

# Action Note

Equity Research

December 16, 2020

Metals &amp; Minerals

## Copper Mountain Mining Corp.

(CMMC-T) C\$1.51

### Upgrading to BUY on Higher Copper Prices and Expansion Upside

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#### Event

We have updated our estimates for Copper Mountain to reflect our higher copper price forecasts, along with details from the company's technical report to expand the Copper Mountain Mine (CMM) to 65,000tpd. As a result, we are raising our recommendation to BUY from Hold and increasing our target price to \$2.25 from \$1.45.

#### Impact: POSITIVE

- We have increased our copper pricing assumptions on average by 7% over 2021-2025** — We believe that the copper market will face tight supply/demand balances over the next several years and higher prices are required to incentivize new supply in the medium term. With few "probable" projects in the development pipeline and a yawning supply gap opening up beyond 2025, we believe that a higher long-term price is required. We have increased our long-term price to US \$3.15/lb from US\$3.10/lb.
- Our estimates now incorporate the CMM mill expansion to 65,000tpd** — As a reminder, on November 30, the company announced details on an expansion to 65,000tpd from the current target throughput of 45,000tpd. Total initial capital is US\$148mm, which includes US\$25mm in contingencies. Construction of the mill expansion is expected to be completed at the end of 2023 and commissioned at the beginning of 2024.
- Given what we believe is an increasingly positive outlook for copper over the next several years, we expect the company to be in a much stronger financial position to deliver on the CMM expansion.** That said, capital requirements during the initial three years of the expansion are relatively high; therefore, we assume that the company will need to re-profile its existing debt repayments to match its cash-flow profile or source other non-dilutive sources of capital. As a reminder, we calculate that CMMC's adjusted net debt is currently \$328mm, which includes \$156mm owed to its joint-venture partner Mitsubishi (25% interest in CMM).

#### TD Investment Conclusion

In addition to raising our recommendation to BUY from Hold, we are lowering our risk rating to HIGH from Speculative. Given our forecasts for copper, we believe that the company will be in a much stronger position to manage its debt levels and execute on its growth strategy.



#### Company Profile

Copper Mountain is a Canadian junior copper-gold producer headquartered in Vancouver, B.C. The company's principal asset is a 75% interest in the Copper Mountain copper-gold mine located in south-central British Columbia.

#### Recommendation:

BUY↑

Prior: HOLD

#### Risk:

HIGH

Prior: SPECULATIVE

#### 12-Month Target Price:

C\$2.25↑

Prior: C\$1.45

#### 12-Month Dividend (Est.):

C\$0.00

#### 12-Month Total Return:

49.0%

#### Market Data (C\$)

Current Price	C\$1.51
52-Week Range	\$0.28 - \$1.73
Mkt Cap (f.d.) (\$mm)	\$309.8
EV (\$mm)	\$440.5
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	1,442,453

#### Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	205.2
Float Shares (mm)	125.8
Net Debt (\$mm)	\$133.7
NAVPS	\$3.58
Working Cap (\$mm)	\$50.6

#### Estimates (C\$)

Year	2019A	2020E	2021E	2022E
EPS (Adj.)	(0.03)	0.12	0.50	0.47
EPS (Adj.) (old)	—	0.11	0.41	—
CFPS (f.d)	0.14	0.44	0.72	0.66
CFPS (f.d) (old)	—	0.42	0.64	—
EBITDA (\$mm)	25.8	87.9	151.1	139.3
EBITDA (\$mm) (old)	—	84.1	125.5	—

#### EPS (Adj.) Quarterly Estimates (C\$)

Year	2019A	2020E	2021E	2022E
Q1	0.04	(0.06)	0.11	—
Q2	(0.02)	(0.01)	0.12	—
Q3	(0.03)	0.08	0.12	—
Q4	(0.02)	0.11	0.15	—

#### Valuations

Year	2019A	2020E	2021E	2022E
EV/EBITDA	17.1x	5.0x	2.9x	3.2x
P/CFPS (f.d)	10.8x	3.4x	2.1x	2.3x
P/E (Adj.)	(50.3)x	12.6x	3.0x	3.2x

#### Supplemental Data

Year	2019A	2020E	2021E	2022E
Cu (US\$/lb)	2.72	2.79	3.50	3.35
Cu Prod. (mmlb)	54	56	67	70

Copper production is on an attributable basis.

All figures in C\$, unless otherwise specified

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## Details

**We expect global copper production and demand to contract by a similar amount in 2020 (~1.3%).** Despite the slight surpluses forecast for this year, prices are up almost 25% YTD, driven by a 40% y/y increase in Chinese refined imports, ahead of what we expect will be a pick-up in demand from the rest of the world in 2021.

We expect global demand to rebound in 2021 (+2.0% y/y), led by China, resulting in a supply deficit of ~330kt. With mine supply expected to grow in 2022 and 2023 as new mines enter production (Kamoa-Kakula, QB2, Quevallco, etc.), we expect that the copper market will rebalance in 2023 and 2024 before supply deficits re-emerge starting in 2024. As noted above, we have increased our long-term copper price to US\$3.15/lb (from US\$3.10/lb) for 2025 and beyond.

## Exhibit 1. Copper Supply/Demand Balances (USD pricing)

Global supply and demand balance	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
000 tonnes								
<b>World refined production</b>	<b>22,993</b>	<b>23,478</b>	<b>23,509</b>	<b>23,205</b>	<b>23,437</b>	<b>24,492</b>	<b>25,227</b>	<b>25,796</b>
% change year-over-year	1.1%	2.1%	0.1%	-1.3%	1.0%	4.5%	3.0%	2.3%
<b>World refined demand</b>	<b>23,062</b>	<b>23,604</b>	<b>23,609</b>	<b>23,305</b>	<b>23,771</b>	<b>24,484</b>	<b>25,219</b>	<b>25,911</b>
% change year-over-year	2.1%	2.4%	0.0%	-1.3%	2.0%	3.0%	3.0%	2.7%
<b>S/D balance</b>	<b>-69</b>	<b>-127</b>	<b>-100</b>	<b>-100</b>	<b>-334</b>	<b>8</b>	<b>8</b>	<b>-116</b>
S/D balance (prior)	-69	-127	-100	182	127	316	86	-116
<b>Copper price</b>	<b>2.79</b>	<b>2.97</b>	<b>2.72</b>	<b>2.79</b>	<b>3.50</b>	<b>3.35</b>	<b>3.20</b>	<b>3.10</b>
<b>Copper price (prior)</b>	<b>2.79</b>	<b>2.97</b>	<b>2.72</b>	<b>2.74</b>	<b>3.15</b>	<b>2.95</b>	<b>3.00</b>	<b>3.05</b>
% Change vs. Prior Price Forecast	n/a	n/a	n/a	1.8%	11.1%	13.6%	6.7%	1.6%

Source: Wood Mackenzie, TD Securities Inc. estimates

## Outlook

In addition to updating our estimates to reflect our higher copper price forecasts, we have also updated our estimates to reflect details from the company's technical report on the expansion of the Copper Mountain Mine (CMM).

The expansion plan at CMM includes the installation of a High-Pressure Grinding Roll circuit, a fourth ball mill, a regrind verti-mill, additional rougher/cleaner flotation circuit capacity, and electrical upgrades. Construction of the mill expansion is expected to be completed at the end of 2023 and commissioned at the beginning of 2024.

**New LOM plan has an after-tax 8%NPV of \$1.01bln and calls for average annual production of 106mmlbs Cu and 60koz Au over the first 10 years at C1 cash costs of US\$1.19/lb.** The C1 cash-cost figure assumes flat gold and silver prices of US\$1,700/oz and US\$22/oz, respectively, over a 21-year mine life. Total expansionary capital, which includes capital to increase the milling capacity to 45,000tpd next year (currently ~40ktpd) and integration of New Ingerbelle, is estimated to be US\$204mm.

We have updated our estimates for the CMM to reflect the expansion to 65,000tpd as our base case. We now model average annual production of 97mmlbs Cu and 48koz Au at C1 cash costs of US\$1.43/lb.

**Liquidity would be tight without additional debt or a re-profiling of its existing debt** — Over the first three years of the CMM expansion (2021–2023), capex is expected to total US\$232mm excluding deferred stripping. Based on our estimates, the company's Senior Credit Facility (US\$74.5mm outstanding) will need to be re-profiled or refinanced to maintain a positive cash position through the heavy capex spend. Copper Mountain has had a good track-record working with its lenders to re-profile its payments in the past; therefore, we are confident that the company can successfully address any potential liquidity issues with non-dilutive forms of financing.

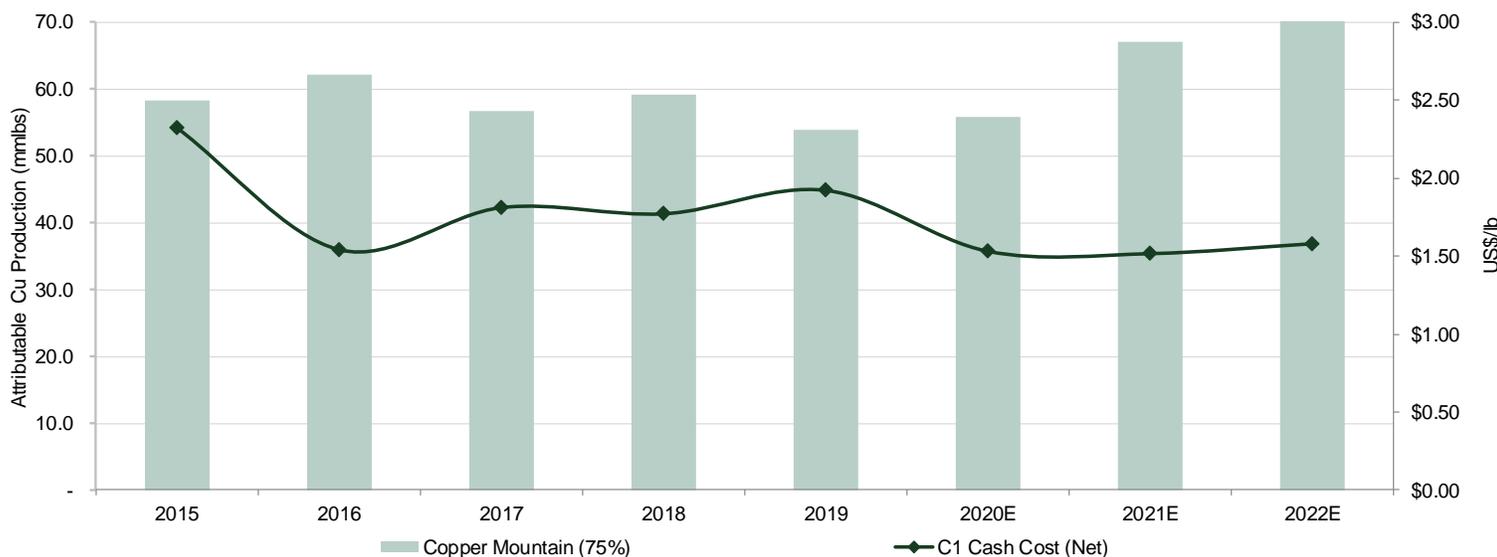
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**We model 2020 copper production of 74.4mmlbs at all-in cash costs of US\$2.04/lb.** The company recently lowered its 2020 guidance to US\$1.85–US\$2.00/lb while maintaining its 2020 copper production guidance at 70mmlbs–75mmlbs. Management expects Q4 production to be its best quarterly production for the year.

**Exhibit 2. Production Profile (attributable)**



Source: Company, TD Securities Inc.

### Valuation

Copper Mountain is currently trading at a P/NAV of 0.42x our 8%NAVPS estimate of \$3.58 (previously \$2.30). This compares with its small-cap peer-group average of 0.70x.

### Justification of Target Price

Our \$2.25 target price (up from \$1.45 previously) is based on an EV/2022E EBITDA multiple of 3.75x (60% weighting) and a 0.85x multiple to our mining NAV-8% (40% weighting). We have rolled forward the EV/EBITDA component of our target price valuation one year to 2022 and we have trimmed our multiple to 3.75x from 4.00x for attempted conservatism.

### Key Risks to Target Price

Key risks to our target price include financial, technical, political, and forecasting risks relating to deposit size. These include risks related to copper, gold, and fuel prices; debt levels/the potential for a covenant breach; the governing fiscal and legislative regimes; the timing of key developments; market conditions for concentrates; capital and operating costs; foreign exchange rates; resource estimates; operating parameters; permitting; environmental issues; indigenous people; and staffing and key personnel retention. Copper Mountain could face operational impacts across its platform due to COVID-19 restrictions. We are also lowering our risk rating to HIGH from Speculative. Given our forecasts for copper, we believe that the company will be in a much stronger position to manage its debt levels and execute on its growth strategy.

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### Exhibit 3. Company Snapshot

<b>Risk Profile:</b>		
<b>Stock Rating:</b>	<b>HIGH</b>	
<b>Target Price:</b>	<b>BUY</b>	
	<b>C\$2.25</b>	
<b>Target Price Calculator</b>		
<b>Mining NAV-8%</b>	Weighting	40%
0.85x	C\$/sh.	3.86
Less: Corporate Adjustments		
1.00x	C\$/sh.	-0.97
	C\$/sh.	2.90
<b>EV/EBITDA 2022</b>	Weighting	60%
3.75x	C\$/sh.	1.68
<b>Calculated Target Price</b>		<b>2.17</b>
<b>Rounded Target Price, CAD</b>		<b>2.25</b>

NAV Estimates	8% Discount		10% Discount	
	C\$m	C\$/sh.	C\$m	C\$/sh.
Copper Mountain (75%)	869.7	3.95	743.0	3.37
Eva Copper (10% Discount*)	131.1	0.60	131.1	0.60
New Ingerbelle (75%)	0.0	0.00	0.0	0.00
<b>Mining/Project NAV</b>	<b>1,000.8</b>	<b>4.55</b>	<b>874.0</b>	<b>3.97</b>
Working Capital	50.6	0.23	50.6	0.23
Attributable Long Term Debt	-123.6	-0.56	-123.6	-0.56
LT Liability Owing to Mitsubishi	-151.8	-0.69	-151.8	-0.69
In the Money Options and Warrants	11.7	0.05	11.7	0.05
Net Proceeds from Equity Offering	0.0	0.00	0.0	0.00
<b>Total Corporate Adjustments</b>	<b>-213.1</b>	<b>-0.97</b>	<b>-213.1</b>	<b>-0.97</b>
<b>Total NAV (C\$)</b>	<b>787.7</b>	<b>3.58</b>	<b>660.9</b>	<b>3.00</b>

\*50% probability of project being developed

Fiscal Yr-End: Dec	2018A	2019A	2020E	Q1/21E	Q2/21E	Q3/21E	Q4/21E	2021E	2022E
<b>C\$</b>									
<b>Metal Price Assumptions</b>									
Copper Price (US\$/lb)	\$2.97	\$2.72	\$2.79	\$3.45	\$3.55	\$3.45	\$3.55	\$3.50	\$3.35
Gold Price (US\$/oz)	\$1,268	\$1,393	\$1,788	\$2,100	\$2,100	\$2,100	\$2,100	\$2,100	\$2,000
Forex CAD/USD	0.78	0.75	0.74	0.76	0.76	0.76	0.76	0.76	0.76
<b>Production Assumptions</b>									
Average Mill Throughput, ktpd	39.8	40.1	39.9	40.5	41.0	41.0	44.0	41.6	45.0
Copper Grades, %	0.31	0.29	0.29	0.33	0.33	0.33	0.33	0.33	0.31
Cu Recovery, %	79.8	77.7	79.0	81.0	81.0	81.0	81.0	81.0	84.5
Copper Production, mmlb (100%)	78.8	72.0	74.4	21.5	22.0	22.2	23.9	89.5	93.6
Attributable Copper Production (mmlb)	59.1	54.0	55.8	16.1	16.5	16.7	17.9	67.2	70.2
Attributable Gold Production (koz's)	21.1	20.1	21.2	4.7	4.8	4.9	5.2	19.7	17.5
C1 Cash cost Net (US\$/lb Cu)	\$1.77	\$1.92	\$1.53	\$1.56	\$1.53	\$1.52	\$1.45	\$1.52	\$1.58
C1 Cash Cost + Sust. (US\$/lb Cu)	\$2.13	\$2.06	\$1.64	\$1.73	\$1.70	\$1.69	\$1.60	\$1.68	\$1.74
All-in Costs (inc. stockpiles) US\$/lb, Cu	n/a	n/a	\$2.04	\$1.94	\$1.91	\$1.89	\$1.80	\$1.88	\$2.51
<b>Per Share Estimates (\$/sh.)</b>									
Reported EPS to Shareholders	-\$0.13	-\$0.12	\$0.19	\$0.11	\$0.12	\$0.12	\$0.15	\$0.50	\$0.47
Adjusted EPS to Shareholders	-\$0.02	-\$0.03	\$0.12	\$0.11	\$0.12	\$0.12	\$0.15	\$0.50	\$0.47
CFPS bf WC (attributable)	\$0.25	\$0.14	\$0.44	\$0.16	\$0.18	\$0.17	\$0.20	\$0.72	\$0.66
<b>Financial Estimates (\$mm)</b>									
Mining Revenues	\$296.0	\$288.5	\$332.4	\$108.2	\$113.5	\$111.9	\$123.1	\$456.8	\$442.1
Operating Costs	\$219.7	\$235.9	\$209.4	\$58.6	\$59.3	\$59.6	\$61.7	\$239.3	\$240.4
Operating Margin	\$76.4	\$52.6	\$123.1	\$49.5	\$54.2	\$52.3	\$61.4	\$217.5	\$201.7
Operating Margin %	25.8%	18.2%	37.0%	45.8%	47.8%	46.8%	49.9%	47.6%	45.6%
Adjusted EBITDA, Shareholders	\$46.3	\$25.8	\$87.9	\$34.2	\$37.7	\$36.3	\$43.1	\$151.1	\$139.3
EBITDA, %	15.6%	8.9%	26.4%	31.6%	33.2%	32.4%	35.0%	33.1%	31.5%
Operating CF bf. ch. in WC	\$58.3	\$38.7	\$115.5	\$45.7	\$50.3	\$48.5	\$57.4	\$202.0	\$186.5
Working Capital Changes	(\$7.0)	\$12.5	(\$5.8)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>CF From Operating Activities</b>	<b>\$51.3</b>	<b>\$51.2</b>	<b>\$109.7</b>	<b>\$45.7</b>	<b>\$50.3</b>	<b>\$48.5</b>	<b>\$57.4</b>	<b>\$202.0</b>	<b>\$186.5</b>
Capex	(\$21.5)	(\$22.6)	(\$29.6)	(\$13.6)	(\$13.6)	(\$13.6)	(\$13.6)	(\$54.3)	(\$90.8)
Investments net	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other	\$5.9	(\$25.0)	(\$18.3)	(\$6.1)	(\$6.1)	(\$6.1)	(\$6.1)	(\$24.3)	(\$94.7)
<b>CF From Investing Activities</b>	<b>(\$15.7)</b>	<b>(\$47.6)</b>	<b>(\$47.9)</b>	<b>(\$19.7)</b>	<b>(\$19.7)</b>	<b>(\$19.7)</b>	<b>(\$19.7)</b>	<b>(\$78.7)</b>	<b>(\$185.5)</b>
Proceeds Debt	\$0.0	\$10.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Interest Paid	(\$12.1)	(\$13.7)	(\$11.2)	(\$3.6)	(\$3.4)	(\$3.3)	(\$3.1)	(\$13.4)	(\$8.0)
Proceeds Equity	\$0.2	\$2.3	\$16.9	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Pmts of Long Term Debt	(\$56.2)	(\$52.6)	(\$63.9)	(\$12.5)	(\$12.5)	(\$12.5)	(\$12.5)	(\$50.0)	(\$22.1)
Other	\$30.7	\$37.3	\$44.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>CF From Financing Activities</b>	<b>(\$37.4)</b>	<b>(\$16.3)</b>	<b>(\$13.7)</b>	<b>(\$16.1)</b>	<b>(\$15.9)</b>	<b>(\$15.8)</b>	<b>(\$15.6)</b>	<b>(\$63.4)</b>	<b>(\$30.1)</b>
Cash	\$46.1	\$32.1	\$81.0	\$91.0	\$105.7	\$118.8	\$140.9	\$140.9	\$111.8
Long Term Debt	\$229.0	\$188.1	\$164.7	\$152.2	\$139.7	\$127.2	\$114.7	\$114.7	\$97.7
Net Debt	\$235.8	\$216.3	\$133.7	\$111.2	\$84.0	\$58.5	\$23.8	\$23.8	\$30.9
Net Debt/EBITDA	3.8x	6.3x	2.9x	2.0x	1.6x	1.4x	1.1x	1.1x	1.3x
Net Debt/Net Debt + Equity	43%	44%	49%	45%	41%	37%	32%	32%	28%
Free Cash Flow (Attributable)	(\$1.9)	(\$13.2)	\$38.2	\$16.9	\$20.4	\$19.2	\$26.0	\$82.4	(\$5.3)
FCF/Share	(\$0.01)	(\$0.07)	\$0.20	\$0.08	\$0.10	\$0.09	\$0.13	\$0.40	(\$0.03)
Shares Outstanding (basic)	172.2	189.5	193.5	207.3	207.3	207.3	207.3	207.3	207.3

\* LT Commodity Price Assumptions (starting 2025): US\$3.15/lb Cu, US\$1,500/oz Au

Source: Company, TD Securities Inc.



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### TD Securities Equity Research Disclosures

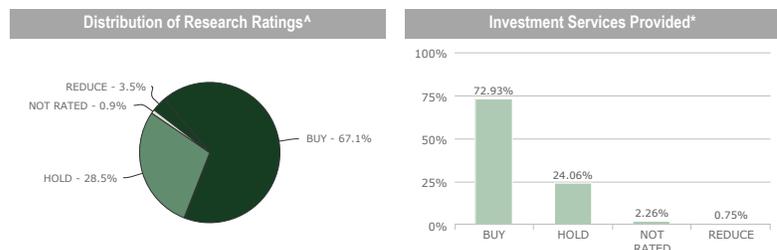
Company	Ticker	Disclosures
Copper Mountain Mining Corp.	CMMC-T	9

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Current as of: December 16, 2020

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<sup>\*</sup> Percentage of subject companies within each of the four categories (BUY, HOLD, REDUCE, and NOT RATED) for which TD Securities Inc. has provided investment banking services within the last 12 months.

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**SPECULATIVE BUY:** The stock's total return is expected to exceed a minimum of 30% over the next 12 months (with higher thresholds for less liquid securities); however, there is material event risk associated with the investment that could result in a significant loss.

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**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**SUSPENDED:** Due to evolving circumstances, we can no longer generate what we consider a defensible target price and rating at the current time.

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# Action Note

## Equity Research

December 16, 2020

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