

Nexa Resources

Three year guidance update: solid 2024 outlook, 2026 below forecast

Maintain Rating: UNDERPERFORM | PO: 5.00 USD | Price: 7.17 USD

Cautious zinc price view informs outlook for shares

Nexa Resources (Nexa) reported strong Q4'23 production results to close out 2023. Full-year guidance for 2024 is also strong vs. prior guidance and BofAe. For full-year 2025, guidance is relatively in line vs. BofAe, while for 2026, zinc and copper production guidance were particularly soft vs. BofAe. Smelter metal sales are guided to be steady over the 2024-2026 period, and relatively in line vs. 2023. We view the update as mixed with current year surprisingly strong offset by a weaker outlook for 2026 vs. expectations. We maintain our Underperform rating that is predominantly informed by BofA Commodities' cautious view of the zinc price.

Q4'23 production strong across the metals

Nexa reported Q4'23 zinc, copper, lead, and silver production of 90 thousand tonnes (kt), 9kt, 18kt, and 2.7 million ounces (Moz), all better vs. BofAe and consensus, except copper, which was just shy of BofAe. (See exhibit 1, page 2). Strong Q4'23 zinc production was helped by the Vazante and El Porvenir mines exceeding their annual guidance ranges. Aripuanã achieved reduced 2023 guidance provided in October 2023.

2024 zinc output in-line, other metals higher; costs better

For 2024, Nexa is guiding to zinc, copper, lead and silver production of 323-381kt, 30-35kt, 66-82kt and 11-13Moz. Versus prior guidance, zinc output was largely in-line (+1%) (assuming Aripuanã ramp-up proceeds as planned and reach full run-rate by mid-2024). However, copper, lead and silver production are now guided to be 7%, 6% and 4% higher at the midpoint. This is driven by better copper grades at Cerro Lindo and increased lead production from El Porvenir and Aripuanã. Versus BofAe, zinc, copper, lead and silver production guidance is 3%, 5%, 10% and 9% higher. 2024 mining cash cost guidance is \$0.23-0.42/lb, in-line to BofAe at \$0.32/lb and slightly better than VA consensus at \$0.35/lb. Guidance is also better than \$0.40/lb in 2023, due to higher zinc volumes, lower TC's and higher by-product credits at Cerro Lindo and El Porvenir. Nexa is guiding to 2024 zinc smelter metal sales of 545-565kt, largely in-line with prior guide/BofAe, with unit costs of \$1.07-1.18/lb. 2024 capex guide is \$311mn vs. BofAe at \$245m.

2025 zinc/copper guidance fine, 2026 well below BofAe

Nexa is guiding to zinc, copper, lead and silver production of 326-381kt, 28-35kt, 67-78kt and 11-13Moz for 2025. Versus prior guidance and BofAe, 2025 zinc, copper and silver production guidance is fine but lead is 5% lower (on suspension of Morro Agudo guidance). For 2026, Nexa is guiding to zinc, copper, lead and silver production of 330-378kt, 24-29kt, 71-83kt, and 11-12Moz, -11%, -31%, +25%, and +27% vs. BofAe. Zinc smelter metal sales guidance for 2024 and 2025 is relatively stable vs. 2023.

02 February 2024

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Stock Data

Price	7.17 USD
Price Objective	5.00 USD
Date Established	20-Nov-2023
Investment Opinion	C-3-7
52-Week Range	4.14 USD - 7.40 USD
Mrkt Val (mn) / Shares Out (mn)	950 USD / 132.4
Free Float	32.7%
Average Daily Value (mn)	0.28 USD
BofA Ticker / Exchange	NEXA / NYS
Bloomberg / Reuters	NEXA US / NEXA.N
ROE (2023E)	-3.0%
Net Dbt to Eqty (Dec-2022A)	68.5%
ESGMeter™	High

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Q4'23 production results

Exhibit 1: Q4'23 NEXA Production Results

Zinc production was broadly better than expected; while copper was mixed, missing BofAe, but beating consensus estimates (Bloomberg and VA).

US\$ millions	Q4 2023E	Q4 2022A	YoY	Q3 2023A	QoQ	BofA Q4 2023E	Var.	Bloomberg Cons.	Var.	V.A. Cons.	Var.
Operational details											
Total zinc (kt)	90	75	20%	88	3%	85	6%	82	10%	84	8%
Total copper (kt)	9	9.3	1%	9	2%	10	-2%	8	13%	7	26%
Total lead (kt)	18	16	14%	17	9%	17	9%	15	20%	16	14%
Total silver (kt)	2,700	2,500	8%	###	8%	2,540	6%	2,125	27%	N/A	-
Total smelting sales (kt)	143	143	0%	154	-7%	158	-9%	N/A		164	-13%

Source: Company Reports, BofA Global Research, Bloomberg, Visible Alpha

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Updated 3-year guidance versus prior

Exhibit 2: NEXA Updated 3-Year Guidance

While zinc and silver production guidance for 2024 was relative in the prior range, copper and lead were both better than prior ranges

	2024			2025			2026		
	Old	New	%chg	Old	New	%chg	Old	New	%chg
Total Mine Production									
Zinc (kt)	318 - 379	323 - 381	1%	327 - 383	326 - 381	0%	na	330 - 378	na
Copper (kt)	29 - 32	30 - 35	7%	29 - 33	28 - 35	2%	na	24 - 29	na
Lead (kt)	64 - 76	66 - 82	6%	70 - 82	67 - 78	-5%	na	71 - 83	na
Silver (koz)	11 - 12	11 - 13	4%	11 - 13	11 - 13	0%	na	11 - 13	na
Smelting Sales									
Zinc Metal (kt)	545 - 565	545 - 565	0%	545 - 565	545 - 565	0%	na	545 - 565	na
Zinc Oxide (kt)	35 - 40	35 - 40	0%	35 - 40	35 - 40	0%	na	35 - 40	na

Source: Company Reports, BofA Global Research

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Exhibit 3: NEXA 3-Year Guidance (Versus BofAe)

Versus BofAe: 2024 guide solid; 2025 guide mixed, and 2025 soft.

	2024G			2025G			2026G		
	BofA	New	%chg	BofA	New	%chg	BofA	New	%chg
Total Mine Production									
Zinc (kt)	341	323 - 381	3%	355	326 - 381	-1%	397	330 - 378	-11%
Copper (kt)	31	30 - 35	5%	31	28 - 35	2%	38	24 - 29	-31%
Lead (kt)	67	66 - 82	10%	76	67 - 78	-5%	62	71 - 83	25%
Silver (koz)	11	11 - 13	9%	12	11 - 13	-2%	9	11 - 13	27%
Smelting sales									
Zinc Metal	555	545 - 565	0%	560	545 - 565	-1%	560	545 - 565	-1%
Zinc Oxide	38	35 - 40	0%	38	35 - 40	0%	39	35 - 40	-4%

Source: Company Reports, BofA Global Research

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Price objective basis & risk

Nexa Resources (NEXA)

Our US\$5.00 per share price objective is based on 4.0x 2024E and 3.5x 2025E EV/EBITDA and 1.00x our net asset value (NAV). Our EBITDA multiples are at a discount to the peer median. This is in line to the historic discount. Reasons for the historic discount are a dominant majority shareholder (at >50% of the outstanding shares), relatively lower share liquidity, a preference among investors for metals other than zinc, and poor execution on the mine plans.

Upside risks to our price objective are: 1) higher than expected zinc prices, 2) better than expected cost containment, 3) stronger than expected global demand growth, but particularly China, 4) greater than expected challenges at other competitors looking to lift their mining production, and 5) a turn-around at underperforming assets.

Downside risks to our price objective are: 1) zinc price weakness, 2) global economic weakness, but particularly China, 3) Chinese and other mine restarts oversupplying global markets, 4) a stronger U.S. dollar tends to weigh on commodity prices, 5) unplanned operating disruptions at Nexa, 6) stricter mining regulations or higher taxes in Peru or Brazil, 7) parent Votorantim holds 64.7% of Nexa shares and retains voting control thus reducing the likelihood of Nexa being acquired, and 8) unreported zinc inventories that unexpectedly become available to the market.

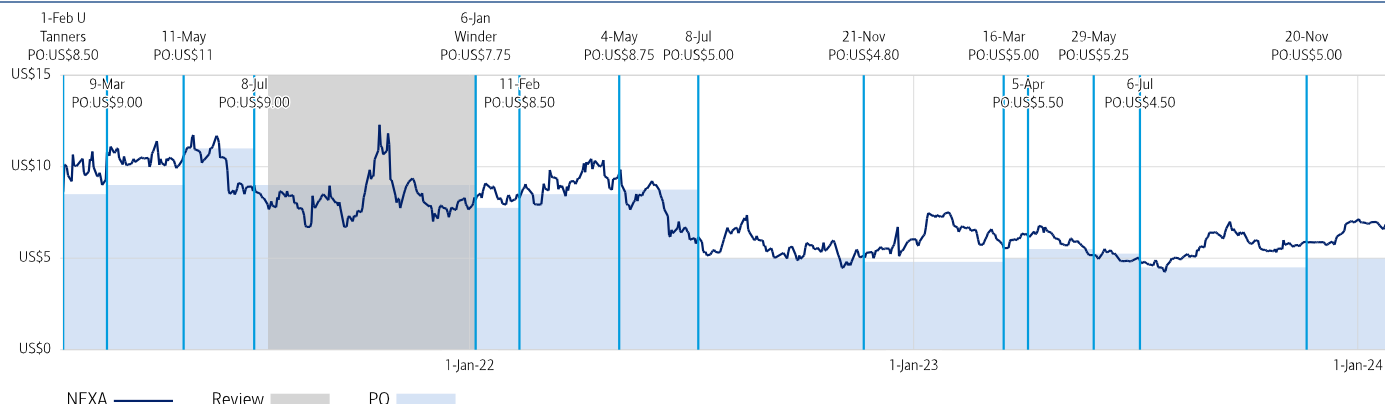
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Nexa Resources (NEXA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Buy	58	53.70%	Buy	26	44.83%
Hold	24	22.22%	Hold	10	41.67%
Sell	26	24.07%	Sell	13	50.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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