

Tuesday, June 23, 2020 | special comment

KGHM – May 2020 Production and Sales Update

Rating: sell | target price: PLN 62.94 | current price: PLN 89.70

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

Analyst: Jakub Szkopek +48 22 438 24 03

Payable copper production across the KGHM Group decreased by 3% in May 2020 vis-à-vis the corresponding year-ago period after a 3% decline in Polish mine output and a 31% fall in volumes produced by KGHM International. The lower volume of Polish copper and silver concentrates, an effect of preventative actions aimed at reducing the risk of coronavirus infections among mine employees, was reported for the second month in a row. On the other hand, the Chilean unit Sierra Gorda set a monthly production record in May at 7,200 tonnes, an increase of 38% on the same month a year earlier, owing to a higher volume of ore processed and higher copper content in processed ore.

Due to lower production in Poland, the total silver volume was down 4% in May 2020 versus May 2019, and the volume of gold fell 18% on the year (a result of lower processing levels of purchased concentrates).

May 2020 Production & Sales Volumes By Segment

Production Volumes	YTD/ FYE*	May'20	May'19	YoY
Payable copper (kt)	42%	60.0	61.9	-3%
KGHM Polska Miedź	43%	48.0	49.7	-3%
own concentr. inputs	43%	34.6	35.7	-3%
third-party concentr.	42%	13.4	14.0	-4%
KGHM International	32%	4.8	7.0	-31%
Sierra Gorda	42%	7.2	5.2	38%
Payable Silver (t)	41%	127.6	133.5	-4%
KGHM Polska Miedź	41%	125.1	132.4	-6%
Sierra Gorda	-	2.5	1.1	127%
TPM (koz t)	41%	16.1	19.7	-18%
KGHM Polska Miedź	38%	6.5	10.5	-38%
KGHM International	46%	7.0	6.7	4%
Sierra Gorda	40%	2.6	2.5	4%
Molybdenum (mn lbs)	50%	1.7	1.3	33%
KGHM International	-	0.0	0.1	-73%
Sierra Gorda	47%	1.7	1.2	42%

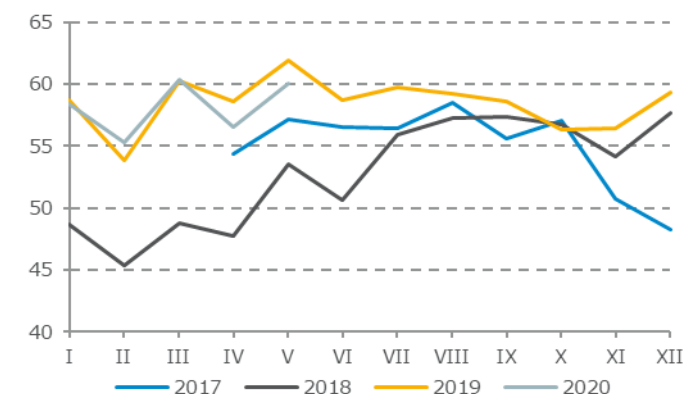
Source: KGHM, *mBank full-year estimates

KGHM was able to sell all its metals output in May amid solid demand, however compared to the year-ago level monthly sales were down across the board.

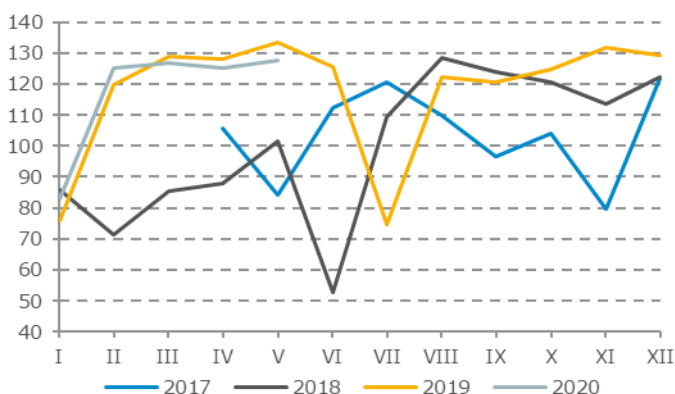
Summing up, covid risk mitigation measures caused KGHM's May production volumes to slightly miss target, indicating that total production for the year may end up closer to our forecast than the Company's own higher guidance. Much depends on whether the Miner opts to keep the safety measures in place until the end of the year in anticipation of a second wave of infections. Sales for the year to date have so far come out narrowly above target, but the May production data keep us negative on KGH stock.

Sales Volumes	YTD/ FYE*	May'20	May'19	YoY
Copper (kt)	41%	61.8	63.7	-3%
KGHM Polska Miedź	42%	48.2	51.2	-6%
KGHM International	41%	6.5	7.1	-8%
Sierra Gorda	41%	7.1	5.3	34%
Silver (t)	42%	123.8	143.4	-14%
KGHM Polska Miedź	42%	120.8	142.2	-15%
KGHM International	-	0.5	0.0	-
Sierra Gorda	-	2.5	1.2	108%
TPM (koz t)	50%	11.1	18.7	-41%
KGHM Polska Miedź	37%	1.2	11.0	-89%
KGHM International	51%	7.1	5.3	34%
Sierra Gorda	-	2.8	2.5	12%
Molybdenum (mn lbs)	51%	0.6	1.0	-36%
KGHM International	-	0.0	0.1	-73%
Sierra Gorda	47%	0.6	0.8	-25%

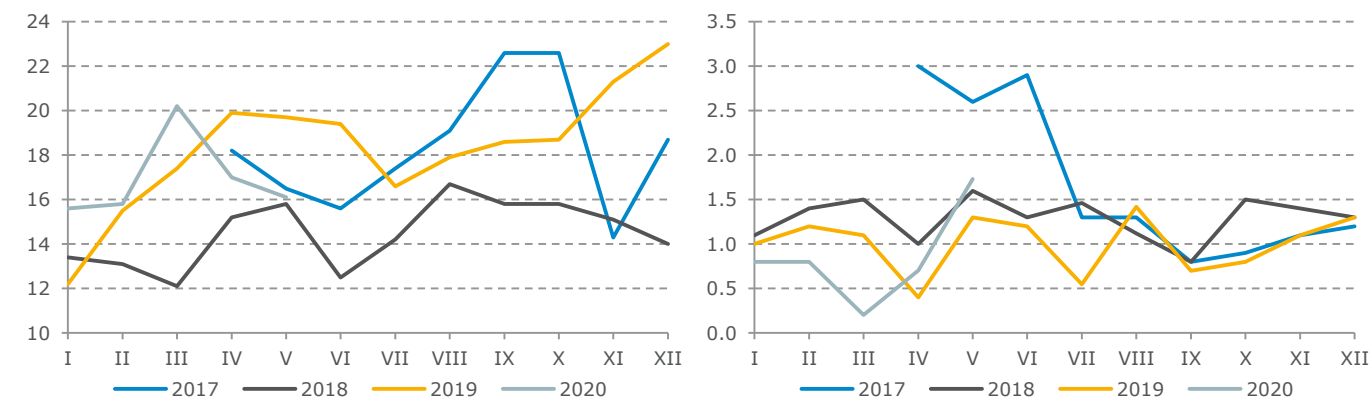
KGHM production of copper (lh chart, thousand tonnes) and silver (rh chart; tonnes)



Source: KGHM, mBank



KGHM total production of gold (lh chart; thousand Troy ounces) and molybdenum (rh diagram; million pounds)



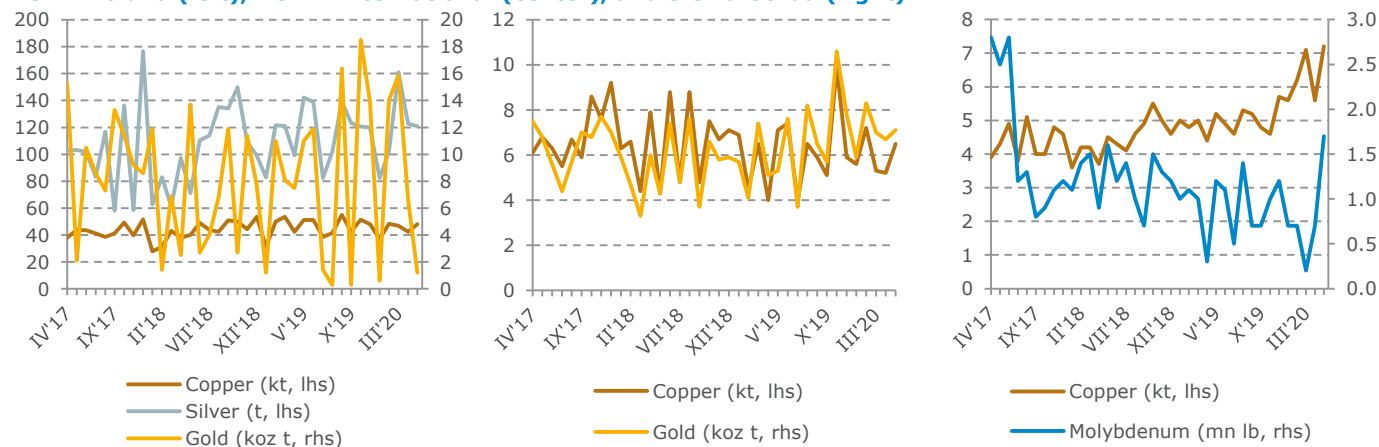
Source: KGHM, mBank

Polish production of copper concentrates (lh chart; thousand tonnes) and silver concentrates (rh chart, tonnes) (KGHM Polska Miedź)



Source: KGHM, mBank

2017-2020 monthly sales volumes by geographic area: KGHM Poland (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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mBank S.A.
Senatorska 18
00-950 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszczyk
director
+48 22 438 24 02
kamil.klisczyk@mbank.pl
energy, power generation

Jakub Szkopek
+48 22 438 24 03
jakub.szkopek@mbank.pl
industrials, chemicals, metals

Aleksandra Szklarczyk
+48 22 438 24 04
aleksandra.szklarczyk@mbank.pl
construction, real-estate development

Michał Marczak
+48 22 438 24 01
michal.marczak@mbank.pl
strategy

Paweł Szpigiel
+48 22 438 24 06
pawel.szpigiel@mbank.pl
media, IT, telco

Piotr Poniąkowski
+48 22 438 24 09
piotr.poniatowski@mbank.pl
industrials

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl
banks, financials

Piotr Bogusz
+48 22 438 24 08
piotr.bogusz@mbank.pl
retail, gaming

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl
financials

Sales and Trading

Traders

Piotr Gawron
director
+48 22 697 48 95
piotr.gawron@mbank.pl

Adam Prokop
+48 22 697 47 90
adam.prokop@mbank.pl

Krzysztof Bodek
+48 22 697 48 89
krzysztof.bodek@mbank.pl

Magdalena Bernacik
+48 22 697 47 35
magdalena.bernacik@mbank.pl

Tomasz Jakubiec
+48 22 697 47 31
tomasz.jakubiec@mbank.pl

Andrzej Sychowski
+48 22 697 48 46
andrzej.sychowski@mbank.pl

Sales, Foreign Markets

Bartosz Orzechowski
+48 22 697 48 47
bartosz.orzechowski@mbank.pl

Jędrzej Łukomski
+48 22 697 49 85
jedrzej.lukomski@mbank.pl

Private Client Sales

Kamil Szymański
director
+48 22 697 47 06
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
+48 22 697 48 70
jaroslaw.banasiak@mbank.pl