

Thursday, 22 October, 2020 | special comment

KGHM: September 2020 Production and Sales Update

Rating: reduce | target price: PLN 103.84 | current price: PLN 128.00

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

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The volumes of copper and silver produced by KGHM in September 2020 missed target levels for the second month in a row.

Monthly production of copper, gold, and molybdenum dropped below the volumes registered in September 2019 (the silver volume was comparable year over year). Production of copper in concentrate reached its lowest level in three years in September, and the quantity of copper from own concentrates was down 7% from the same months a year earlier.

Sales relative to September 2019 came out lower across the whole mix.

The September sales data indicate 5% contraction in total 2020 third-quarter output, incl. a 23% slump in own-concentrates based copper made in Poland. Sales in Q3 also decreased relative to the year-ago period, falling by 13% for copper and 5% for silver.

For this reason, despite considerably higher sales prices (+9% copper, +40% silver, +26% gold), we expect to see y/y growth in quarterly revenue of no more than 7% to PLN 6,041m, with EBITDA expected to rise 14% to PLN 1,571m and net profit increasing 15% to PLN 695m – figures which trail our original July expectations of a 40% rebound in 2020 H2 EBITDA.

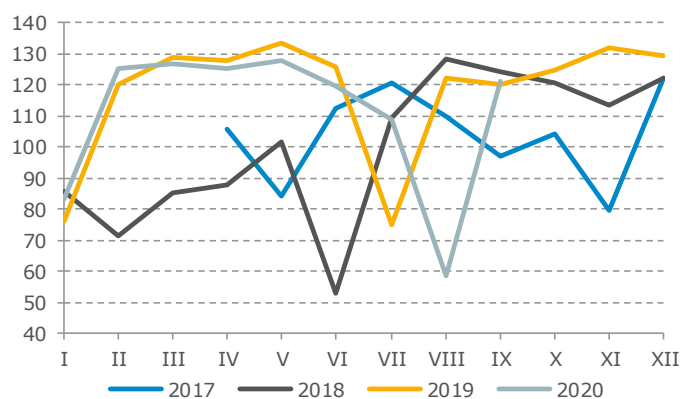
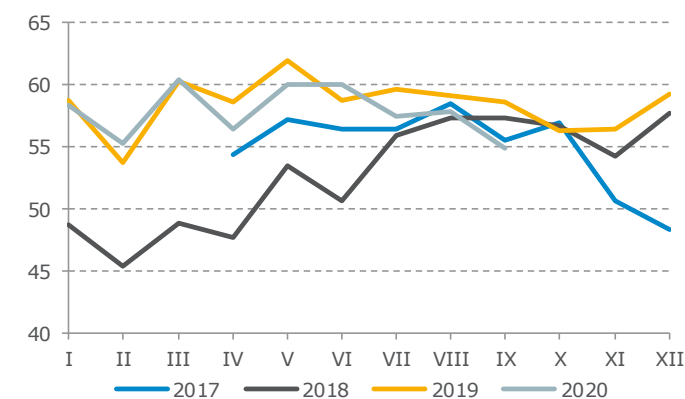
August 2020 Production & Sales Volumes By Segment

Production Volumes	YTD/ FYE*	Sep'20	Sep'19	YoY
Payable copper (kt)	75%	54.9	58.6	-6%
KGHM Polska Miedź	75%	41.8	45.9	-9%
own concentr. inputs	72%	28.7	31.0	-7%
third-party concentr.	84%	13.1	14.9	-12%
KGHM International	66%	5.9	7.5	-21%
Sierra Gorda	79%	7.2	5.2	38%
Payable Silver (t)	69%	121.0	120.4	0%
KGHM Polska Miedź	69%	118.2	119.0	-1%
Sierra Gorda	127%	2.8	1.4	100%
TPM (koz t)	70%	16.2	18.6	-13%
KGHM Polska Miedź	64%	9.2	8.3	11%
KGHM International	79%	4.4	7.7	-43%
Sierra Gorda	70%	2.6	2.6	0%
Molybdenum (mn lbs)	87%	0.5	0.7	-27%
KGHM International	-	0.0	0.0	0%
Sierra Gorda	83%	0.5	0.7	-29%

Source: KGHM, *mBank full-year estimates

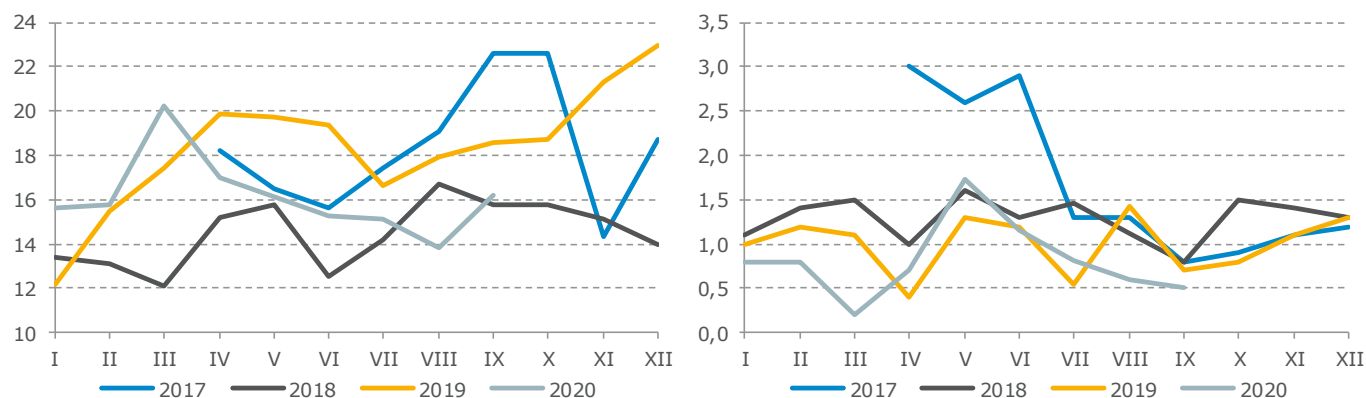
Sales Volumes	YTD/ FYE*	Sep'20	Sep'19	YoY
Copper (kt)	76%	53.3	67.5	-21%
KGHM Polska Miedź	76%	43.7	54.9	-20%
KGHM International	74%	5.4	5.9	-8%
Sierra Gorda	77%	4.2	6.6	-36%
Silver (t)	72%	119.3	142.0	-16%
KGHM Polska Miedź	70%	117.2	139.2	-16%
KGHM International	-	0.4	1.1	-64%
Sierra Gorda	-	1.7	1.7	0%
TPM (koz t)	86%	9.3	26.3	-65%
KGHM Polska Miedź	65%	3.2	16.4	-80%
KGHM International	85%	4.5	6.5	-31%
Sierra Gorda	-	1.6	3.4	-53%
Molybdenum (mn lbs)	86%	0.7	1.3	-45%
KGHM International	-	0.0	0.0	0%
Sierra Gorda	80%	0.7	1.2	-42%

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



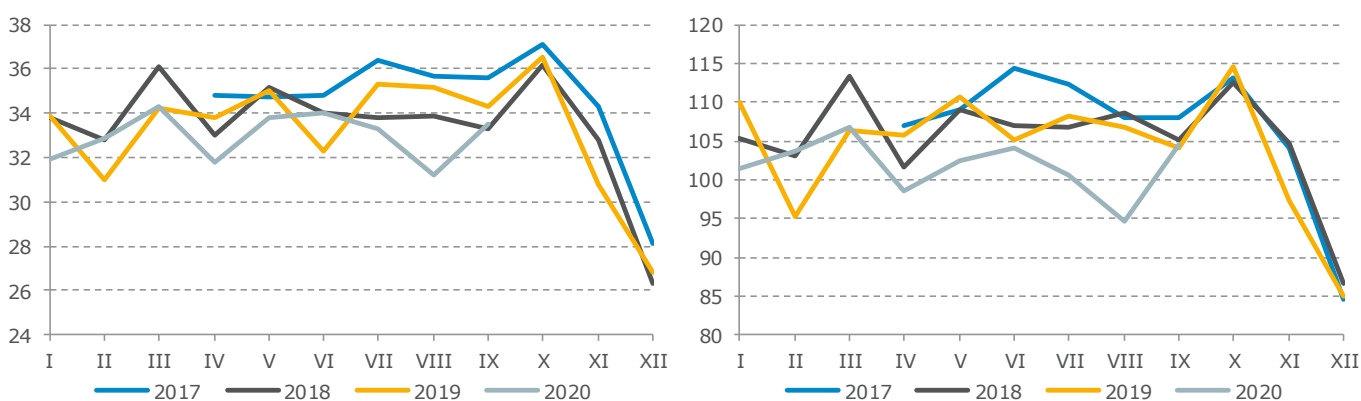
Source: KGHM, mBank

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



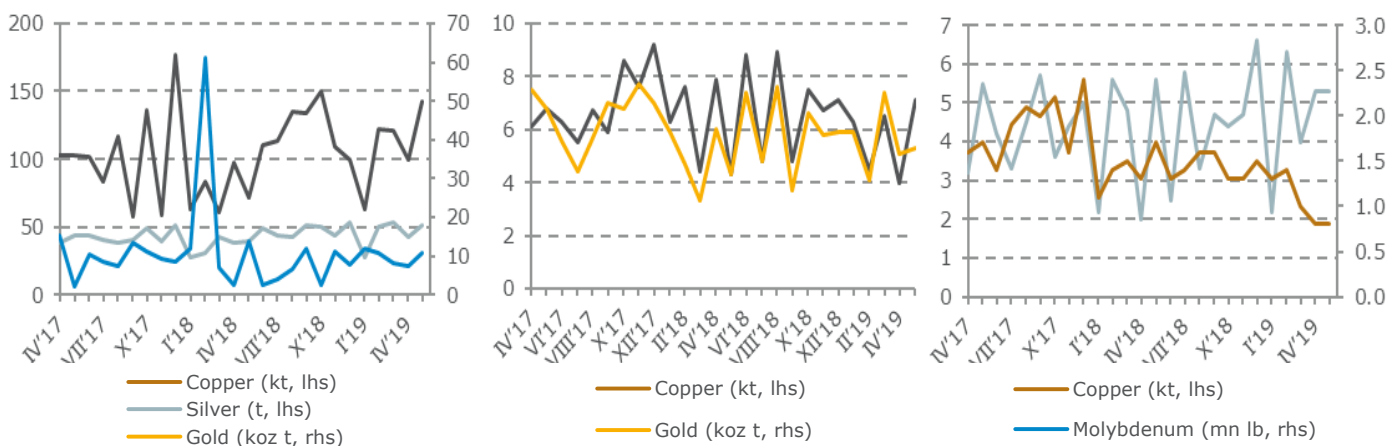
Source: KGHM, mBank

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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ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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