

Monday, 23 August 2021 | special comments

KGHM: July 2021 Production and Sales Update

Recommendation: buy | target price: PLN 245.39 | current price: PLN 176.00

KGH.PW; KGH.WA | Resources, Poland

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In July '21, copper production in the KGHM Group increased by 13% y/y and was virtually higher y/y in all locations except KGHM International (where almost all mines recorded declines in production). The Sierra Gorda mine is worth mentioning, as its production hovers around record values.

Silver production in the Group in VII'21 amounted to 116 thousand tonnes and was higher by 6% y/y. In our opinion, it is worth paying attention that the high content of silver in concentrate in KGHM Polska Miedź.

Gold production in the Group in VII'21 was 12% y/y lower - production was lower in practically all locations.

Molybdenum production unexpectedly fell in July '21 in Sierra Gorda (-63% y/y). YTD production is still above budget assumed for the current year.

Copper sales in the KGHM Group increased by 6% y/y, mainly as a result of the second highest-ever monthly sale in Sierra Gorda. Silver sales in July'21 increased by 16% y/y, and gold by 11% y/y. Precious metals sales were supported by last year low base effect.

In January-July'21, the production and sales of the KGHM Group were still above the assumed budget. We read the volume data positively.

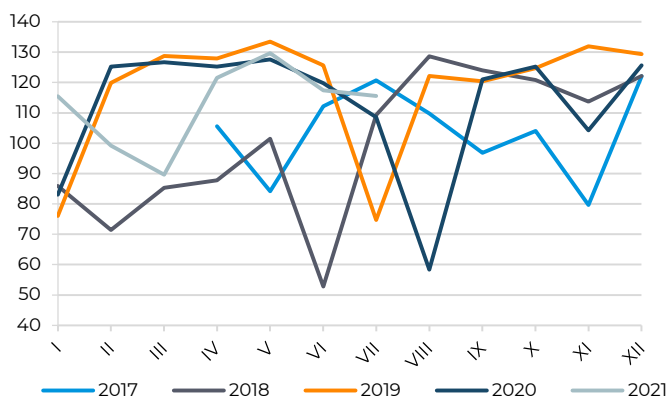
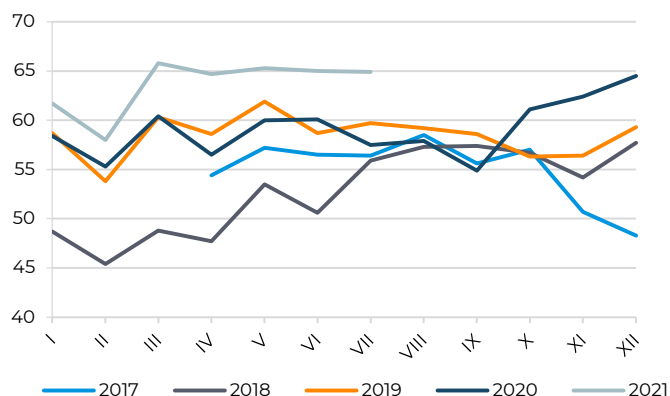
July 2021 volume data of KGHM

production	YTD*	Jul'21	Jul'20	r/r
copper (kt)	60%	64.9	57.5	13%
KGHM Polska Miedź	60%	49.7	44.7	11%
from own concentrates	58%	31.9	27.3	17%
from purchased concentrates	63%	17.8	17.4	2%
KGHM International	57%	5.9	6.4	-8%
Sierra Gorda	61%	9.3	6.4	45%
silver (tonnes)	-	115.6	108.6	6%
KGHM Polska Miedź	64%	112.9	106.4	6%
Sierra Gorda	-	2.7	2.2	23%
TPM (koz t)	-	13.3	15.1	-12%
KGHM Polska Miedź	-	6.7	7.2	-7%
KGHM International	56%	4.2	5.4	-22%
Sierra Gorda	-	2.4	2.5	-4%
molybdenum (mn lbs)	-	0.3	0.8	-63%
KGHM International	-	0.0	0.1	-
Sierra Gorda	69%	0.3	0.8	-63%

Source: KGHM, mBank *expected year-to-date result as a percentage our our full-year estimate

sales	YTD*	Jul'21	Jul'20	r/r
miedź (tys. ton)	-	57.7	54.6	6%
KGHM Polska Miedź	58%	41.8	43.4	-4%
KGHM International	-	5.5	5.8	-5%
Sierra Gorda	-	10.4	5.4	93%
srebro (ton)	-	121.7	105.2	16%
KGHM Polska Miedź	63%	118.4	102.7	15%
KGHM International	-	0.4	0.7	-43%
Sierra Gorda	-	2.9	1.8	61%
złoto (tys. troz)	-	9.2	8.3	11%
KGHM Polska Miedź	-	3.4	1.3	162%
KGHM International	-	3.1	5.0	-38%
Sierra Gorda	-	2.7	2.0	35%
molibden (mln lb.)	-	0.2	1.0	-79%
KGHM International	-	0.0	0.1	-
Sierra Gorda	-	0.2	0.9	-78%

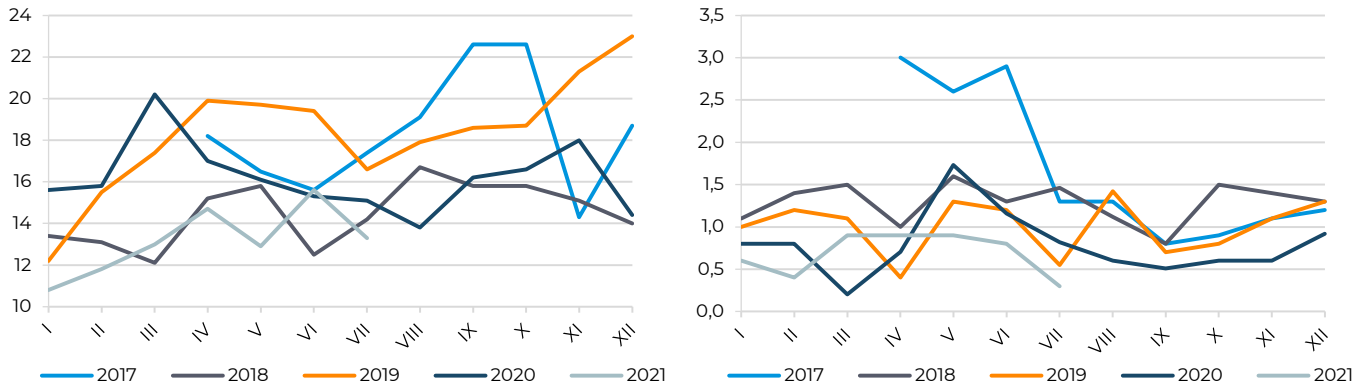
KGHM production of copper (lh chart. thousand tonnes) and silver (rh chart; tonnes)



Source: KGHM, mBank

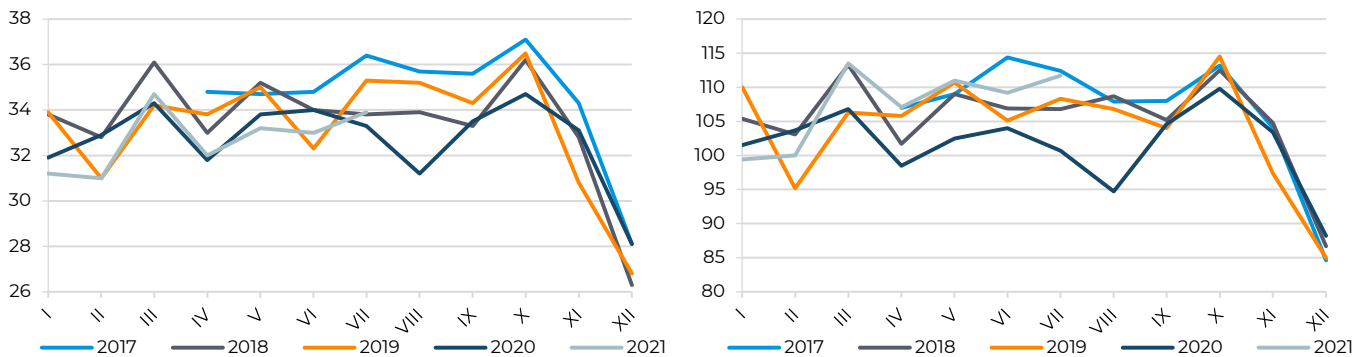


KGHM total production of gold (lh chart; thousand Troy ounces) and molybdenum (rh chart; million pounds)



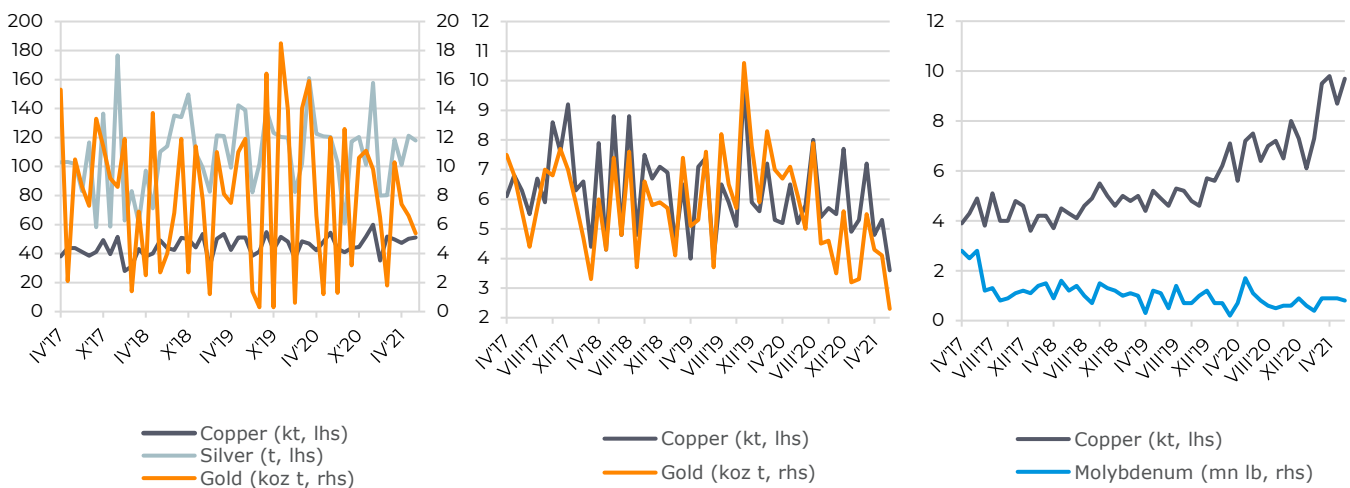
Source: KGHM, mBank

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



Source: KGHM, mBank

2017-2021 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 (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases) - Lease Payments

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