

Friday, August 24, 2018 | special comment

KGHM – July 2018 Production and Sales Update

Rating: buy | target price: PLN 111.08 | current price: PLN 88.40

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

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In July 2018, the payable copper production in KGHM Group stood at 55.9 thousand tons, down by 1% YoY. At the same time, for the first time in a few months, the group reported high drops of copper production as a result of the renovation of the copper smelter in Głogów, Huta Miedzi Głogów I (the renovation ended on 25 June, 8 days ahead of the schedule). Special attention should be paid to the rebound in copper production at Sierra Gorda in July 2018 (+9% YoY) and high copper production from own concentrate at KGHM Polska Miedź (+31% YoY). The silver and gold production in July 2018 remained low on a year-on-year basis. However, this is attributable to the renovation of the Głogów Precious Metals Plant, which started in June 2018 and continued for the first 5 days of July 2018.

What stands out in the July 2018 volumes is the growth in molybdenum production by 17% YoY at Sierra Gorda. Coupled with higher prices observed, this will contribute to maintaining low C1 cost at Sierra Gorda in Q3 2018. KGHM Group reported strong sales volumes of copper (+9% YoY) and silver (+36% YoY) in July 2018. Even net of concentrate copper sales (2.3 thousand tons in July), sales volumes of KGHM Polska Miedź saw an increase by 1% YoY. Despite lower molybdenum sales volumes in July 2018, quarterly forecasts for Q3 2018 are not at risk (they have been achieved in 38%).

We find volume data positive.

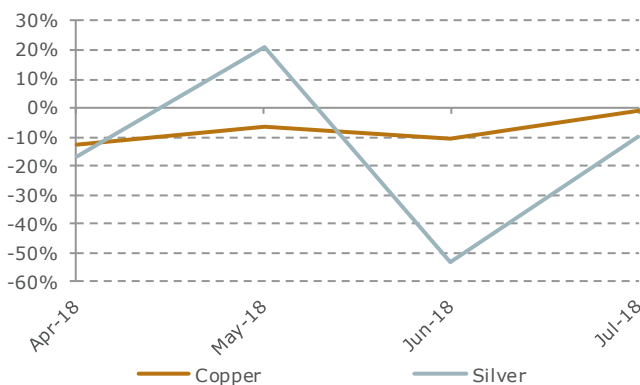
July 2018 Production & Sales Volumes By Segment

| Production | QTD vol. as a % of Q2E | July'18 volume | July'17 volume | YoY |
|--|------------------------|----------------|----------------|-------------|
| Metallurgical Copper (1,000 tonnes) | | | | |
| KGHM Poland | 35% | 45.2 | 45.5 | -1% |
| own concentr. inputs | 34% | 35.5 | 27.2 | 31% |
| third-party concentr. | 35% | 9.7 | 18.3 | -47% |
| KGHM International | 32% | 6.6 | 7.1 | -7% |
| Sierra Gorda | 28% | 4.1 | 3.8 | 9% |
| Metallic silver (tonnes) | | | | |
| KGHM Poland | 40% | 108.1 | 119.5 | -10% |
| Total Precious Metals Output (thousand troy ounces) | | | | |
| KGHM Poland (metallic gold) | 33% | 6.4 | 8.6 | -26% |
| KGHM International | 24% | 4.8 | 4.4 | 9% |
| Sierra Gorda | 21% | 1.5 | 2.7 | -44% |
| Molybdenum (mn lbs) | 34% | 1.4 | 1.2 | 17% |

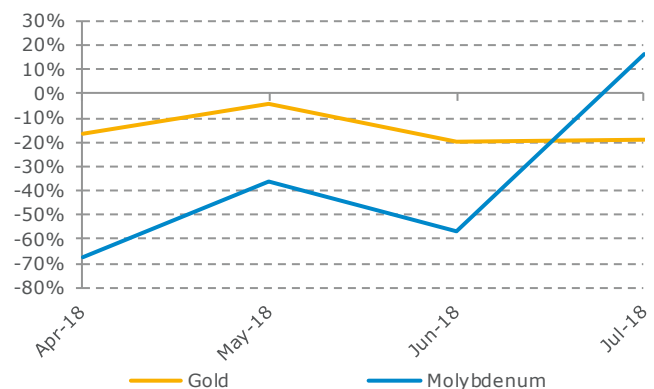
Source: KGHM, E – estimates by Dom Maklerski mBanku

| Sales Volumes | QTD vol. as a % of Q2E | July'18 volume | July'17 volume | YoY |
|---------------------------|------------------------|----------------|----------------|------|
| KGHM Poland | | | | |
| Copper (1kt) | 36% | 43.8 | 41.1 | 7% |
| Silver (t) | 45% | 113.9 | 83.2 | 36% |
| Gold (koz t) | 16% | 4.0 | 8.6 | -53% |
| KGHM International | | | | |
| Copper (1kt) | 22% | 4.8 | 5.5 | -13% |
| Gold (koz t) | 23% | 4.8 | 4.4 | 9% |
| Sierra Gorda | | | | |
| Copper (1kt) | 35% | 5.8 | 3.3 | 76% |
| Molybdenum (mn lbs) | 38% | 1.4 | 1.9 | -26% |

Production YoY change By Segment



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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