, which was produced by the oxygen plants at our Ilo smelter to provide liquid oxygen to the Southern regions of Peru. The second donated 4 oxygen plants, 2 of them mobile, which are currently operating in the regions of Tacna, Puno, Arequipa, Piura and Cajamarca.

Our company is committed with sourcing our operations with renewable energy. In 2020, 22% of Southern Copper Corporation electricity came from renewable sources. We're currently evaluating options to contract an additional portion of our power demand from renewable electricity. In 2022, we expect at least 25% of our energy supply will come from renewable electricity.

The percentage of recycled water from mining operations has increased 5% over the last 3 years, reached 74%. By this, I mean 5 percentage points, so from 69% to 74%. This represented savings of approximately 3.5 million cubic meters of freshwater a year.

The company has made major efforts to increase the amount of water available to nearby communities in Mexico and Peru and has rehabilitated more than 200 kilometers of irrigation canals and 400 water reservoirs. These initiatives have benefited 20,000 farmers. And in just 5 years, the company has invested \$79 million in water projects for communities.

Recently, Grupo Mexico published its sustainable development report for the year 2020. It contains information on Southern Copper Corporation's progress in areas relative to sustainability and is aligned with the reporting standards of the global reporting initiative and, for the first time, also adheres to the frameworks of the Sustainability Accounting Standards Board and the Task Force on Climate-Related Financial Disclosure.

The 2020 version includes a section on SCC's response to the COVID-19 pandemic and provides greater detail on issues relative to economic, governance and climate change performance.

Regarding dividends, as you know, it is the company policy to review our cash position, expected cash flow generation from operations, capital investment plans and other financial needs at each Board meeting to determine the appropriate quarterly dividend.

Accordingly, as announced to the market on July 22, the Board of Directors authorized a cash dividend of \$0.90 per share of common stock payable on August 26 to shareholders of record at the close of business on August 12 of this year.

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

QUESTIONS AND ANSWERS

Operator: (Operator Instructions)

We have a question from the line of Thiago Lofiego with Bradesco BBI.

Thiago Lofiego: Two quick questions about the lower ore grades. Could you give us an update on how that should evolve in the second half of the year? We understand that this is mostly related to maintenance that you didn't do last year and you're doing now, so just wanted to understand if there is more impact of lower ore grades in the second half.

And the second one about dividends. So you just mentioned you will continue to evaluate the dividend policy. The truth of the matter of here is that copper prices remain quite high, and the outlook seems to be pretty positive.

So what could we expect on the dividend side, maybe on the buyback side as well? Could we see an increased payout? The average payout for the last couple of years has been around 75%-ish. Could we see 100% payout, especially considering delays in big projects like Tia Maria?

Raul Jacob: Thank you for your question, Thiago. Well, for the second half of the year, as we explained today, as we have reported before, in 2020, we couldn't make all the maintenance work and stripping that was required at our operations. We are doing a catch-up on that. And as a consequence, you go into certain areas of the mines where ore grades are not as good as what you have, to say so, in the main part of the ore body.

That's why our ore grades are lower now. We expect this to improve as we go into a better part of the different operations. But we have indicated before that, at least in the case of the Peruvian operations, we will pass a patch of lower ore grades for this year and next year.

So even though we are seeing a better performance than what we initially believed at the beginning of this year, we mentioned that our production profile was expecting -- we were expecting to produce 943,000 tons of copper. Now we have adjusted that upward to 960,000 tons of copper.

And that's -- so that -- there is an improvement to our initial forecast. We expect to produce a little bit more than that. But for now, that's our current goal.

Now regarding dividends, well, this is a company that -- this is a decision that is always up to the Board. But if you see our track record, this is a company that does not hoard cash. Our Board, in general, has been keen on sending any excess cash to our shareholders.

So if there is a delay in projects or if there is a much better or a better outlook for metal prices, I think that they will make a decision. But if you look at the track record, you can get your own conclusions on that. We are not expecting to have any buybacks for now.

Operator: Our next question comes from Jens Spiess with Morgan Stanley.

Jens Spiess: Yes. Raul, just wanted to ask, could you also provide an update of the guidance for the other metals if those were affected and also if this new copper production guidance also impacted the -- your cash cost for the year, in particular before by-products?

Raul Jacob: Okay. Thank you for your question, Jens. Hold on a second, please. Okay. I mentioned already that for copper, our guidance is 960,000 tons; for molybdenum, 28,300 tons; for zinc, 72,800 tons; for silver, 20.6 million ounces. And you mentioned already the cash cost guidance?

Jens Spiess: Exactly, the cash cost guidance, is that changed versus what you have mentioned before by-products?

Raul Jacob: Well, what we're seeing is that before by-products, we're expecting a relatively lower total cash cost than what we had in mind at the beginning of the year. We're currently expecting \$1.61 per pound and a cash cost of about \$0.65 for the year.

And the reason for the better outlook -- at the beginning of the year, we mentioned about \$0.85 per pound. And the reason mainly, it's related to the much better prices that we're seeing for our by-products.

Cost, as you have seen, has increased, but we managed to contain it due to favorable variances related to purchase of copper concentrates, inventory movements and capitalized leachable material.

So we believe that we will have cash cost in that range. Obviously, as we move on into a much inflationary environment, we may see an increase in the cash cost before by-product credits. But we also believe that, that will be reflected somehow in the prices of our by-products as well.

Operator: Our next question comes from Grant Sporre with Bloomberg Intelligence.

Grant Sporre: I've just got one question, if I may, and that's on Tia Maria. Could you just outline what you need in terms of permits? And what are the milestones you need to achieve before you fully go ahead with the Tia Maria project?

Raul Jacob: You're welcome, Grant. We don't have any other needs for permits. We have all the permits that are required to initiate the construction of the project. What we have indicated is that we require a better social environment for the project to begin.

Now, let me say that we have made a very significant progress on the project's social environment. And at this point, we believe that if we work with the national government, the regional authorities as well as the local ones, we will be able to move on with the construction.

Now for that, we need to see how the new Peruvian government will consider this project. And on that matter, we're certainly willing to cooperate with the new administration to move on with the project as soon as we can.

Grant Sporre: Yes. Okay. I guess, as an analyst, we're sort of looking for a hard yes or no. But I guess, in this instance, it's a little bit more. You have to gauge the environment, I'm guessing. But thank you for your answer.

Operator: Our next question comes from Tim Lambert with Loomis, Sayles.

Tim Lambert: Just one question on CapEx for me. Has there been any revision to the guidance for CapEx for this year? It looks like at least first half of the year is on the lower end compared to what we're expecting for the full year? Or is it always expected to be back weighted? Just any color there would be great.

Raul Jacob: Sure. Well, we have made a review on our CapEx, but not significantly -- it hasn't changed significantly. About \$15 million, it's the change in CapEx. And the reason for that is that we're basically coming back from a year -- last year -- when we couldn't make as much as we want to and we are somehow catching up on what we couldn't do last year. So our current guidance is, as I've said, about \$15 million lower than the initial one for this year.

Tim Lambert: Okay. That it will be about, what, \$1.380 billion or so.

Raul Jacob: For now? Currently, it's \$1.340 billion.

Operator: Our next question comes from John Tumazos with John Tumazos Very Independent Research.

John Tumazos: Could you just walk us through the project completion schedule for 2022 and '23, if any of the dates have been pushed back with virus and other challenges? And should we interpret for Michiquillay and Los Chancas and El Arco that they're far enough away, that there's no firm date?

Raul Jacob: Well, the answer to the second part of your question is, no, we do have a goal for finishing both Los Chancas and Michiquillay, and I'll give you an update on all the projects now.

For Pilares, I mentioned that we are expecting to initiate production next year at the first quarter. For the Buenavista zinc concentrator, we are expecting to initiate production by mid-2023. El Pilar should be up and running by 2023. That's our current goal. For Tia Maria, we're expecting to initiate production by 2024. Los Chancas by 2027, and Michiquillay by 2028.

John Tumazos: And El Arco?

Raul Jacob: Sorry about that. El Arco is scheduled for 2028 as well.

John Tumazos: If I can ask one more. We're trying to interpret politics in Peru. And here in America, in 2020 -- 2016 and 2020, many of us didn't like either presidential candidate, and it was more of a tough choice than embracing a mandate.

Do you think, in Peru, there was strong support for either candidate or a little bit like which one was less unpopular? And do you think the legislature is majority left or majority right or partly undecided?

Raul Jacob: On the election, the polls before getting into the second round, the Peruvian election process showed that both candidates that passed to the runoff, had a relatively much lower support than the usual for Peruvian politics.

Now, regarding our Congress, I think that you have three main groups, and they have been the usual, the right, the left and some parties at the center. Yesterday, we had the election of the President of Congress, and it was, the lady that was elected is a center -- is a member of one of the center parties, and she ran a coalition that won that election.

Operator: Our next question comes from Andreas Bokkenheuser with UBS.

Andreas Bokkenheuser: Just a follow-up question on costs. I remember...

Raul Jacob: Andreas, I can't copy you well.

Andreas Bokkenheuser: Is this better?

Raul Jacob: Much better.

Andreas Bokkenheuser: Yes. Sorry about that. Yes, a question on cost -- a follow-up question on cost. So I remember last year, you were kind of talking about a bit of cost inflation and for cost to effectively normalize. We obviously saw costs coming down quite significantly in 2Q, which was nice to see. But what are you thinking in terms of your normalized cost levels per pound in 2022?

Raul Jacob: Okay. Well, for next year, we should have a relatively higher cash cost than what we had in this year, particularly before taking the by-product credits. And the reason for that is that we are having a relatively lower ore grade at the Peruvian operations for next year, which will impact on the cash cost.

We are expecting probably \$0.10 more than what we have now for cash cost before by-product credits for 2022. Now, having said that, this is a figure that is under constant review, and we will be updating it as we move on through the remaining part of 2021.

Operator: (Operator Instructions)

We have a question from Alejandra Andrade with JPMorgan.

Alejandra Andrade: I just have a quick one on actual liability management. I know you only have very little debt coming due in '22 and '25. But I was thinking of how you were thinking about that debt that you were looking to refinance in the short term, where we could see for the '25.

Raul Jacob: Yes. Thank you for your question, Alejandra. Well, the straight answer to your question is that, no, we are not considering at this point any specific liability management. We have looked into the matter. We always do. I mean, it's an ongoing task.

But for now, we believe that we will remain with the structure that we have. As you know, we have a relatively relaxed payment schedule. Next year, we have to pay \$300 million. And then in 2025, another \$500 million. You see our cash position. We are very comfortable with that.

And the remaining part of our debt portfolio, it's relatively far away in terms of its maturities and at very high prices. So after a review -- an internal review in the matter, we decided that, for now, we are not looking into this matter.

Now if we -- let's say that we go on with one of our projects -- one of our big projects, say, Tia Maria, we may consider tapping to the market, but that is something that will be discussed when appropriate.

Alejandra Andrade: Great. And just to clarify then. So for the '22, you would be looking to pay that with cash, instead of issuing a new bond.

Raul Jacob: Yes, that's correct. But again, we're always looking into this matter. And if conditions are considered to be the appropriate ones at that time, we may review what I just said.

Operator: I'm not showing any further questions in the queue. You may continue with any final remarks.

Raul Jacob: Yes. Thank you very much, Carmen. And well, with this, we conclude our conference call for Southern Copper second quarter of 2021 results. We certainly appreciate your participation and hope to have you back with us when we report the third quarter of this year. Thank you very much, and have a nice day

Operator: And this concludes our conference for today. Thank you for your participation, and you may now disconnect.