

Thursday, November 22, 2018 | special comment

KGHM – October 2018 Production and Sales Update

Rating: buy | target price: PLN 87.99 | current price: PLN 90.40

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

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Total payable copper production for October came in 1% lower than in the same month in 2017, with the volume produced by KGHM Polska Miedź up 4% on the year (of which output from own copper concentrates increased by 29%), and Sierra Gorda volumes showing a rebound of 38% thanks to a higher volume of ore throughput. At the same time, KGHM International posted a 37% production drop attributed to lower quality of the ore extracted by the Robinson and Sudbury mines. The total copper output for the month accounted for 36% of our forecast for the full fourth quarter.

Silver production was a positive surprise in October, increasing 16% y/y to a level equivalent to 39% of our Q4 estimate. Production of molybdenum recovered from a low year-ago base, rising 67%. The monthly gold output in October was similar to the quantities achieved in previous months, falling 30% year over year.

KGHM Polska Miedź generated solid copper sales volume in October, with a decline in silver sales recorded relative to a high year-ago base.

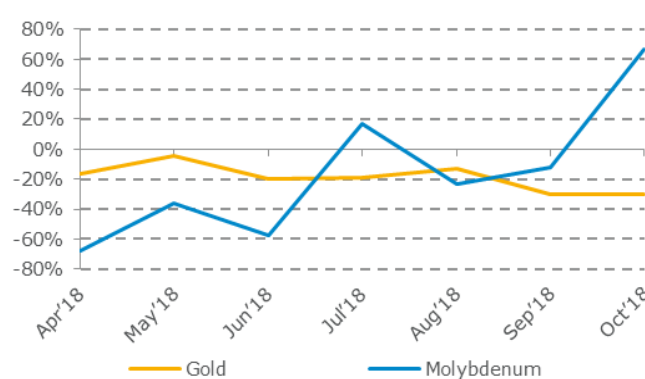
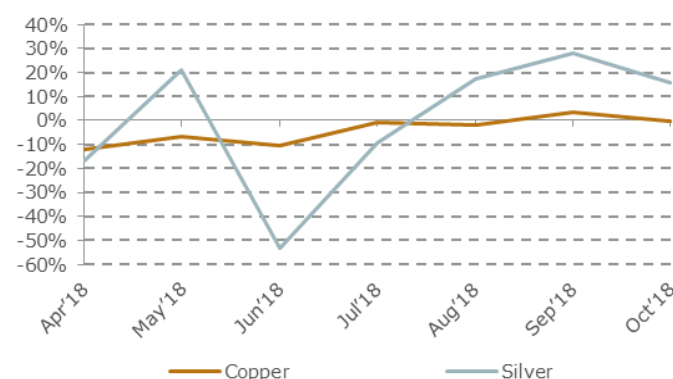
The October production values are neutral to positive, with volumes in most cases exceeding 33% of our Q4 forecasts.

October 2018 Production & Sales Volumes By Segment

Production	QTD vol. as a % of Q4E	Oct'18 volume	Oct'17 volume	YoY
Copper (kt)	35.8%	56.7	57.0	-1%
KGHM Poland	36.5%	45.3	43.7	4%
own concentr. inputs	37.0%	35.6	27.7	29%
third-party concentr.	34.6%	9.7	16.0	-39%
KGHM International	30.3%	5.9	9.3	-37%
Sierra Gorda	36.7%	5.5	4.0	38%
Metallic silver	38.8%	120.8	104.0	16%
KGHM Poland	38.7%	119.3	103.1	16%
TPM (k troz)	33.2%	15.8	22.6	-30%
KGHM Poland (metallic gold)	33.9%	7.6	13.2	-42%
KGHM International	30.7%	5.6	7.3	-23%
Sierra Gorda	37.1%	2.6	2.1	24%
Molybdenum (mmlbs)	35.4%	1.5	0.9	67%

Sales	QTD vol. as a % of Q4E	Oct'18 volume	Oct'17 volume	YoY
KGHM Poland				
Copper (kt)	36.3%	50.0	49.3	1%
Silver (t)	42.5%	149.8	136.4	10%
Gold (koz t)	11.4%	2.7	11.4	-76%
KGHM International				
Miedź (tys. ton)	31.2%	7.5	8.6	-13%
Złoto (tys. troz)	27.8%	6.6	6.8	-3%
Sierra Gorda				
Copper (kt)	29.8%	4.4	3.6	22%
Molybdenum (mmlbs)	31.3%	1.3	2.2	-41%

YoY change in monthly production of basic metals



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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