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# EDITED TRANSCRIPT

Q4 2020 Southern Copper Corp Earnings Call

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## PRESENTATION

### Operator

Good morning, and welcome to Southern Copper Corporation's Fourth Quarter 2020 Results Conference Call. With us this morning, we have Southern Copper Corporation's, Mr. Raul Jacob, Vice President, Finance, Treasurer and CFO, who will discuss the results of the company for the fourth 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 statement, 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.

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

Thank you very much, Gigi. And good afternoon to everyone and welcome to Southern Copper's Fourth Quarter and Full 2020 Results Conference Call. At today's conference, I'm accompanied by Mr. Oscar González Rocha, Southern Copper's CEO and 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 these trying times. In today's call, we will begin with an update on the measures we have taken to keep COVID-19 at bay. 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.

In 2020, Southern Copper faced the challenges of the pandemic with resilience, innovation and

solidarity. The new normal that the virus has imposed in the world requires governments, companies and society to assume joint responsibility to protect citizens as we resume growth, generate value and fuel economic recovery.

When COVID-19 reared its head in early 2020, Southern Copper moved quickly to preserve the health of its workers, their families and the communities in the countries where we operate. The company is committed to guaranteeing safe work environments and has developed lines of action to prevent transmission, strengthen community outreach and bolster capacities for medical response.

In Mexico, a special budget was allotted to properly equip health personnel and support care functions in COVID hospitals. The company used these funds to donate almost 0.5 million protection equipment kits, 139 artificial support ventilators and 500 noninvasive ventilators to hospitals in different states around Mexico, as well as an important number of medical supplies such as monitors, beds and resuscitation carts. Hundreds of portable sinks for handwashing were installed and a company facility in Sonora was conditioned with dozens of beds for COVID patients with mild to moderate symptoms.

In Peru, the company set up 18 temporary hospitals with a total of 250 COVID beds and provided each facility with oxygen supplies. In addition, the company donated 318,000 liters of liquid oxygen to public hospitals in the regions of Moquegua and Arequipa and set up 2 oxygen plants in the Tacna and Puno regions with capacities of 720 cubic meters and 222 cubic meters per day, respectively.

To ensure the timely detection of COVID-19 cases and stop chains of contagion, a PCR lab test was donated in Moquegua. Additionally, medical equipment was donated to health care professionals. Application of serology or PCR tests is now a standard procedure, which is key to stopping contagion at its tracks.

Southern Copper has supported the most vulnerable populations in both Mexico and Peru by distributing thousands of food bags and continues to funnel outreach through its permanent community programs. Our top priority is to roll out solidarity-based efforts with the communities in our areas of influence to work together to stem the pandemic and its impact. In this regard, the company has mounted intense communication campaigns to educate the population about the prevention and hygiene measures recommended by health authorities and to provide psychological support for families throughout the online counseling and workshops.

Now let us focus on the copper market, the core of our business. In the fourth quarter of 2020, the London Metal Exchange Copper price averaged \$3.25 per pound, that is 21.7% higher than the price that we had in the fourth quarter of 2019. As of today, we are seeing prices a little bit over \$3.60 per pound, which boasts a positive outlook for the 2021 copper market. We believe the following factors are influencing the copper market:

- A worldwide recovery in copper demand for industrial uses, driven mainly by a sustained recovery in economic activity in China and other Asian economies as well as the European auto industry.
- Regarding China, it should be also noted that copper scrap imports dropped 48% in the last 10 months of 2020, which led to a subsequent increase in Chinese consumption of refined copper.
- The combined inventories of the London Metal Exchange, COMEX, Shanghai and bonded warehouses closed 2020 at their lowest levels since December 2014.
- Given the current market outlook for supply and demand, we have a positive view for this year and for the long-term evolution of the copper market.

Now let's look at Southern Copper's production for the past quarter and 2020. Copper represented 82% of our sales in the fourth quarter of 2020. Copper production registered an increase of 1.3% compared to the fourth quarter of 2019 and situated at 259,744 tons in the fourth quarter or in the past quarter. This was primarily due to an increase in production at our Cuajone mine, attributable to higher ore grades and recoveries as well as higher production at the Buenavista mine due to an increase in the tonnage processed by the concentrators. This effect was partially offset by lower production at our Toquepala mine due to lower ore grades.

For the year 2020, copper production topped 1 million tons and represented a new milestone in the company's history. This represented a 0.8% increase with regard to 2019 production and was primarily due to higher production at our Cuajone mine, which was attributable to higher ore grades and recoveries. And to growth in production at both the La Caridad and the IMMSA mines in Mexico. These increases were partially offset by a decrease in production at the Toquepala and Buenavista mines, mainly due to lower ore grades.

For 2021 and 2022, we expect to produce a little bit north of 943,000 tons of copper. This year's production will be affected by a temporary reduction in ore grade and recoveries, at the Peruvian operations. We expect our copper production to recover by 2023, reaching 1,031,000 tons of production as we get the Peruvian production back on track and generate new production from our projects of Pilares, El Pilar and Buenavista Zinc Concentrator. We believe 2023 will mark a new inflection point for new production as we aim to produce 1.9 million tons by 2028 by developing the following organic growth projects, all of them fully owned by us:

For Mexico, we have Pilares that is expected to initiate production in early in 2022 with a capacity of 35,000 tons. El Pilar will increase our production by 2023, with a capacity of 35,500 tons of copper. El Arco, a major greenfield project in the Baja California Peninsula, is expected to get into operation in 2028 with a contribution of 245,000 tons of copper. And the Buenavista Zinc concentrator is expected to produce 120,000 tons of zinc by 2023 and 28,000 tons of copper. These add 343,000 tons of new production from our Mexican operations.

At the Peruvian operations, growth will come from new organic projects. We expect that the start-up dates and production are as follows: Tia Maria, we expect to initiate production by 2024 with 120,000

tons of refined copper production per year; Los Chancas is expected to initiate operations by 2027 with a capacity of 180,000 tons of copper; Michiquillay for 2028 with a capacity of 225,000 tons. These projects will add 525,000 tons of new production from Peru. These volumes, combined with our additional Mexican production, will put us in good shape to reach our long-term goal of producing 1.9 million tons by 2028.

It should be noticed that our strong by-product base will increase as we add new copper volumes to our operations. As such, we expect to produce for 40,500 tons of molybdenum by 2028; 23.9 million ounces of silver by 2023 and 29.1 million ounces of silver by 2028. For zinc, we expect to produce 149,000 tons of zinc by 2023, and over 207,000 tons of zinc by 2028. As you can see, we're confident that our company will keep generating value for our shareholders through our organic growth base. In the meantime, we will be open to other possibilities to enhance value creation for our shareholders.

For molybdenum, it represented 6.7% of the company's sales value in the fourth quarter of 2020, and it is currently our first by-product. Molybdenum prices averaged \$8.93 per pound in the past quarter compared to \$9.49 per pound in the fourth quarter of 2019. This is a 5.9% price reduction.

In 2020, we produced 30,248 tons of molybdenum, an increase of 12.5% in production compared to 2019, and a new company record. This significant achievement was principally due to additional production from our Peruvian operations of Toquepala and Cuajone.

Molybdenum production decreased by 4.1% in the fourth quarter compared to the same quarter of 2019, mainly due to lower production at our Buenavista and Toquepala mines because of lower grades and recoveries. This was partially offset by higher production at our Cuajone and Caridad mines due to higher grades and recoveries. In 2021, we expect to produce 26,800 tons of molybdenum, which represents a decrease of 11.3% over our 2020 production level.

Silver represented 5.4% of our sales value in the fourth quarter of 2020, with an average price of \$24.5 per ounce in the quarter. Up 41.9% from the same quarter of 2019. Silver is currently our second by-product. In 2020, we produced 21.5 million ounces of silver, an increase of 6.2% in production from 2019 and another company record.

For the fourth quarter of 2020, mined silver production decreased by 4.5% from the same period of 2019 after production fell at Buenavista, Toquepala and IMMSA. This was partially offset by a 15.2% increase in production at the San Martin mine and higher production at the La Caridad and Cuajone mines.

Refined silver production increased by 22.9% in the fourth quarter of last year due to higher production at La Caridad and IMMSA. In 2021, we expect to produce 21.4 million ounces of silver, in line with last year's production.

Zinc represented 3.1% of our sales value in the fourth quarter of 2020, with an average price of \$1.19 per pound in the quarter, a 10.2% increase from the fourth quarter of 2019. Zinc mine production decreased

17.7% quarter-on-quarter to situate at 16,763 tons. This was primarily due to the shutdown of our Santa Eulalia operation in the first quarter of 2020 due to severe flooding. These negative variances in zinc production were partially offset by a production increase of 30.6% at the San Martin mine. Refined zinc production decreased by 5.2% in the fourth quarter compared to the fourth quarter of 2019.

For the year 2020, we produced 68,930 tons of zinc, a decrease of 6.8% with regard to 2019 and was mainly driven by the mentioned shutdown of the Santa Eulalia operation. The highly significant 150.7% increase in production at the San Martin mine was nonetheless insufficient to offset the aforementioned decrease. For 2021, we expect to produce 76,200 tons of zinc, a 10.5% increase in production when compared to last year.

Looking at our financial results. For the fourth quarter of 2020 sales were \$2.4 billion, or \$496.1 million higher than sales for the fourth quarter of 2019. This is a 26.7% increase in sales.

Copper sales volume increased by 1.4% and value by 28.2%, in a scenario of substantially better price.

Regarding our main by-products, we had higher sales of molybdenum, due to the effect of provisional sales price adjustment, which was partially offset by a decrease in volume. Zinc sales were up due to growth in volume and price. Silver sales rose due to an increase in volume and price. Let me mention the variances in sales for the by-products. In the case of molybdenum, sales increased by 31.3%. For zinc, it was 8.7%. For silver, 41.4%.

Our total operating cost and expenses increased by \$61.6 million or 5% when compared to the fourth quarter of 2019. The main cost increments has been for workers' participation, inventory consumption, lower capitalized leachable material, the exchange rate variance, depreciation and other factors. These cost increments were partially offset by a decrease in labor cost, operations contractors and diesel and fuel costs.

In the fourth quarter of 2020, the adjusted EBITDA was \$1,254 million, which represented an increase of 59.4% with regard to the \$786.7 million registered during the fourth quarter of 2019. The adjusted EBITDA margin in the fourth quarter of last year was situated at 53.3% versus 42.4% in the fourth quarter of 2019. On a quarter-on-quarter basis, adjusted EBITDA was 11.4% higher than the one at the third quarter of 2020.

For the year 2020, adjusted EBITDA was \$3,868.8 million or 9.7% higher than 2019's adjusted EBITDA.

Operating cash cost per pound of copper before by-product credits was \$1.44 per pound in the fourth quarter of 2020. This is \$0.08 higher than the value for the third quarter of 2020. This 5.9% increase in the operating cash cost is a result of higher cost per pound from production cost, which was partially offset by a decrease in treatment and refining charges, administrative expenses and higher refined product premiums.

Southern Copper's operating cash cost, including the benefit of by-product credits, was \$0.672 per pound in the fourth quarter of last year. This cash cost was \$0.027 higher than the cash cost of \$0.645 for the third quarter of 2020. Regarding by-products, we had a total credit of \$420 million or \$0.763 per pound in the fourth quarter of 2020. These figures represent a 7.4% increase when compared with the credit of \$374.3 million or \$0.711 per pound that we have in the third quarter of last year.

Total credits have increased for molybdenum, zinc and sulfuric acid, and have decreased for silver and gold.

Net income of \$590.2 million in the fourth quarter of last year reflected an increase of 93.1% over the same period of 2019. Net income margin in the fourth quarter of 2020 was 25.1% versus 16.5% in the fourth quarter of 2019. This increase was mainly attributable to higher sales. On a quarter-on-quarter basis, net income was 16.6% higher than the figure reported in the third quarter of 2020. Net income for 2020 was \$1,570.4 million, that is 5.7% higher than the prior year.

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. The conditions generated by COVID-19 has led us to implement measures to reduce vulnerability at the project execution level. These measures, which are constantly under review, including forcing social distance rules, strengthening sanitation efforts and requiring quarantine periods for personnel. Some activities in the project execution stage that are located in regions in Peru or Mexico, where new cases of infections are on the rise, have experienced delays. Consequently, we expect some delays, albeit minimal, in the execution of our investment projects. Nevertheless, today, delays primarily affect construction activities that require people to work in close physical proximity. All other engineering, procurement and construction activities that entail limited interaction between personnel are on schedule.

For 2020, capital investments were \$592.2 million, which represented 37.7% of net income. Our current portfolio of approved projects in Peru totaled \$2.8 billion, \$1.6 billion of which has already been invested. If we include the up and coming Michiquillay \$2.5 billion investment and Los Chancas \$2.6 billion, with these 2 projects, our total investment program in Peru reflects a commitment of \$7.9 billion.

In the case of the Tia Maria project in Arequipa, Southern Copper has been consistently working to promote the welfare of 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 have promoted agricultural and livestock activity in the Tambo Valley and supported growth in manufacturing, fishing and tourism in Islay.

Given the current Peruvian economic situation, where the country is in a strong recession and urgently requiring new jobs, it is crucial to move ahead with projects that will stimulate a sustained growth cycle. We reiterate our view that the social conditions are appropriate for the initiation of construction

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activities at Tia Maria. The project will generate significant economic opportunities for the Islay Province and the Arequipa region.

As we have mentioned in prior reports, 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 Tia Maria's construction phase. 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 Arequipa region via royalties and tax.

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 economic recovery and consequently, take the necessary steps to provide SCC with adequate support to initiate construction.

For our Mexican projects, let's start with the Buenavista Zinc project in Sonora. This project is located between the Buenavista 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 study is 81% complete. In order to continue with the project, stronger preventive measures to combat COVID-19 have been put in place. Purchase orders have been placed for major equipment, some of which are currently being manufactured. The project has all the necessary permits and the capital budget is \$413 million. We expect to initiate operations in 2023, as mentioned before, and when completed, this new facility will double the company's zinc production capacity and provide 490 direct jobs and 1,470 indirect jobs.

The project Pilares, also in Sonora, is located 6 kilometers 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 is under construction and will be used to transport the ore from the pit to the primary crushers of the La Caridad copper concentrator. This project will significantly improve the overall mineral ore grade, combining the 0.78% expected from Pilares, with 0.34% from La Caridad. The budget for Pilares is \$159 million, and we expect the project to begin production in the first quarter of next year.

El Pilar is another project that we have in the Sonora state in Mexico. This low capital intensity, copper greenfield project is strategically located in Sonora in Mexico, 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 actually a very good ore grade for copper oxide. 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 average expected mine life of 13 years. The results from experimental pads in the leaching process have confirmed adequate levels of copper recovery.



In Mexico, we have also the project El Arco, which is in the Baja California peninsula of Mexico. This is a world-class copper deposit located in the central part of the Baja California peninsula, with ore reserves of over 2.4 billion tons with an ore rate of 0.426%, and 0.3 billion tons of leach material with an ore grade of 0.288%.

Besides that, El Arco has by-products of gold, 0.11 grams per ton of mineral. The project includes an open pit mine combining concentrator and SX-EW operations. Annual production is expected to situate at 190,000 tons of copper and 105,000 tons of 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 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 for 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 January 21, the Board of Directors authorized a cash dividend of \$0.60 per pound or per share of common stock payable on February 24 to shareholders of record at the close of business on February 10 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 the forum for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Our first question comes from the line of Isabella Vasconcelos from Bradesco.

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### **Isabella Batalha Vasconcelos *Banco Bradesco BBI S.A., Research Division - Research Analyst***

I have just a couple of questions on the outlook for cost and also CapEx on a year-by-year basis for the next couple of years or the next 3 or 4 years, if you can mention if there were -- have been any changes to the outlook versus what you mentioned in the latest conference call, that will be great.

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

Thank you for your question, Isabella. And yes, we have had some changes in our CapEx forecast. For this year, 2021, we expect to spend \$1.4 billion in CapEx. For 2022, \$2 billion. 2023, \$2.2 billion. 2024, \$2.3 billion. 2025, \$2.2 billion. If you compare these figures with the ones that we have or the ones that we reported last quarter, we have had a reduction in the figures. And the reason for that has been the rescaling of some of the capital expenditures for the projects, not that the projects haven't changed their budgets, but their -- the time line has spread a little bit over time. And that's why we are having a certain reduction in the CapEx forecast vis-à-vis last quarter.

**Isabella Batalha Vasconcelos Banco Bradesco BBI S.A., Research Division - Research Analyst**

Great. Very clear. And in terms of cost?

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

Cost? Cash cost?

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**Isabella Batalha Vasconcelos Banco Bradesco BBI S.A., Research Division - Research Analyst**

Yes.

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

Well, I wish we could have all the years the cash cost that we had for 2020, that was \$0.69. But for this year, we're forecasting \$0.89 per pound of cash cost. And it should be remaining at about that level, \$0.89, \$0.90 per pound until we go towards 2028, where we should have another, a reduction in cash cost before by-products. Currently, we're expecting to have \$1.66 per pound for this year on cash cost before credits. So credits are \$0.77. That's our expectation. By the way, we're relatively conservative in the prices that we're using for by-products as well as for copper in our planning. And then it should trend a little bit up after 2022. But as we get the new production and new by-products coming into our operations, prices should tend to remain where they are or decrease a little bit under the \$0.89, \$0.90 per pound that I mentioned.

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**Operator**

Our next question comes from the line of Andreas Bokkenheuser, UBS.

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**Andreas Bokkenheuser UBS Investment Bank, Research Division - Executive Director, Head of LatAm Mining & Basic Materials and Research Analyst**

Just a quick follow-up. I mean you were talking about production earlier, obviously. What are you seeing both in Peru and Mexico, but mainly in Peru, I mean, we've obviously seen some COVID cases rising both in Chile and Peru and many of the large copper-producing nations of the world. But you also mentioned on the last call that you were bringing a lot of people back on site. Is that still happening? Are you kind of back to full nameplate capacity operating at a higher utilization here? Or are you still keeping some personnel off-site that could end up weighing a bit on production? Basically, that's the question. And maybe a follow up also, like what's the kind of conversation you're having with local communities, governments about this?

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

I couldn't get your second concern, Andreas.

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**Andreas Bokkenheuser UBS Investment Bank, Research Division - Executive Director, Head of LatAm Mining & Basic Materials and Research Analyst**

Yes, sorry, just -- are you getting any pushback from local communities or governments about bringing people back on-site given that COVID cases are rising again? Or is that not really a problem in the areas that where you operate? That's the follow-up question.

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

No. What we are -- we were making our personnel come back to work at the premises. But the recent information that we have on the COVID-19 second wave that is affecting, Peru in particular, and Mexico has also a very serious problem as we do right now here in Peru. And as a consequence of that, the company has backed off a little bit on bringing in personnel to the premises, where what we have done is reorganize again and maintain our workforce as safe as we can. In the case of most administrative labor, it's coming back to work at a remote, if it is possible. And in many, many cases, that can be done. And the same with the -- obviously, with the most stringent strict protocols for sanitary safety, it's happening at the operations.

In Mexico. We're doing a similar -- following a similar strategy. But currently, our operations are fine. We're in track with our plans. Certain measures and activities that we have made through the COVID-19 cycle has been very helpful for us in order to control the disease inside our premises. I think that we're being very successful at that point, and that has helped us to operate. And keep in mind that these are activities that are very high capital intensive. Many workers are isolated a significant time of the daily shift. And the reason for that is that if you, for instance, operate a major mining track or certain facilities, you are usually with very important equipment that has been under your operation, but alone. Only some of the crews that are required to do certain repairs or certain specific works require certain proximity. And in these cases, we are taking specific measures to protect our workforce in both Mexico and Peru.

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**Andreas Bokkenheuser *UBS Investment Bank, Research Division - Executive Director, Head of LatAm Mining & Basic Materials and Research Analyst***

That's very clear. And one follow-up question. You partly answered it on cost, but something you were talking about on the last call as well. I mean you guys have obviously managed to keep your cost very, very low at about \$0.67 a pound on a net basis. But you were also talking a little bit about cost inflation on the last call and a little bit more material hardness and potentially lower grade, this sort of thing. Should we still expect some cost inflation going into this year on the back of that?

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

Yes. And that's why I mentioned that our cash cost for 2021 is expected to be at \$0.89 per pound.

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**Andreas Bokkenheuser *UBS Investment Bank, Research Division - Executive Director, Head of LatAm Mining & Basic Materials and Research Analyst***

Right. So that's mainly driven by material hardness and the other factors?

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

Basically catching up on certain maintenance work, and certain stripping that we could not make last year, particularly at the Toquepala operation on the stripping, we could not make the stripping at Toquepala and maintenance work that was postponed. For instance, certain activities that require a crew that work closely. Well, at the beginning of the pandemic, we believe that it was not a good idea.

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And we could postpone that for a while, so we did. But we have been doing -- catching up. And if you see our cash cost this past quarter, it has been slightly higher than the average for the year. And the reason for that is basically that we already initiated the catch-up work in the fourth quarter of 2020.

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**Operator**

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

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**Jens Spiess Morgan Stanley, Research Division - Research Associate**

Just one question. Could you please repeat the guidance for 2021 for copper, moly and silver please? And also, in your CapEx guidance, when are you assuming that Tia Maria starts construction? And in case that gets delayed, do you think you could accelerate any other of smaller projects?

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

Yes. Okay. If I got -- well, your first question is guidance on 2021 production, right?

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**Jens Spiess Morgan Stanley, Research Division - Research Associate**

Correct. Also for the by-products and the copper, yes.

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

Okay. Yes. For copper, we're expecting to produce 943,000 tons, molybdenum 26,800, zinc 76,200, silver 21.4 million ounces. That's basically it.

On the Tia Maria, well, the date that we're considering now is 2024 to initiate production. That means that we should be initiated construction in 2022. That's probably speaking what we're thinking. Now we - the way that we see the Tia Maria circumstance right now is as follows. Generally speaking, we believe that the work that the company has had with the local communities has been very, very successful. We believe that there is much more backing for the project now than what it used to be. And actually, we believe that if we have the political support, the project could move on. But now for that, we also think that we need to have a government with the possibility of moving forward with the project. And we believe that for that to happen, we need to pass the current election time. The elections are scheduled for first round in April 11. And then in June 6, the second round where a new President should emerge from that second vote. And with that definition, I mean, new Congress, new executive branch we believe that we will have the political support that the project requires to move on.

But now specifically answering to your question, Jens, well, yes, we could accelerate it because we are ready. We have all the economic facilities to initiate the construction right away. And we have studied the project in depth, and we believe that it's feasible to initiate the construction very quickly.

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**Operator**

Our next question comes from the line of Grant Sporre from Bloomberg Intelligence.

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**Grant Sporre Bloomberg Intelligence - Senior Analyst of Metals & Mining**

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It's just a follow-up question on CapEx. So if we look out to 2028, you've got 3, well, I would say, fairly large greenfield projects due to sort of kick off 2027, 2028, each between \$2.7 billion and \$2.9 billion. That implies that you sort of have to kick off construction probably 2025. So my question is twofold. In your guidance for CapEx in 2024, \$2.3 billion, how much have you earmarked for those big 3 greenfield projects?

And secondly, it's quite unusual for even a company the size of yours to be initiating 3 greenfield projects at the same time. So I just want to know how you're going to manage the risk of doing that when the time comes?

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

Thank you for your question, Grant. Let me -- okay, on the 2024, \$2.3 billion budget that we have. For El Arco, we have \$525 million in CapEx. For Tia Maria, \$312 million. For Michiquillay, \$436 million. And Los Chancas \$70 million for 2024. That's on the detail that you requested.

Well, on the risk of managing the projects. These projects are evolving at different stages. For instance, in the case of Tia Maria, it's more like execution of all the engineering that has already been done, all the equipment selection that we already have identified, et cetera, et cetera. So it's more like moving forward with the construction, doing biddings. It's a different part of the process. In the case of Michiquillay, it will go most likely after we will be with Los Chancas already in line and ready to go. And in the case of El Arco, it will be -- we'll initiate construction in 2022. If everything goes okay. So generally speaking, the stages that these projects have are slightly different in time. You will not get caught by all of them at the same time at certain tasks. Now what you are saying is, it's obviously a concern for us. But we believe that the company has shown through the years that we are -- we have a very strong engineering team. The company prides on the fact that we usefully finish our projects under budget and on time. So we think that we can handle it. But obviously, what you're indicating, it's a matter of concern because is one of the risks that these projects may have eventually.

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**Operator**

Our next question comes from the line of Declan Hanlon from Santander.

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**Declan Hanlon -**

My question has been answered.

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**Operator**

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

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**Jean Baptiste Bruny *BBVA Corporate and Investment Bank, Research Division - Chief Analyst***

Raul, just to come back very quickly on cash cost. I understand your target of \$0.89 per pound for this year. Maybe if you're focusing on a quarterly basis, can we expect the inflation to be gradual? Or do you expect to reach that number of \$0.89 very quickly this year?

And the second question, again, on cash cost. You mentioned by-product credits of \$0.77 per pound for this year using very cautious estimates in terms of the pricing of by-product. I know you don't give a precise number in terms of prices. But can we expect prices being stable from current levels are going slightly down by year-end?

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

Well, more than cost inflation, what we are seeing is a catch-up in expenses. And that's why we are having also slightly lower ore grades at the Peruvian operations in this year and the next one. And the reason for that is that we will have -- we will be operating in certain areas of the mines where we didn't work last year. Last year, we focused basically on an area where we could get the mineral that was required to maintain our production level where we plan to do that under the COVID circumstance. Keep in mind that we operate at a certain point in time with about 40% of the labor force that we have. So it was certainly an emergency. And now we still have -- are facing the challenges of COVID. But at the same time, we have -- we are -- I think we managed to deal with this, with how to operate safe, with right sanitary level for our workforce. And do what we need to do in order to maintain a sound operation. So it's a catching up rather than inflation. Obviously, if you look at the fuel prices, yes, there has been some inflation on that, obviously. But more than that, I think it's a catching up in certain works. And that has a side consequence that we are having a much lower ore grade.

By-product prices, well, we're very conservative on the kind of prices that we use for by-products. And I think that if we have a risk on this, it may go for having a much lower cash cost than what we're planning at this point. So the risk is for a downside or a better cash cost in our view. So yes.

So for instance, for molybdenum, we're using \$9.50 per pound. It's more or less in line with what we're seeing today, but the information that we have from our commercial team is that there is quite a good chance that the molybdenum market has a deficit in the next few quarters, that will certainly put pressure on the molybdenum prices. For zinc, it's \$1.15, and today, we're at a little bit more than \$1.20. While silver is more or less where it is today. And gold also more or less where we are nowadays.

So the credits -- and the other thing is that our mine plans are focusing on getting the right or the expected copper production. The by-products are not as precise and usually, the bias is to the downside. So we underestimate a little bit, for instance, our molybdenum production each year. Our initial plan is usually lower than the actuals that we get through the year for different reasons. So we are much more optimistic and believe that if there is a risk on the cash cost, we expect it to be on the downside rather than an upside in it.

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**Operator**

Our next question is from the line of John Tumazos from John Tumazos.

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**John Charles Tumazos *John Tumazos Very Independent Research, LLC - President and CEO***

Some of the early-stage companies I follow, almost lost the whole year last year due to virus restrictions. I'm thinking of one company that had 7-month delays in drilling because of the transportation

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restrictions in the country they were in. For your distant projects, Tia Maria, Los Chancas, El Arco, Michiquillay, did you lose any of the cushion on the 2024 or 2027, '28 timeframes? I'm impressed that you still have the same schedule.

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

Well, we look at it. And our engineering team has indicated that they will do certain works in order to get these projects back on track as a scale. So they were -- they back up their initial results on most of the projects. This is the thing, John, and I certainly appreciate your question. It's been a bad year for capital goods vendors as well. So in some cases, what we're seeing is that lead times that certain equipment have had has reduced, and that has helped us. And so there are other things that are happening as well that are helping us, and that made our engineering teams to be -- to feel confident and to keep the initial goals as it scale.

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**John Charles Tumazos *John Tumazos Very Independent Research, LLC - President and CEO***

Congratulations on keeping as close to track as you are.

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**Operator**

Our next question is a follow-up from Leopoldo Silva from LarrainVial.

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**Leopoldo Silva *LarrainVial S.A., Research Division - Analyst***

I have 2 questions. The first is very quick. I would like to know what the cash cost -- the guideline for the zinc project? When -- if you can give maybe the quartile, it's going to be?

And second, it's about your by-products. I was wondering with these prices of precious metals or molybdenum, will you be merging through to see, evaluate and make a streaming contracts through an agreement as the ones we saw last year, maybe in molybdenum? If not, why it would be strategic to not to clean maybe your copper profile from this 15% of by-products and continue to operate them at least on your 4 main copper mines?

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

Okay. Let me start by the last one. We don't do streaming. We have -- we think that the company has -- will enjoy the upside of the different products that we produce and sell and live with the downside. But generally speaking, these are products -- the by-products are very, very competitive cost wise. So we believe that we are happy with having them inside our portfolio of different products to produce.

On the cash cost for the Buenavista Zinc, I think, well, I have no -- I don't have information with me right now. But let me make a comment on that. This is a project that is inside the pit of the Buenavista mine. We will have to expand a little bit a certain area of the Buenavista Zinc -- the Buenavista pit. And if we don't do the concentrator, we will still need to do all the stripping. So instead of doing the stripping and losing the zinc, we are investing the money that we have, a little bit more than \$400 million, for a zinc concentrator and some mining equipment that is required for the stripping. And capture the value of that metal. And I'm sorry for not having with me the cash cost -- the specific cash cost of this project.

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**Operator**

At this time, I am showing no further questions. I would like to turn the call back over to Raul Jacob for closing remarks.

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

Thank you very much, Gigi. Well, with this, we conclude our conference call for Southern Copper's Fourth Quarter and Year 2020 Results. We certainly appreciate your participation and hope to have you back with us when we report the first quarter of 2021. Thank you very much, stay safe, please. So thank you very much, again.

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**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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