

Southern Copper Corp (2Q23 Earnings)
July 28, 2023

Corporate Speakers

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

Participants

- Matthew Murphy; Barclays Bank PLC; Analyst
- Jens Spiess; Morgan Stanley, Research Division; Research Associate
- Arthur Biscuola; Santander Investment Securities Inc.; Analyst
- Matheus Moreira; Bradesco BBI; Analyst

PRESENTATION

Operator: Good morning, and welcome to Southern Copper Corporation's Second Quarter 2023 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 second quarter 2023 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.

All results are expressed in full U.S. GAAP.

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

Raul Jacob: Thank you very much, Carmen. Good morning, everyone, and welcome to Southern Copper's Second Quarter of 2023 Results Conference Call. At today's conference, I'm joined by Mr. Oscar Gonzalez Rocha, CEO of Southern Copper and Board Member; as well as Mr. Leonardo Contreras, also a fellow Board Member.

In today's call, we will begin with an update on our view of the copper market and 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. In the second quarter of this year, the London Metal Exchange copper price decreased 11% from an average of \$4.32 per pound in the

second quarter of 2022, down to \$3.85 per pound at the close, in average, for the second quarter. This reflects concerns about the impact of a slowdown of the Chinese economy, a possible recession in Europe and a soft landing or minor recession in the U.S. Current prices for copper are around \$3.90 per pound, reflecting a less optimistic market than that seen in the last few quarters.

At this point, we see the following factors affecting the copper market: a reduction in global inflation, which may portend the end of the interest rate hike cycle led by the Fed and the ECB; a strong recovery of mining production of Peru, who had a 19% growth for the period January-May of this year. This is reducing the uncertainty on current production.

Chile is still lagging with a 5% reduction in copper production for the same period. Investments for future growth are still affected by expectations of economic changes in Chile and social unrest in Peru. These 2 countries, as you know, represent about 40% of the global supply. The most relevant market intelligent houses for the copper market are now expecting a market in surplus of about 100,000 tons for this year. This assumes a growth in demand of about 1% this year and also about the same level for the supply.

Low copper inventories is another factor that is affecting the copper market. As of March 31st, the sum of the London Metal Exchange, the COMEX Exchange, the Shanghai warehouse and the bonded warehouses in China add up to 411,000 tons of copper in inventories. That number has dropped to about 235,000 tons. This 42% reduction in inventories represents the largest dip since 2005. It is important to emphasize that copper plays a leading role in the global shift to clean energy, which correlates positively with our assertion that the underlying demand for copper will be strong in the long term.

Now let's look at Southern Copper's production for the past quarter. Copper represented 78% of our sales in the second quarter of 2023. Copper production registered an increase of 9% in the second quarter, in quarter-on-quarter terms, to stand at 227,533 tons. Our quarterly result reflects a 20% increase in production in Peru, driven by higher recoveries, the return to full operating capacity of the Cuajone mine and higher ore grades at Toquepala. So, the return of Cuajone at full speed and higher ore grades and mineral production at Toquepala are the drivers of the growth of 20% in Peruvian production.

Production at our Mexican operations increased 3% in a quarter-on-quarter terms. For 2023, we expect to produce 932,000 tons of copper, an increase of 4% over the 2022 final print. This growth will unfold as we get Peruvian production back on track and will be complemented with new production at our Mexican operations through our Pilaes and Buenavista Zinc concentrator projects.

Molybdenum represented 11% of the company's sales value in the second quarter of this year and is currently our first by-product. Molybdenum prices averaged \$20.80 per pound in the quarter, compared to \$18.30 in the second quarter of last year. This represents an increase of 14%.

Molybdenum production increased by 0.2% in the second quarter compared to the same period of 2022. This was mainly driven by an increase in production at the Cuajone, Caridad and Buenavista mines due to higher ore grades at our Mexican operations and the Cuajone's return to full operating capacity. These results were partially offset by lower production at the Toquepala mine. In 2023, we expect to produce 24,200 tons of molybdenum, which represents a decrease of 8% over our 2022 production level.

Silver represented 4% of our sales value in the second quarter of 2023 with an average price of \$24.26 per ounce in the quarter, which reflected an increase of 7%. Silver is currently our second by-product. Mined silver production increased 8% in the second quarter versus the same period of 2022 after production rose at all our operations.

Refined silver production fell by 31% quarter-on-quarter, and this was mainly driven by a drop in production at our IMMSA and La Caridad units. In 2023, we expect to produce 20.1 million ounces of silver, an increase of 8% compared to 2022 and 6% higher than the 19 million ounces produced in 2021.

Zinc represented 3% of our sales value in the second quarter of 2023 with an average price of \$1.15 per pound in the quarter, which represents a 35% decrease with regard to the second quarter of 2022 figure. Zinc is currently our third by-product. Zinc mine production increased 14% quarter-on-quarter and totaled 17,223 tons. This was driven primarily by an increase in production at the Santa Barbara and Charcas mines.

Refined zinc production increased by 10% in the second quarter vis-a-vis the second quarter of last year. For 2023, we expect to produce 108,000 tons of zinc, which represents an increase of 80% over our 2022 production level. This growth will be driven by the production and start-up of the Buenavista Zinc concentrator and by the recovery at the IMMSA mines where better ore grade areas has been identified. For 2024 and on, we expect to produce over 200,000 tons of zinc per year.

Financial results. For the second quarter of 2023, sales were \$2.3 billion. This is almost the same that we sold in the second quarter of 2022. Copper sales volume increased by 12%, while value decreased 1% in a scenario of prices lower by 11%.

Regarding our main by-products, we reported higher sales of molybdenum that grew 28% due to better prices. Zinc sales, in turn, were down 22% due to lower prices, because we had a volume increase of 13%. Silver sales were down due to a decrease in volume, which was partially offset by better prices.

Our total operating cost and expenses decreased by \$98 million or 7% when compared to the second quarter of last year. The main cost reductions were reported for workers' participation, purchased copper and other factors. These cost reductions were partially offset by higher costs for repair materials, operating materials, inventory consumption, labor cost and operation contractors and services. It should be noted that year-to-date, we registered unit cost reductions for grinding media, explosives and power costs.

Our second quarter of 2023 EBITDA was \$1,115 million, which represents an increase of 9% with regard to the \$1,021 million registered in the second quarter of last year. The EBITDA margin in the second quarter stood at 48% versus 44% in the second quarter of 2022. EBITDA in the 6 months of this year was \$2,683 million. This is 1% lower than the EBITDA for the 6 months of 2022. The EBITDA margin in the 6 months of this year stood at 53%, which was the same as the 2022 mark.

Operating cash cost per pound of copper before by-product credits was \$2.19 per pound in the second quarter of this year. That is \$0.10 higher than the value for the first quarter of this year, which was \$2.09. Even though copper production volumes increased 2% between the second quarter and the first quarter, the 5% increase in operating cash cost is attributable to higher cost per pound from production cost, treatment and refining charges and to lower premium.

Regarding our by-products, we had a total credit of \$517 million or \$1.07 per pound in the second quarter of 2023. These figures represent a 20% decrease when compared to the credit of \$631 million or \$1.33 per pound that we had in the first quarter of 2023.

By-product volumes increased for zinc, 14%; for silver, 9%; but decreased for molybdenum by 2%. Prices have decreased for molybdenum, 35%; for zinc, 19%; and increased for silver by 8%. As a consequence, total credits have decreased for all of our by-products.

Southern Copper operating cash cost, including the benefit of by-product credits, was \$1.12 per pound in the second quarter of this year. This cash cost was \$0.36 higher than the cash cost of \$0.76 registered in the first quarter of 2023. And as you have noticed, mainly we had a 5% increase in operating cash cost, but a significant reduction in by-product credits, and that basically explains the main change that we have in the cash cost.

2023 net income was \$547 million, which represents a 27% increase with regard to the \$432 million registered in the second quarter of 2022. The net income margin of the second quarter stood at 24% versus 19% in the second quarter of 2022. This increase was mainly the result of a 7% reduction in operating costs, which was mainly attributable to a decrease in lower third-party copper concentrate purchases. On a year-on-year basis, net income was 12% higher than in 2022 for similar reasons.

SCC's second quarter of 2023 net income fell below the \$813 million reported in the first quarter of 2023. This dynamic reflects significant differences in copper prices in the period-over-period comparison. In the second quarter of 2023, copper sales dropped \$365 million due to lower price. That alone represented an adjustment of \$213 million.

Sales volume decreased 4%, and that's another \$92 million. And we had an accounting adjustment on open sales for 104,000 tons of copper that represents about \$59 million.

For the second half of this year, we have a very positive view on the company's sales volumes. And we are expecting that, looking at our current operation plans, the ramping

up of the new zinc concentrator in Buenavista and the Pilares project, we're expecting to produce 481,300 tons of copper, 11,400 tons of molybdenum, 76,000 tons of zinc and 10.9 million ounces of silver. An uptick in production for copper, zinc and silver in the second half of this year should support our sales through this period.

Cash from operations. Cash flow from operating activities in the 6 months of this year was \$1,982 million, which represents an increase of 75% over the \$1,131 million posted in the 6 months of last year. Cash flow in the first half of last year was affected by a significant reduction in working capital, which was attributable to the Cuajone mine stoppage.

Our current capital investment program for this decade exceeds \$15 billion and includes investments in the Buenavista Zinc, Pilares, El Pilar and El Arco projects in Mexico and in the Tia Maria, Los Chancas and Michiquillay projects in Peru. This capital forecast includes several infrastructure investments, including key investments to bolster the competitiveness of the El Arco project.

Since there is a short description of our main capital projects in SCC's press release, I'm going to update new developments for each of them. For the Mexican projects, in the case of the Buenavista Zinc concentrator in Sonora, this is a project that is located within the Buenavista deposit where, as you know, we have built a new concentrator. This facility has a production capacity of 100,000 tons of zinc and 20,000 tons of copper per year. The capital budget of the project is \$416 million, most of which has already been invested. Progress is 98%, and we have initiated vacuum testing at the plant and expect to initiate operations in August of this year.

For the project Pilares, also in Sonora, the budget for Pilares is \$176 million, of which \$131 million has been invested. Pilares is currently operating and delivering copper mineral to the facilities of the La Caridad operation.

In the case of El Pilar, the results from the experimental pads in the leaching process have confirmed adequate levels of copper recovery. Basic engineering study has been completed, and the company continues to develop the project and engage in on-site environmental activities. Project engineering is being developed by top-tier engineering and technology firms. We expect production to begin in 2025, and mine life is estimated at 13 years.

El Arco, which is a project in Baja California, the company has completed the environmental baseline study for the mine, concentrator and industrial facilities, and will proceed to submit the Environmental Impact Statement or Manifestación de Impacto Ambiental, MIA, to the Secretary of Environment and Natural Resources, SEMARNAT, to request the respective environmental impact permits. The company is currently preparing studies for the port, power pipelines, townsites and auxiliary facilities.

For the Peruvian projects, for Tia Maria, 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 agricultural and livestock activities in the Tambo Valley and supported growth in manufacturing, fishing and tourism in Islay.

The Los Chancas project in the Apurimac region in Peru, as of June 30 of this year, part of the project's land continued to be occupied by illegal miners, about 75 of them have irregularly registered their stakes in the Integral Registry of Mining Formalization, known as REINFO. The company requested and the authority subsequently ordered that the aforementioned miners be excluded from REINFO and be qualified as illegal miners. The company has also filed criminal complaints and other legal remedies to physically expel the illegal miners from the project and confiscate the illegal mined ore.

The third project that we have in Peru is the Michiquillay project in the Cajamarca region. In 2023, in accordance with our social agreements with the Michiquillay and La Encañada communities, the company has hired unskilled labor and is paying for the use of surface land. We're also supporting social programs in both communities. In addition, we continue exploration activities on this project. And currently, we have installed 10 drilling platforms.

For environmental, social and governance, or ESG investments, Southern Copper is committed to improving its ESG record by adopting best practices and informing the investment community and other stakeholders about our progress in these matters. For risk prevention and management of risk, by the second quarter of the year, all of Southern Copper's operating units had hit a milestone set in 2018 to obtain the ISO 14001 certification for environmental management and the ISO 45001 for occupational health and safety management.

Our efforts to prevent environmental and security risks are supported by our ISO systems and reflect our alignment with best international practices. The aforementioned represents a significant step in our quest to obtain accreditation for responsible copper production in the framework of The Copper Mark certification.

We continue to make progress in the development of our Critical Risk Registry. This tool strengthens environmental and safety risk management by increasing the visibility of these components at all levels of the organization. The registry creates a knowledge base for informed decision-making and ensures rigorous follow-up on controls for prevention and mitigation to avoid or respond to unwanted events.

This quarter, in line with our corporate environmental policy, we formalized our protocols for sustainable water management, biodiversity and closure of operations to establish our priorities and the means by which our operations address increasingly demanding environmental challenges.

In the ambit of biodiversity, in the second quarter of this year, we reforested 464 hectares in the state of Sonora in Mexico. This represents 10x the area affected in the period. With

these effort, we have successfully met an objective set 2 years ago to reduce our historic environmental footprint by reversing the net loss of biodiversity and achieving a net positive impact for the area. In the first half of this year, the reforested area totaled 934 hectares, which is 5.6x the affected area year-to-date.

The implementation and promotion of best practices such as the aforementioned has helped Southern Copper secure and maintain a place on the S&P Peru General ESG Sustainability Index of the Lima Stock Exchange. On April 28, 2023, Grupo Mexico issued its 2022 Sustainability Development Annual Report, which includes detailed information about Southern Copper's efforts on the social, environmental and corporate governance fronts.

Positive impact on the communities in which we operate. We have served more than 900 women from communities close to our operations in Southern Peru via our Community Wellbeing Program, which we conducted a mobile health campaign to prevent breast and uterine cancer.

SCC has been recognized by the Peruvian state agency Pro Inversion for its execution of a drinking water and rural sanitation program in Poblado Yacango, district of Torata. This project, which has benefited 137 families, entailed an investment of \$2.8 million. Similarly, in Mexico, we invested \$5.7 million this quarter to improve water distribution in Nacozari and Cananea, benefiting 53,800 residents.

The Youth Orchestras promoted by Southern Copper were recognized at the Mexican Polymetallic Seminar in 2023. These orchestras support 1,646 students in Mexico and Peru. Additionally, in collaboration with the Instituto de Cultura del Estado, we held our first exhibition of the Traveling Workshop for Documentary Film at the Cineteca in the state of Sonora in Mexico. During this event, 17 original short films were screened. They were produced by some of the 747 students from communities that participated in the workshop.

Regarding dividends, as you know, it is the company's 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 20, the Board of Directors authorized a cash dividend of \$1 per share of common stock payable on August 23 to shareholders of record at the close of business on August 9 of this year.

Ladies and gentlemen, with these comments, we would like to end our presentation today. Thank you very much for joining us, and we would like to now open up the forum for questions.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Our first question comes from the line of Matthew Murphy with Barclays.

Matthew Murphy: Raul, thanks for your comments on the projects in the pipeline. I'm interested in Peru, your take on the situation. I guess we've seen the economy in contraction, but we've also seen a bit less disruption to the mining sector. So I guess the first part of the question is, are you seeing improvement in the mining sector's ability to operate in Peru? And the second part of that is just the implications for Tia Maria. You're still, I guess, waiting for the conditions locally and at the federal level to improve. And do you see scope for that to happen this year? And if nothing changes, could this project still be going forward in 2024?

Raul Jacob: Okay. Thank you for your question, Matt. Well, first, let me say, as a general concept that social circumstance has improved in Peru. Politically speaking, we are seeing also a significant improvement. The police is doing their activities and working with the companies to solve the problems that we have that require their intervention. In other cases, such as the case in Tia Maria, we are working with the local population. We believe that we have been making progress on this matter. And basically, we're relatively much more optimistic than what we were a year ago.

As I mentioned, copper production year-to-date has increased 19% in Peru. I should add that in May, the increase has been over 30%. And that is basically comparing a normal operation plus Quellaveco with last year, where we had in May, we had Las Bambas' stoppage and the production at Cuajone coming back, but not as strong as we were anticipating at that time. So in general terms, circumstances have improved, and we're seeing Tia Maria moving forward slowly but doing so.

Operator: One moment for our next question, please, (Operator Instructions), and it comes from the line of Jens Spiess with Morgan Stanley.

Jens Spiess: I just wanted to ask on cash cost guidance for 2023, what do you expect before by-products for the year?

Raul Jacob: For the second quarter, we're expecting a better cash cost than what we have had in the first part of the year, and the reason for that is two-fold. We're seeing some cost reductions. I mentioned grinding media, explosives and some other materials. But on top of that, we have more production of copper for the second half of the year. That should improve our cost per pound before by-product credits. And also, we should have more credits coming from the volumes, the much better volumes that we're expecting for the second half of the year that I mentioned while doing the company presentation.

Jens Spiess: Okay. And just to clarify, for silver, you expect 20.1 million ounces for 2023, is that what you said?

Raul Jacob: Yes, let me repeat the volumes that I mentioned. For the second half, we're expecting to produce 481,300 tons of copper, 11,400 tons of molybdenum, 76,000 tons of zinc and 10.9 million ounces of silver. That's for the second quarter. And I believe that your question was specifically for silver production for the year, right?

Jens Spiess: Yes.

Raul Jacob: For the year, for silver, we're expecting 20.1 million ounces of silver.

Jens Spiess: Okay. Perfect. And last one, are you factoring in any commercial production from Buenavista Zinc for this year or will be coming online until next year, mainly?

Raul Jacob: No, no, we're expecting to increase our zinc production coming from the new concentrator in Buenavista for about 43,000 tons of zinc.

Jens Spiess: 43?

Raul Jacob: 43, yes, which, by the way, will come in with a very competitive cash cost, given the fact that the copper production of Buenavista will be absorbing the fixed cost. This production will basically enter our cost system at a very, very competitive value.

Operator: One moment for our next question, please, and it comes from the line of Arthur Biscuola with Santander.

Arthur Biscuola: Just a follow-up on production. So your guidance is to reach a total corporate production of roughly 480,000 tons in the second half. But in your view, what would be the main risks for the company to not reach this guidance? And what is -- I mean, what is (inaudible) here? Also, what to expect in terms of third-party volumes into year-end?

Raul Jacob: I'm so sorry, Arthur, I couldn't get the second part of your question. Could you repeat, please?

Arthur Biscuola: Yes, sure. So I just want to know what to expect in terms of third-party volumes into year-end?

Raul Jacob: For the second half?

Arthur Biscuola: Yes, for the second half.

Raul Jacob: Yes, copper purchases from third parties will be basically 0. We are long in copper concentrates now, and we want to process 100% of our copper in our own smelters.

Operator: Arthur, does that answer your question?

Arthur Biscuola: Yes.

Operator: And Mr. Jacob, I don't see any further questions. I will pass it back to you for any final comments.

Raul Jacob: Okay. Thank you very much Carmen.

Operator: There's one more that just showed up, if you want to pick it up?

Raul Jacob: Yes, please.

Operator: One moment please, and it comes from the line of Matheus Moreira with Bradesco BBI.

Matheus Moreira: So you mentioned copper production for this year at about 999,000 tons. Do we also have a guidance on copper production for next year and onwards?

Raul Jacob: Sure. Thank you very much for your question, Matheus. For this year, I'm going to repeat the goal for the year, for the full 2023 for all the metals, the relevant ones that we produce. For copper, for 2023, we're expecting to produce 932,000 tons; for molybdenum, 24,200 tons; for zinc, 108,000 tons; silver, 20.1 million ounces.

With that, our expectation is that we should have a cash cost slightly lower than what we're seeing. Well, obviously, this is contingent on by-product prices. Volumes, we know that we will be better in zinc and silver than what we were last year, I'm talking about the by-products. For copper, obviously, there is a 4% expected growth in production vis-a-vis 2022.

For next year, we will have the positive full benefit of the zinc concentrator. We expect to produce about 120,000 tons of zinc coming from the Buenavista Zinc concentrator, that's for next year. In total, for zinc next year, it's going to be 208,000 tons.

For silver, next year, it's going to be 27 million ounces; for molybdenum, 26,300 tons; and for copper, 1,026,000 tons. Let me repeat the forecast for 2024 at this point. For copper, 1,026,000 tons; for molybdenum, 26,300 tons; for zinc, 208,000 tons; for silver, 27.1 million ounces, and that's basically it.

Operator: And I am not showing any further questions, sir.

Raul Jacob: Okay. So with this, we conclude our conference call for Southern Copper's second quarter of 2023 results. We certainly appreciate your participation and hope to have you back with us when we report the third quarter of this year results.

Thank you very much, and have a nice day.

Operator: Thank you. And with that, ladies and gentlemen, we thank you all for participating, and you may now disconnect.