

Friday, January 24, 2020 | special comment

KGHM – December 2019 Production and Sales Update

Rating: hold | target price: PLN 85.54 | current price: PLN 96.36

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

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December copper production across the KGHM Group was up by 3% relative to the same month in 2018 at 59.3 thousand tonnes, driven mainly by higher volumes produced in Poland and Chile. The volume of copper and silver in concentrate delivered by KGHM Polska Miedź was seasonally weak.

Total production of silver increased by 6% year over year, thanks mainly to facilities in Poland, and production of gold bounced 64% on the year, led by improvement across all assets.

When it comes to sales, the volume of payable copper delivered in December decreased 8% from the high level achieved in the same month a year earlier, but at the same time there was 21% growth in monthly silver sales and a 60% surge in the gold volume.

Based on monthly production reports, KGHM's Polish and Chilean operations achieved cumulative production through 31 December 2019 slightly above

target, while KGHM International missed the mark. In terms of sales, KGHM Polska Miedź fulfilled 93% of the full-year sales target for copper, and 96% of the target for silver.

When it comes to the 2019 fourth-quarter earnings outlook, according to our estimates KGHM's revenue for the period likely totaled PLN 5,988m (+4.3% y/y), with EBITDA expected to come in at PLN 1,353m (+14% y/y) and net profit forecast at PLN 555m (-19% y/y). Factors which shaped performance in the period included higher prices of gold and silver, combined with strong sales of gold.

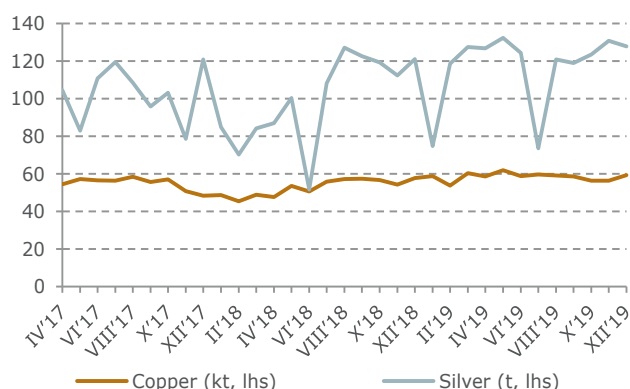
Based on the fourth-quarter estimates, we predict that the FY2019 full-year revenue will amount to PLN 22.9 billion, and we anticipate a 2% beat relative to the market consensus in the quarterly EBITDA at a projected PLN 5,465m. The FY2019 bottom-line profit will most likely fall in line with analysts' estimates at PLN 2,219m.

December 2019 Production & Sales Volumes By Segment

Production Volumes	Dec. '19	Dec.'18	YoY
Copper (kt)	59.3	57.7	3%
KGHM Polska Miedź	47.0	46.7	1%
own concentr. inputs	36.4	34.8	5%
third-party concentr.	10.6	11.9	-11%
KGHM International	6.6	6.4	3%
Sierra Gorda	5.7	4.6	24%
Metallic Silver (t)	129.3	122.1	6%
KGHM Polska Miedź	127.9	121.0	6%
TPM (koz t)	23.0	14.0	64%
KGHM Polska Miedź (metallic gold)	12.1	5.8	109%
KGHM International	7.8	5.9	32%
Sierra Gorda	3.1	2.3	35%
Molybdenum (mmlbs)	1.2	1.2	0%

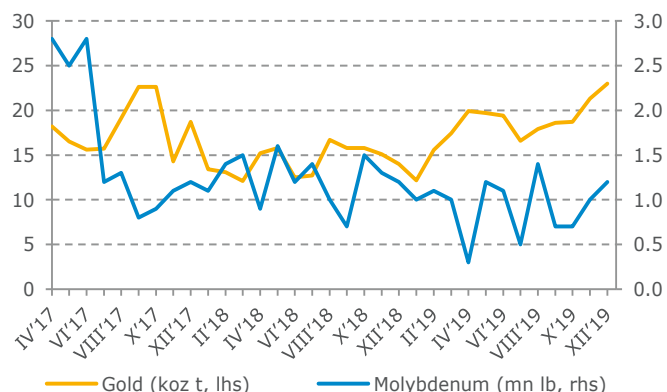
Source: KGHM, mBank

Monthly production volumes of KGHM

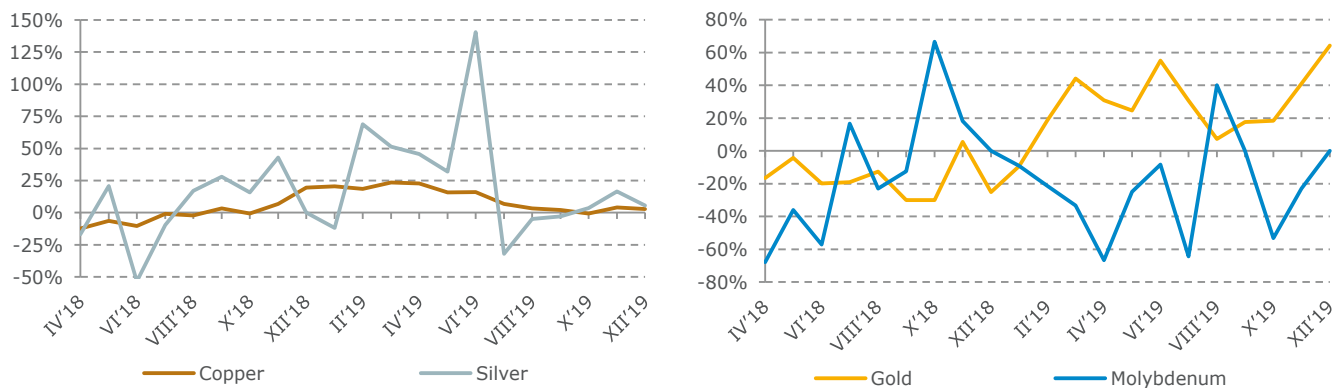


Source: KGHM, mBank

Sales Volumes	Dec. '19	Dec.'18	YoY
KGHM Polska Miedź			
Copper (kt)	48.2	53.5	-10%
Silver (t)	119.9	99.1	21%
Gold (koz t)	13.9	7.7	81%
KGHM International			
Copper (kt)	5.9	7.1	-17%
Gold (koz t)	7.8	5.9	32%
Sierra Gorda			
Copper (kt)	7.8	6.6	18%
Molybdenum (mmlbs)	0.7	1.5	-53%

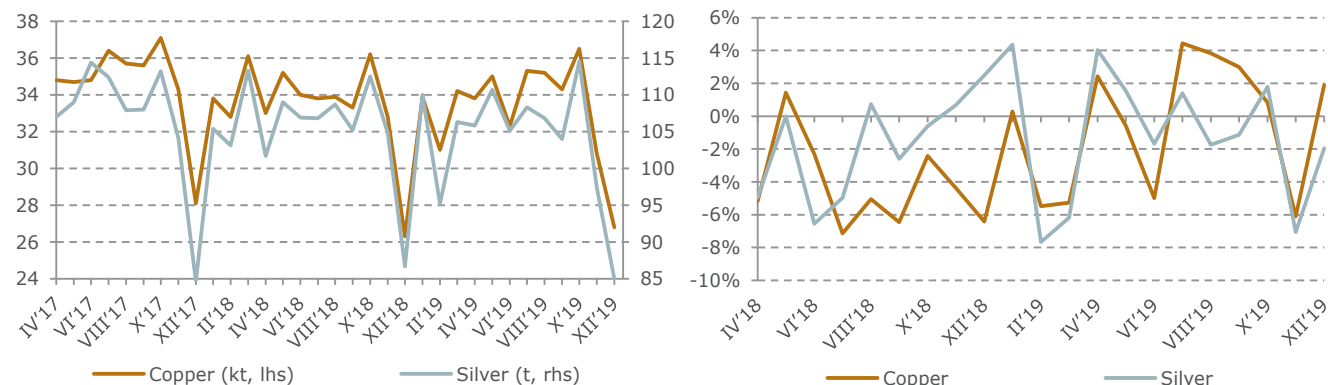


YoY pct. change in monthly production volumes of KGHM Group



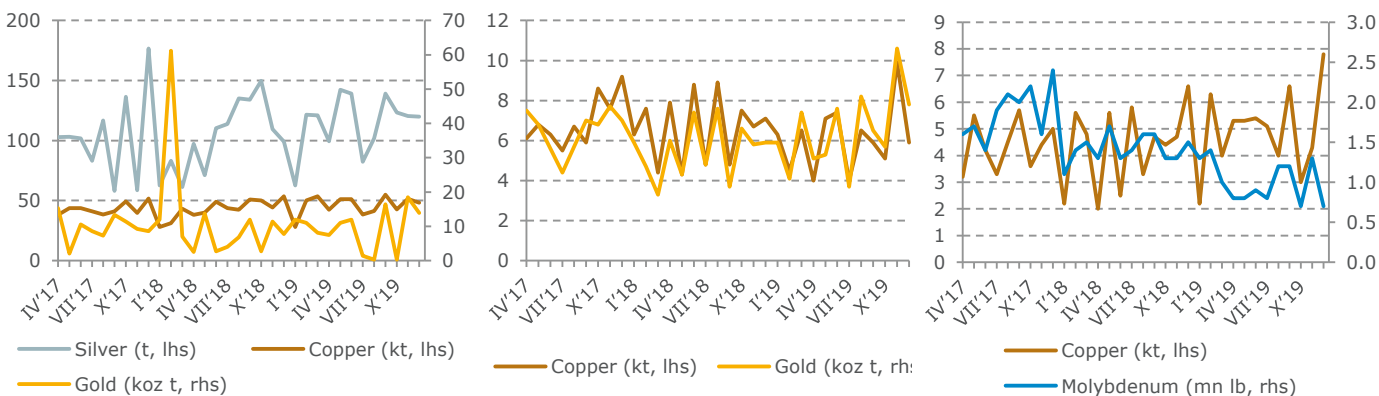
Source: KGHM, mBank

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



Source: KGHM, mBank

2017-2019 monthly sales volumes by geographic area: KGHM Polska Miedź (left), KGHM International (center), and Sierra Gorda (right)



Source: KGHM, mBank

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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