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KGHM – April 2018 Production and Sales Update

Rating: buy | target price: PLN 118.98 | current price: PLN 92.36

KGH PW; KGH.WA | Mining & Metals, Poland

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Compared to our predictions, KGHM's preliminary production figures for April 2018 show slightly lower-than-forecast monthly volumes at KGHM Polska Miedź ('KGHM Poland'), substantial shortfalls at Sierra Gorda, and higher-than-expected copper volumes at KGHM International, most notably the Robinson mine. When it comes to sales, KGHM International exceeded our monthly volume estimate, particularly in terms of

copper, while gold sales by KGHM Poland and copper sales by Sierra Gorda missed the mark (the miss in case of the Chilean mine is explained by a lower Cu content in the ore mined in the period). It is worth noting the first sale of the year of copper in concentrate completed by the Polish business in April, with 4,500 tonnes shifted out of the 20,000 total planned through December.

April 2018 Production & Sales Volumes By Segment

Copper Production (1,000 tonnes)	April volume as a % of Q1 target	April 2018 (kt)	April 2017 (kt)	YoY change
Metallurgical copper production, KGHM Poland	29%	37.1	43.5	-15%
of which own concentrate inputs	36%	28.3	30.6	-8%
of which third-party concentrates	18%	8.8	12.9	-32%
Payable copper production, KGHM International	34%	6.9	7.0	-1%
Robinson Mine	39%	4.9	4.4	11%
Sudbury Basin Mines	17%	0.4	0.9	-56%
Other	28%	1.5	1.7	-12%
Payable copper production, Sierra Gorda	26%	3.7	3.9	-5%
Silver Production (tonnes)	April volume as a % of Q1 target	April 2018 (t)	April 2017 (t)	YoY change
Metallic silver production (KGHM Poland)	30%	87.0	104.5	-17%
Total Precious Metals Output (thousand troy ounces)	April volume as a % of Q1 target	April 2018 (koz t)	April 2017 (koz t)	YoY change
KGHM Poland (metallic gold)	24%	8.0	8.6	-7%
KGHM International	30%	5.8	7.7	-25%
Robinson Mine	41%	3.6	2.8	29%
Sudbury Basin Mines	21%	2.2	4.9	-55%
Sierra Gorda	20%	1.4	1.9	-26%
Sierra Gorda molybdenum production (million pounds)	24%	0.9	2.8	-68%
Sales Volumes	April volume as a % of Q1 target	April 2018	April 2017	YoY change
KGHM Poland				
Copper (1,000 tonnes)	29%	38.1	38.0	0%
Silver (tonnes)	33%	97.2	102.9	-6%
Gold (koz t)	13%	2.5	15.3	-84%
KGHM International				
Copper (1,000 tonnes)	41%	7.9	6.1	30%
Gold (koz t)	33%	6.0	7.5	-20%
Sierra Gorda				
Copper (1,000 tonnes)	17%	2.0	3.2	-38%
Molybdenum (mn lbs)	34%	1.3	1.6	-19%

Source: KGHM, Dom Maklerski mBanku

List of abbreviations and ratios contained in the report.

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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