

Friday, November 22, 2019 | special comment

KGHM – October 2019 Production and Sales Update

Rating: hold | target price: PLN 96.13 | current price: PLN 89.88

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

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Total monthly copper production by KGHM in October 2019 at 56,300 tonnes was only 1% lower than in October 2018, as well as narrowly missing the ytd monthly average of 58,800t. Geographically, production in Poland came out relatively well while KGHM International generated a lower output for the month than the average for the year through October. The Polish operations produced the highest monthly quantities of copper and silver in concentrate since October 2017.

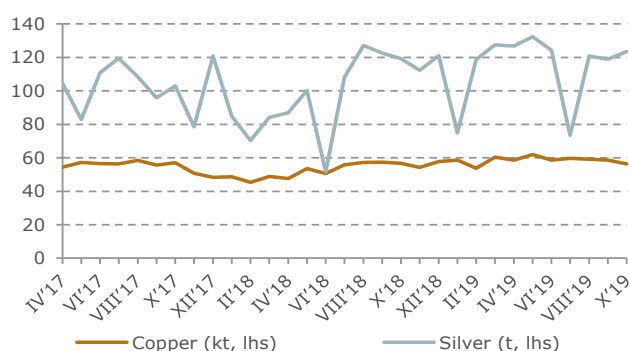
The total silver volume was up 3% y/y in October, marking the third consecutive month of rising volumes after a slower period due to smelter maintenance. The same is true for gold, with higher production driven by a 24% y/y boost in Poland, offsetting a 4% decline at Sierra Gorda. Molybdenum production is lower this year due to lower molybdenum content in the ores currently processed by the Sierra Gorda mine.

October 2019 Production & Sales Volumes By Segment

Production Volumes	YTD/ FY2019E	Oct. '19	Oct.'18	YoY
Copper (kt)	84%	56.3	56.7	-1%
KGHM Polska Miedź	84%	45.2	45.3	0%
own concentr. inputs	85%	32.9	35.6	-8%
third-party concentr.	82%	12.3	9.7	27%
KGHM International	84%	6.3	5.9	7%
Sierra Gorda	84%	4.8	5.5	-13%
Metallic Silver (t)	85%	124.7	120.8	3%
KGHM Polska Miedź	85%	123.5	119.3	4%
TPM (koz t)	84%	18.7	15.8	18%
KGHM Polska Miedź (metallic gold)	70%	9.4	7.6	24%
KGHM International	98%	6.8	5.6	21%
Sierra Gorda	108%	2.5	2.6	-4%
Molybdenum (mmlbs)	78%	0.7	1.5	-53%

Source: KGHM, Dom Maklerski mBanku

Monthly production volumes of KGHM



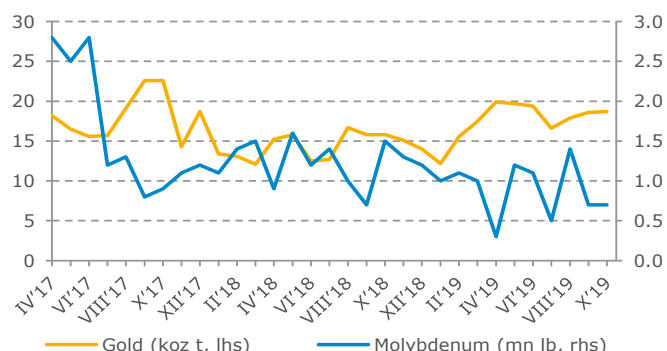
Source: KGHM, Dom Maklerski mBanku

When it comes to sales, October saw slight contraction in volumes compared to a strong September, with copper shipments down across the board vis-à-vis October 2018 and to the ytd averages.

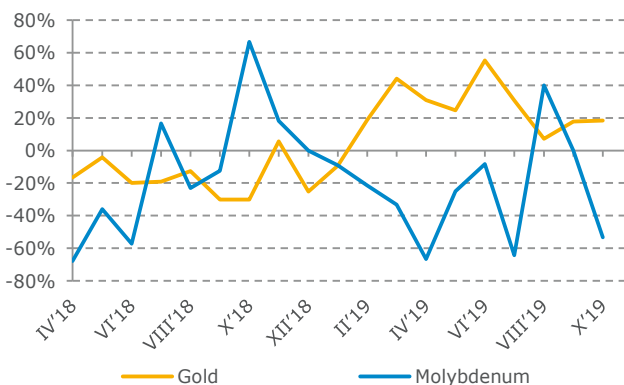
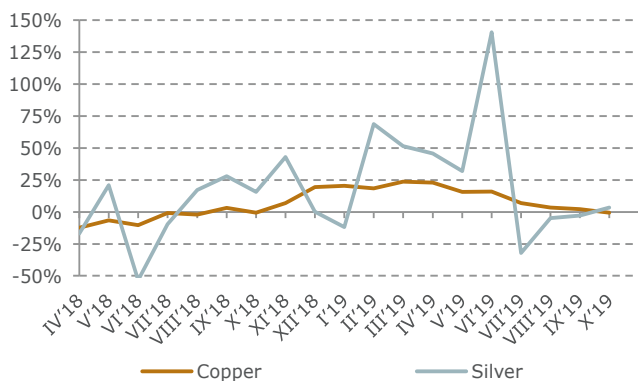
The simultaneous 18% y/y fall in silver sales was due primarily to negative base effects; relative to the monthly average for the year to date, the October volume was actually 10% higher. Gold was the biggest disappointment of the month in terms of sales, which fell 89% in Poland and 14% at KGHM International.

Summing up, we have a neutral view on the October data, with good production of copper and silver concentrates offset by weaker sales.

Sales Volumes	YTD/ FY2019E	Oct. '19	Oct.'18	YoY
KGHM Polska Miedź				
Copper (kt)	76%	42.6	50.0	-15%
Silver (t)	80%	123.3	149.8	-18%
Gold (koz t)	60%	0.3	2.7	-89%
KGHM International				
Copper (kt)	76%	5.1	7.5	-32%
Gold (koz t)	83%	5.7	6.6	-14%
Sierra Gorda				
Copper (kt)	83%	3.0	4.4	-32%
Molybdenum (mmlbs)	85%	0.7	1.3	-46%

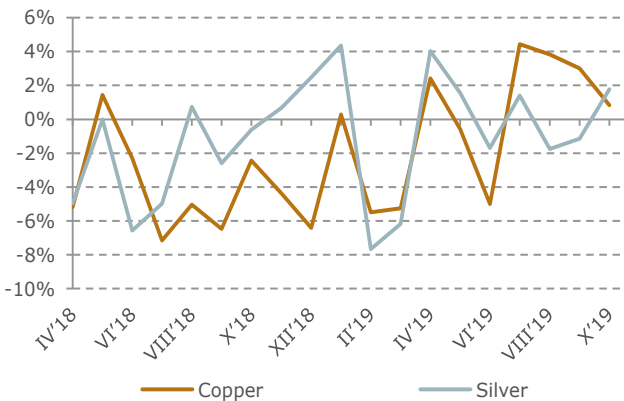
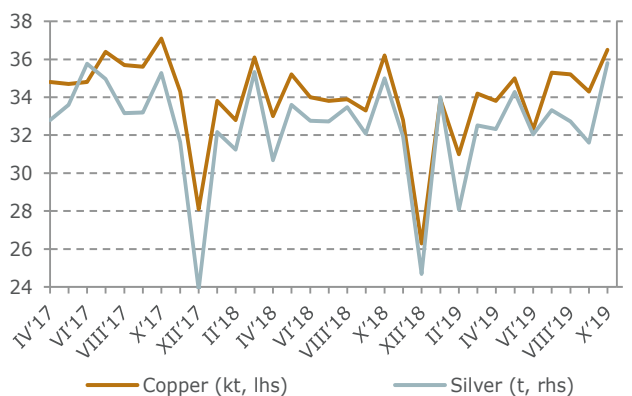


YoY pct. change in monthly production volumes



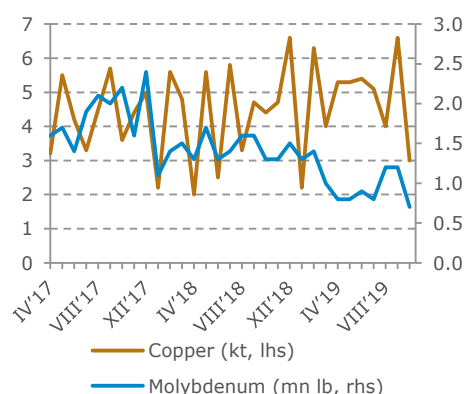
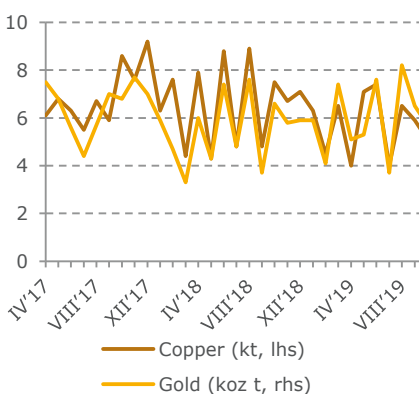
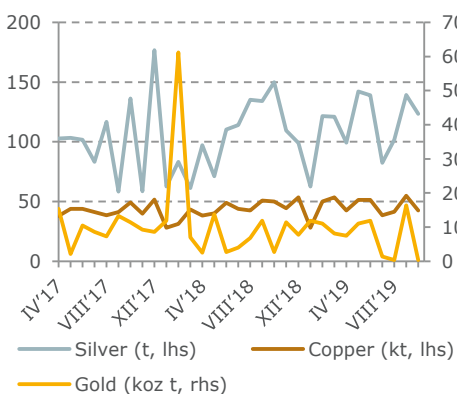
Source: KGHM, Dom Maklerski mBanku

Production of copper (kt) and silver (t) in concentrate and oY volume change at KGHM Polska Miedź



Source: KGHM, Dom Maklerski mBanku

2017-19 monthly sales volumes by geographic area: KGHM Poland (left), KGHM International (center), and Sierra Gorda (right)



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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Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

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