

Hudbay Minerals

Q4'23 earnings strong and balance sheet improved, but 2024 guidance disappoints

Maintain Rating: NEUTRAL | PO: 8.50 CAD | Price: 7.21 CAD

Strong medium term copper production growth

Hudbay Minerals (HBM) Q4'23 earnings beat strongly on higher gold/silver volumes, and the deleveraging momentum accelerated with year-end net debt-to-EBITDA down to 1.6x (from 2.1x last quarter). On the other hand, 2024 production, and to some extent cost guidance was a disappointment vs. forecasts. We like HBM's strong 2024E/25E copper growth (driven by Pampacancha), but are cautious on longer term production as well as the BofA Commodities near-term copper price outlook. Maintain Neutral rating.

2024 copper + gold production guidance below forecasts

HBM is guiding to 2024 copper production of 137-176 thousand tonnes (kt), 156.5kt to the mid-point, and 2024 gold production of 263-319 thousand ounces (koz), 291koz to the mid-point. Both are below BofAe at copper and gold production of 165kt (-5%) and 325koz (-10%), and also below Visible Alpha (VA) consensus at 165kt (-5%) and 325kt (-10%) and Bloomberg consensus at 164kt (-4%) and 318koz (-8.5%) respectively. Consolidated cash cost guidance for 2024 is \$1.05-\$1.25 per pound (/lb), \$1.15/lb to the mid-point, higher vs. BofAe at \$0.85/lb (+35%), Bloomberg at \$1.03 (+12%) and VA at \$1.06/lb (+8.5%). Versus BofAe, the higher cash cost guidance is primarily a function of the lower gold (and silver) by-product revenue in Peru and lower zinc by-product revenue in Manitoba. Silver and zinc production guidance for 2024 is 3.55-4.46 million ounces (Moz), 4.0Moz to the mid-point, and 27-35kt, 31kt to the mid-point. Both are below BofAe at 2024 silver and zinc production of 4.48Moz and 39kt, and also below Bloomberg at 4.16Moz and 37kt, and VA at 4.34Moz and 37kt, respectively.

Q4'23 adjusted EPS beat mainly on higher by-products

HBM reported Q4'23 adjusted EPS of \$0.20, above BofAe at \$0.12, Bloomberg at \$0.12, VA at \$0.13. Adjusted EBITDA of \$274 million (mn) similarly beat BofAe at \$229mn and VA/Bloomberg at \$228mn/\$231mn. Copper sales and production of 44kt and 45.5kt were 4%/5% lower than BofAe on lower production at Copper Mountain. However, precious metal sales of 120koz were well-above BofAe at 86koz. Zinc sales of 7.4kt were better than production at 5.7kt. Higher precious metal (and zinc) sales resulted in lower-than-expected costs at Constancia (and Manitoba), driving the beat in EBITDA vs. BofAe.

Balance sheet improved; 2024 capex in-line to consensus

During Q4'23, HBM reduced net debt by \$94.5mn to \$1.04 billion (bn) as at 31-Dec-23. This was driven by strong operating cash flow of \$247mn (above BofAe at \$160mn). Q4'23 included the full redemption of the \$59.7mn of Copper Mountain bonds and a reduction in revolving credit facility (RCF) balance by \$30mn. As of year-end, net debt-to-EBITDA was 1.6x, vs. 2.1x at 30-Sep-23. For 2024, HBM sees total capex of \$327mn, below BofAe at \$351mn, but in-line to Bloomberg at \$333mn and VA at \$342mn. After several delays, HBM reiterated Copper World permits are still expected in mid-2024.

23 February 2024

Equity

Lawson Winder, CFA >>

Research Analyst
Merrill Lynch (Canada)
+1 416 369 7592
lawson.winder@bofa.com

Sathish Kasinathan

Research Analyst
BofAS
+1 646 855 2769
sathish.kasinathan@bofa.com

Harmen Puri >>

Research Analyst
Merrill Lynch (Canada)
harmen.puri@bofa.com

Stock Data

Price (TOR / NYS)	7.21 CAD / 5.37 USD
Price Objective	8.50 CAD / 6.25 USD
Date Established	2-Jan-2024 / 2-Jan-2024
Investment Opinion	C-2-8 / C-2-8
52-Week Range	5.45 CAD - 7.92 CAD
Market Value (mn)	2,529 CAD
Free Float	99.7%
Average Daily Value	10.41 USD
Shares Outstanding (mn)	350.7 / 350.7
BofA Ticker / Exchange	YHBM / TOR
BofA Ticker / Exchange	HBM / NYS
Bloomberg / Reuters	HBM CN / HBM.TO
ROE (2023E)	2.7%
Net Dbt to Eqty (Dec-2022A)	61.0%
ESGMeter™	High

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Timestamp: 23 February 2024 08:57AM EST

Q4'23 Results Review

Exhibit 1: HBM Q4'23 results vs. comparable quarters and Bloomberg and Visible Alpha (VA) consensus

Copper production and sales were below BofAe. Precious metals/zinc sales exceeded. Better-than-expected costs (due higher by-product credits) drove EBITDA beat.

Q4' 2023 Results (US\$ mn)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	BofA Q4 2023E	Var.	Bloomberg Cons.	Var.	VA Cons.	Vars.
Revenue	602	321	87%	480	25%	549	10%	533	13%	549	10%
COGS (ex-depreciation)	284	172	65%	260	9%	284	0%			270	5%
Adjusted EBITDA	274	126	118%	191	44%	229	20%	228	20%	231	19%
Depreciation	122	79	53%	114	7%	119	2%	121	1%	122	0%
Adjusted net earnings	71.3	2.6	nm	24.4	192%	42.5	68%	44.5	60%	38.7	84%
Adjusted EPS	0.20	0.01	nm	0.07	nm	0.12	68%	0.13	62%	0.12	76%
Cash flow from operations before w/c changes	247	109	127%	182	35%	160	54%	181.9	36%	NA	nm
FCF to equity holders	108	(31)	nm	81	34%	18	nm	80	35%	70	54%
Net debt	1,038	958	8%	1,132	-8%	1,181	-12%	1,086	-4%	NA	nm
Copper Production (kt)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	Q4 2023E	Var.	Bloomberg Cons.	Var.	VA Cons.	Vars.
Constancia	33.2	27.0	23%	29.1	14%	30.3	10%			32.1	3%
Manitoba	3.7	2.3	65%	3.6	4%	2.4	55%			3.1	19%
Copper Mountain	8.5			9.3	-9%	15.2	-44%			9.6	-12%
Total Attributable	45.5	29.3	55%	42.0	8%	47.9	-5%	42.0	8%	44.9	1%
Copper sales	44.0	25.4	73%	39.4	12%	45.8	-4%	38.8	13%		
Zinc Production (kt)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	Q4 2023E	Var.	Bloomberg Cons.	Var.	VA Cons.	Vars.
Manitoba	5.7	6.3	-9%	10.3	-44%	7.5	-23%			8.1	-29%
Zinc sales	7.4	8.2	-10%	7.1	4%	6.9	7%	7.5	-1%		
Precious Metals Production (koz)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	Q4 2023E	Var.	Bloomberg Cons.	Var.	VA Cons.	Vars.
Constancia	61.4	30.2	103%	50.6	21%	41.5	48%			55.6	10%
Manitoba	63.5	35.1	81%	60.0	6%	47.3	34%			43.8	45%
Copper Mountain	4.9			6.1	-19%	10.6	-54%			6.7	-27%
Total Attributable	129.8	65.3	99%	116.6	11%	99.4	31%	NA	nm	99.4	31%
Precious metal sales	119.8	55.2	117%	87.6	37%	86.2	39%	NA	nm		
C1 Cash Costs (US\$/oz)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	Q4 2023E	Var.	Bloomberg Cons.	Var.	VA Cons.	Vars.
Constancia	0.54	1.34	-60%	0.83	-35%	0.88	-39%	1.04	-48%	0.87	-38%
Manitoba	-8.94	-2.03	nm	-0.79	nm	-6.78	nm			-5.11	nm
Copper Mountain	2.67			2.67	0%	2.22	20%			2.58	4%
Average copper	0.16	1.08	-85%	1.10	-85%	0.92	-83%	NA	nm	0.86	-81%

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

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Exhibit 2: HBM 2024 updated guidance

Copper and gold revised production guide were 7% and 8% lower than prior guidance.

Copper Production (kt)	Guidance	BofAe	% diff.	VA Consensus	% diff.	Prior Guidance	% diff.
Constancia	98 - 120	118	-7%	117	-7%	107 - 132	-9%
Manitoba	9 - 12	10	3%	11	-2%	9 - 13	-5%
Copper Mountain	30 - 44	37	0%	37		37 - 37	0%
Total Attributable	137 - 176	165	-5%	165	-5%	153 - 182	-7%
Zinc production (kt) - Manitoba	27 - 35	39	-21%	37	-16%	35 - 43	-73%
Gold (koz)							
Constancia	76 - 93	113	-25%			96 - 117	-21%
Manitoba	170 - 200	190	-3%			175 - 205	-3%
Copper Mountain	17 - 26	22	-2%			21 - 21	2%
Total Attributable	263 - 319	325	-10%	324.8	-10%	292 - 343	-8%
Silver (koz)							
Total Attributable	3,550 - 4,455	4,482	-11%	4,337.5	-8%	3,778 - 4,478	-3%
Cash Costs	Guidance	BofAe	% diff.	VA Consensus	% diff.		
Constancia (US\$/lbs)	1.3 - 1.6	0.6	122%	1.0	50%		
Manitoba - Gold (\$/Oz)	700 - 900	546	46%	827	-3%		
British Columbia (US\$/lb)	2.0 - 2.5	3.7	-39%	3.0	-24%		
Capex	Guidance	BofAe	% diff.	VA Consensus	% diff.		
Constancia	132	155	-15%	142.2	-7%		
Manitoba	65	75	-13%	94.1	-31%		
Copper Mountain	110	86	27%	78.8	40%		
Arizona & other	20	35	-43%	51.3	-61%		
Total capex	327	351	-7%	341.8	-4%		

Source: BofA Global Research, Company Reports, Visible Alpha

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Price objective basis & risk

Hudbay Minerals (YHBM / HBM)

Our C\$8.50 (US\$6.25) per share price objective for Hudbay Minerals (YHBM/HBM) is based on a 3.5x 2024E EV/EBITDA multiple, 3.0x 2025E EV/EBITDA multiple and 1.0x our net asset (NAV) estimate, weighted equally to each. Since 2005, the global copper producers have traded in an EV/EBITDA range from 2.0x to 13.0x with HBM trading at a discount. For HBM, we use a lower-of-the-range target multiple given our neutral/cautious outlook for copper in the near term, as well as an unclear medium to longer-term volume growth outlook.

Upside risks are stronger than forecast copper prices, favorable local currency changes that lower USD costs, the receipt of all permits for Rosemont with no legal challenges, a sooner than expected start of mining of the Pampacancha satellite deposit and the potential for HBM to be targeted for acquisition.

A downside risk to our PO is a weaker-than-expected global economy that could impede metal demand growth expectations, affecting our commodity price forecasts. Other downside risks are a delay in attaining surface access rights at Pampacancha, the political and regulatory climate in the jurisdictions in which HBM operates (Canada, Peru and the USA), stronger than forecast local currencies that increase USD costs, increases in general operating and development costs, labor action, weather and the inability to attain the needed permits to develop Rosemont, M&A risk.

Analyst Certification

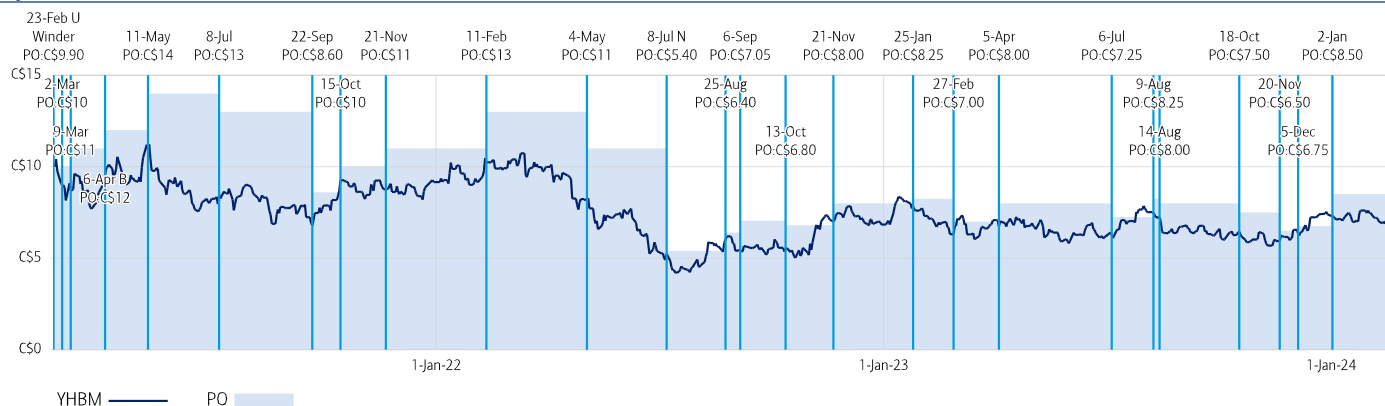
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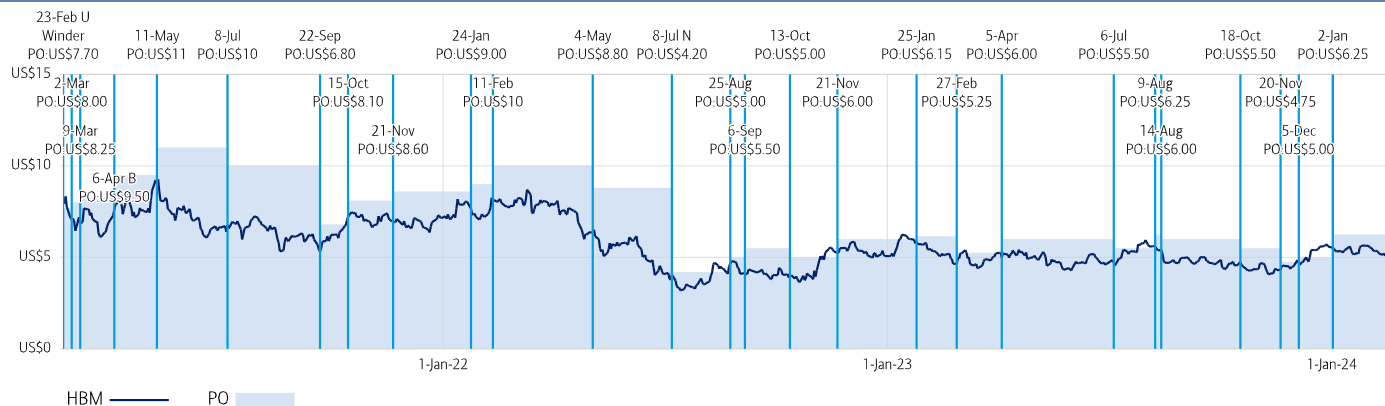
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HudBay Minerals (YHBM) Price Chart



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HudBay Minerals (HBM) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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