Copper-bottomed investment

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London, April 2013
Main features

- 9th copper producer globally
- 1st silver producer globally
- 4th resource base in the world
- High quality products

Market profile

<table>
<thead>
<tr>
<th></th>
<th>KGH:PW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ticker (Bloomberg)</td>
<td>KGH:PW</td>
</tr>
<tr>
<td>52-week price range (PLN)</td>
<td>111.4 – 194.5</td>
</tr>
<tr>
<td>2012 dividend yield</td>
<td>24.2%</td>
</tr>
<tr>
<td>Market capitalization (USD bn)</td>
<td>12.1</td>
</tr>
<tr>
<td>Average daily traded value (USD mn)</td>
<td>40.6</td>
</tr>
<tr>
<td>Free float</td>
<td>68%</td>
</tr>
<tr>
<td>Share in WIG 20</td>
<td>14.3%</td>
</tr>
<tr>
<td>P/E 2012</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Shareholder structure

- State Treasury: 32%
- Other Diluted: 68%
- Free float: 68%
- Polish institutional investors: 23%
- Individual investors: 6%
- Foreign institutional investors: 39%

Forthcoming Events

- 2013 HY report: July 30, 2013
- Strategy update: Mid-2013
- New projects update: Mid-2013
Key drivers
- Robust pipeline of new projects (58% increase in production volume by 2017)
- Increasing operational efficiency (EBITDA margin increase from 35% in 2012 to 45% in 2017)
- Stable market conditions
- Sound financial position (USD 6.4bn Balance sheet headroom)

Holding period return

<table>
<thead>
<tr>
<th></th>
<th>End of 2013</th>
<th>End of 2014</th>
<th>End of 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUY</td>
<td>27%</td>
<td>39%</td>
<td>56%</td>
</tr>
</tbody>
</table>
**Limited risk of Quadra’s acquisition**

- Quadra’s experience in M&A
- Know-how regarding open pit mines
- Strong financial position of KGHM before acquisition
- Takeover price < NAV

- New projects in business-friendly countries
- Exhaustive due-diligence prior to acquisition
- Positive updates
- Strict monitoring
Business description

KGHM International

- Afton-Ajax
- Victoria
- Malmbjerg
- Weisswasser
- Sierra Gorda

KGHM projects

Company Overview  Industry & Competitors  Financial Analysis  Valuation  Risk Analysis  Conclusion
Business description

Specification

- High operational leverage - strong labour unions, underground mines conditions
- Revenues dependent on copper price and USD/PLN exchange rate – effective hedging strategies

Foreign operations contribution to EBITDA

![Graph showing foreign operations contribution to EBITDA from 2012E to 2017E. The graph indicates an increasing trend in contributions over the years.](chart.png)
Industry overview & competitive positioning
**Key copper market characteristics**

- High entry barriers
- Low product differentiation
- Lack of copper perfect substitutes
- Individual copper producer as price-taker
Industry overview

Copper surplus expected

- Base Case Mine Output
- Highly Probable Projects
- Probable Projects
- Possible Projects
- Demand For Mine Output

Source: Wood Mackenzie

Copper price decrease

- 2012 KGHM cash extraction cost

Source: World Bank Commodity Price Forecast

-15%
Industry overview

QE positive effects on copper and silver prices

<table>
<thead>
<tr>
<th></th>
<th>QE1*</th>
<th>QE2**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper</td>
<td>108%</td>
<td>20%</td>
</tr>
<tr>
<td>Silver</td>
<td>64%</td>
<td>81%</td>
</tr>
</tbody>
</table>


Source: World Bank Commodity Price Forecast

Copper price decrease

2012 KGHM cash extraction cost

-15%

Source: World Bank Commodity Price Forecast
KGHM vs. Competitors

Resource base after Quadra acquisition (mn t)

1. Codelco 93.2
2. Southern Copper 58.2
3. Freeport McMoRan 55.8
4. KGHM 37.5
5. BHP Billiton 35.2
6. Anglo American 31.6
7. Xstrata 18.1
8. Rio Tinto 17.0
9. RAO Norilsk 9.1
10. Antofagasta 8.9

Source: Company data
Financial Analysis
International expansion improves financial position

- CapEx will translate into production
- KGHM will significantly increase its pipeline
- Falling cash extraction cost will improve EBITDA margin

\[
\text{USD/PLN rate } = 3.30
\]
High debt capacity for possible further expansion

CFO breakdown 2013E

- CFOs will cover expenditures and high dividends
- The least indebted mining company among its peers
- Net debt/EBITDA at low levels
- Possible easy access to debt in case of new big projects/acquisitions

USD/PLN rate = 3.30
Attractive dividend policy, unique in copper sector

Dividend yields in period 2008-2012

- Estimated median dividend per share in period 2013E-2017E at level of PLN 16.91
- Estimated median payout ratio in period 2013E-2017E at level of 62%

Dividends per share and payout ratios of KGHM

- Estimated median dividend per share in period 2013E-2017E at level of PLN 16.91
- Estimated median payout ratio in period 2013E-2017E at level of 62%
Valuation
## Peer group selection criteria

- At least 75% of revenues derived from copper sales
- Total revenues of at least USD 5bn
- Copper sold produced primarily from own resources

<table>
<thead>
<tr>
<th>Multipliers</th>
<th>P/E</th>
<th>EV/EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward years</td>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td>Multipliers’ values</td>
<td>13.6</td>
<td>10.9</td>
</tr>
<tr>
<td>Weights for years</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Weights for multipliers</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
</table>

PLN 247.5
Peer group beta
- higher KGHM’s systematic risk

Mined copper production (kt)
- no organic growth in the past

Impact of the State Treasury

-50% Historical discount
Multipliers pricing

Diversification

USA
Canada
Poland

Growth in production (kt)

KGHM
KGHM Int.

P/E on selected exchanges

Impact of the State Treasury

-50% Historical discount

Company Overview
Industry & Competitors
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Valuation
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Multipliers pricing

International competitors
- Canada
- United Kingdom
- United States

Impact of the State Treasury
-20% Discount

Chemicals
Energy coal
Industrial metals

Oil
Banks
Insurance

Electricity

-50%
Historical discount

Company Overview  Industry & Competitors  Financial Analysis  Valuation  Risk Analysis  Conclusion
## Multipliers pricing

<table>
<thead>
<tr>
<th>Multipliers</th>
<th>P/E</th>
<th>EV/EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applied for years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted multipliers</td>
<td>2014</td>
<td>200%</td>
</tr>
<tr>
<td>Weights for years</td>
<td>110.25</td>
<td></td>
</tr>
<tr>
<td>50%</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>Weights for multipliers</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>Final price</td>
<td></td>
<td>PLN 192.1</td>
</tr>
</tbody>
</table>

-50% Historical discount

-50%

-25%

-20%

-25%

-20%

10.25

8.8

4.6

4.1

Adjusted multipliers

PLN 192.1
**DCF assumptions**

- Decrease in the main revenue drivers: copper and silver prices – according to World Bank forecasts

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cu price USD/t</td>
<td>7,962</td>
<td>7,800</td>
<td>7,400</td>
<td>7,000</td>
<td>6,900</td>
<td>6,800</td>
</tr>
<tr>
<td>Ag price USD/troz</td>
<td>31.14</td>
<td>31.00</td>
<td>29.50</td>
<td>28.00</td>
<td>27.68</td>
<td>26.50</td>
</tr>
<tr>
<td>USD/PLN</td>
<td>3.30</td>
<td>3.23</td>
<td>3.14</td>
<td>3.10</td>
<td>3.06</td>
<td>3.05</td>
</tr>
</tbody>
</table>

Source: World Bank Commodity Price Forecast, exchange rate EMIS database (based on analysts’ consensus)

- Introduction of Mineral Extraction Tax (MET) in 2012 increases COGS and effective tax rate

**MET effects**

**Changing WACC**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>residual value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk free rate</td>
<td>3.44%</td>
<td>3.44%</td>
</tr>
<tr>
<td>Beta</td>
<td>1.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Market risk premium</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Country risk premium</td>
<td>1.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Cost of debt</td>
<td>6.2%</td>
<td>6.2%</td>
</tr>
<tr>
<td>WACC</td>
<td>15.3%</td>
<td>11.5%</td>
</tr>
</tbody>
</table>
Target price

Year-end target price
Upside: 18.6%
Holding period return: 27%

DCF analysis 50%
Multiples analysis 50%

PLN 248
PLN 192

PLN 220
Risk Analysis
Main risks

<table>
<thead>
<tr>
<th>PROBABILITY</th>
<th>Market</th>
<th>Economic</th>
<th>Operational</th>
<th>Political</th>
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</thead>
<tbody>
<tr>
<td>high</td>
<td></td>
<td>Influence of the State Treasury</td>
<td>Fluctuations of Cu and Ag prices</td>
<td>FX risk</td>
</tr>
<tr>
<td>moderate</td>
<td>Changes in environmental policy</td>
<td>Cost inflation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>low</td>
<td>Strikes</td>
<td>Deterioration in the quality of ore</td>
<td>Delay in the growth projects</td>
<td>Drop in GDP growth rate</td>
</tr>
<tr>
<td></td>
<td>Poland entering the Euro Zone</td>
<td></td>
<td>Lack of extension of the mining concessions</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IMPACT</th>
<th>insignificant</th>
<th>moderate</th>
<th>severe</th>
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<tr>
<td>Influence of the State Treasury</td>
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<td></td>
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</tbody>
</table>
Main risks

State Treasury - influence on strategic decisions

- acquisitions
  limiting new acquisitions due to savings for high dividends
- investments
  shale gas, energy sector, atomic power plant – risky and highly capital consuming
- high dividend payout
  putting pressure on high dividends (as they can be a way to decrease fiscal deficit)

Shareholders structure

- State Treasury: 32%
- Minority investors: 68%

Dividend statistics

- average dividend payout ratio 2009-2017E: 60%
- average dividend per share 2009-2017E: PLN 16

Polish Fiscal Deficit based on 2013 Budget Act

- PLN 35bn deficit
Main risks

Reducing the impact of possible increase in energy, labour and extraction costs

- investments in energy sector (joint venture with Tauron)
- maintaining good relations with labour unions
- development of new cost-efficient technologies
- decreasing the average Group extraction cash cost (C1) after acquisition of Quadra

2012 Q3 expenses by nature

- Materials and energy: 49%
- Employee benefit expenses: 22%
- Taxes and charges: 13%
- Other: 16%

Employees in labour unions

- Members of labour unions: 89%
- Other: 11%

C1 extraction cash cost

- 2012: $3000/t
- 2018: $2400/t (-20%)

Influence of the State Treasury
- Fluctuations of Cu and Ag prices
- FX risk
- Costs inflation
Monte Carlo simulation

The main revenue drivers
- Copper & silver prices
- USD/PLN exchange rate

Monte Carlo summarizing statistics

<table>
<thead>
<tr>
<th>Statistical Measure</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>233.15</td>
</tr>
<tr>
<td>10th percentile</td>
<td>PLN 146.41</td>
</tr>
<tr>
<td>90th percentile</td>
<td>PLN 319.81</td>
</tr>
<tr>
<td>Upside potential</td>
<td>75%</td>
</tr>
</tbody>
</table>

Influence of the State Treasury
- Fluctuations of Cu and Ag prices
- FX risk
- Costs inflation
Conclusion
Conclusion

- Robust pipeline of new projects
- Increasing operational efficiency
- Stable copper price supported by macro factors
- Sound financial position

12 M Target price | Upside potential | 3Y HPR |
--- | --- | --- |
PLN 220 | 18.6% | 56% |

BUY
Thank you for your attention!