

Company: MMG Limited
Title: MMG Second Quarter Production Report
Date: 25/07/2023
Time: 11:00AM AEST

Start of Transcript

Operator: Thank you for standing by. Welcome to the MMG Limited second quarter production report. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you need to press the star key, followed by the number one on your telephone keypad. I would now like to hand the conference over to Jarod Esam, Head of Investor Relations. Please go ahead.

Jarod Esam: Hello, and welcome to MMG's quarterly production report teleconference. This report and today's discussion cover the operational performance of MMG sites for the second quarter of 2023. Joining us today are MMG Interim CEO, Mr Liangang Li, and CFO, Mr Ross Carroll, together with other ExCo members. I will now hand over to Liangang, who will discuss the highlights in the report before we provide an opportunity to ask questions.

Liangang Li: Thank you, Jarod. Good morning to everyone and welcome to MMG's 2023 Second Quarter Production Report teleconference.

As always, at MMG our first value is safety. Our Total Recordable Injury Frequency (TRIF) rate for the second quarter is 1.00 per million hours worked. This represents a decrease on the full-year 2022 TRIF of 1.25.

Let's now turn to our production performance for the second quarter of 2023. During the quarter, we produced approximately 93,000 tonnes of copper and 50,000 tonnes of zinc. We are pleased to report that we achieved increased production at each of our operations compared to the first quarter of 2023.

Las Bambas copper production in the second quarter was 81,000 tonnes, representing a 153% increase on the same period last year. After resuming mining activities in March, Las Bambas has remained at full capacity with uninterrupted operations.

During the quarter, various operational improvements, including optimisation of the third ball mill, have resulted in ore milled throughput reaching 13.6 million tonnes, the strongest quarter since 2019 and the second highest quarter in the operation's history.

In the second quarter, the State of Emergency implemented by the government of Peru and in place throughout the quarter, has allowed for stability along the Southern Corridor.

With the stability, Las Bambas concentrate transportation has remained uninterrupted since the removal of roadblocks in March. Pleasingly, we achieved record high sales of around 417,000 tonnes of copper concentrate in the second quarter, with around 43% of sales revenue contributed by draw-down of stockpiles.

The reduction in stockpiles for the first half of 2023 is around 70,000 tonnes of copper concentrate and when combined with movements in ore inventory, we expect an associated stock movement cost of around US\$157 million to be recognised in our interim accounts.

Now turning to an update on community dialogue. We resumed a formal dialogue process with the Fuerabamba community in April and discussions are progressing. MMG remains committed to working closely with the Government of Peru and community members with the aim of ensuring transparent and constructive dialogue.

Discussions with the Huancuire community were delayed due to the resignation of its president on the 12th of June. The community has elected a new community president on the 15th of June, and the appointment was registered at the Public Registry on the 6th of July. The Huancuire community has formed a new negotiating commission for the dialogue with Las Bambas, with the first meeting held on the 17th July.

Las Bambas is a significant contributor to the local, regional, and national economies in Peru. Our aim with these communities, together with others along the Southern Road Corridor, is to strengthen relationships and link the long-term sustainable

development of our host communities with that of Las Bambas. We are optimistic that more enduring agreements for the continued development of Las Bambas can be reached.

Now turning to the Las Bambas outlook for 2023. In line with prior guidance, we expect Las Bambas copper production to be in the range of two hundred and 265,000 tonnes and 305,000 tonnes, subject to continued supply, people and logistics access to the site. We are hopeful to be able to commence the development of the Chalcobamba deposit before the end of 2023.

Moving on to Kinsevere, in the first quarter, Kinsevere's copper cathode production decreased by 7% to around 11,000 tonnes compared to the same period in 2022. This was mainly due to lower ore milled throughput caused by unstable power supply from the national grid and a planned shutdown for the installation of the cobalt plant. However, a higher ore feed grade and improved recovery rate, resulting from an increased supply of higher-grade third-party ore, partly offset the lower milled throughput.

The Kinsevere team progressed preparatory work at Sokoroshe II pit in the second quarter. We expect that mined ore from Sokoroshe II will start to be transported to the Kinsevere main site in the second half of the year.

I am happy to report that the construction progress of our Kinsevere Expansion Project is on track. During the second quarter, we completed the majority of the structural and mechanical installation for the cobalt plant. Civil work continued for the construction of the concentrator and commenced for the roaster and acid plant.

We expect the first cobalt production in 2023 and the first copper cathode from sulphides in 2024. The Kinsevere expansion project is expected to extend the mine life to 2035 and take annual production up to 100,000 tonnes of copper equivalent production once we reach full ramp-up in 2025.

As per prior guidance, the expectation for copper production in 2023 remains between 40,000 and 48,000 tonnes. However, we expect C1 costs to increase to between US\$3.15–US\$3.35/lb from the prior guidance of between US\$2.50–US\$2.80/lb. This was driven by a lower than expected cobalt price, reduced ore milled volumes caused by unstable power supply, and increased reliance on third-party ore to offset the reduced oxide ore mined.

I will now move on to our Australian operations, Dugald River and Rosebery.

At Dugald River, we produced approximately 36,000 tonnes of zinc in the second quarter, which is a 12% decrease compared to the same period last year. The mine has been prioritising the safe ramp-up of operations since restarting in late March after a 34-day suspension due to a fatal incident in February, with full rates of mining and processing achieved in May.

The zinc production was also impacted by lower mining grades due to the mining sequence and work area accessibility. However, the processing team achieved a record high quarterly recovery rate of 90.9% by driving incremental improvements through various optimisation initiatives.

The safe and successful ramp-up of operations at Dugald River have allowed the mine's full-year production guidance to remain unchanged from the last revision, with an expected range of between 135,000 and 150,000 tonnes, and C1 cost is expected to be in the range of US\$1.05 – US\$1.20/lb.

At Rosebery, zinc production of approximately 13,000 tonnes and lead production of around 5,000 tonnes were 13% and 12% higher than in the same period last year, respectively.

During the second quarter, mined and milled volumes recovered from lost production time in the first quarter related to the bushfires. Workforce availability also improved, supporting more stable production.

Milled ore grades for both zinc and by-products were also higher, largely due to mining sequence and a higher contribution from remnant stopes.

In line with prior guidance, we expect Rosebery to produce between 55,000 and 65,000 tonnes of zinc in zinc concentrate in 2023. However, due to higher by-product grades and strong precious metals prices, C1 cost is expected to be at the lower end of prior guidance of US\$0.35 – US\$0.50/lb.

Thank you.

Operator: Thank you. If you wish to ask a question, please press star, one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star, two. If you're on a speaker phone, please pick up the handset to ask your question. Your first question comes from Lawrence Lau from BOCI. Please go ahead.

Lawrence Lau (BOCI, Analyst): Thank you for taking my question. I have, actually, two questions about Las Bambas. First of all, we have a very strong quarter for Las Bambas in terms of production. Now, I'd like to know that – if in case we cannot start development of Chalcobamba before the end of this year, what production will be for the full year? Can the strong performance continue in the next two quarters even without Chalcobamba? This is my first question.

Second, in the presentation, Mr Li talked about the extension of the State of Emergency on the southern corridor. It will expire next month so what will happen by then? Can the government continue to extend the State of Emergency without limit? Thank you.

Ross Carroll: Hi, Lawrence. It's Ross. Thanks for the questions. Firstly, with our production guidance and if there is no Chalcobamba and we're able to operate continuously for the rest of the year, we should be looking at total volume of around about 300,000 tonnes, but that's with no Chalcobamba. Obviously, it's a little bit hard to predict because we've got the impact of when Chalcobamba gets approved and also the fact of whether we get roadblocks or major sort of civil disturbances again. Basically, if we can produce uninterrupted for the rest of the year and with no Chalcobamba it should be around about 300,000 tonnes.

Then I think with the second question regarding the State of Emergency, yes, it's been renewed to the middle of August, and I think the Minister of Energy and Mines has come out and said openly that the government will continue to utilise the army and the police to protect the Haul road or keep the Haul road open. Obviously with all the social disruption earlier in the year, that had an effect not only on the individual companies, but also Peru as a whole so it certainly appears that the government is going to keep continuing supporting us and the other mining companies that are impacted. Does that answer both your questions?

Lawrence Lau (BOCI, Analyst): Yes. I think, largely. Thank you Ross.

Operator: Your next question comes from Chris Shiu from Balyasny Asset Management. Please go ahead.

Chris Shiu (Balyasny Asset Management, Analyst): Hi. Thank you very much. My question is regarding Chalcobamba. Your announcement's that you remain hopeful that the development can commence by the end of 2023, so how long will it take to come on stream, assuming that it can commence by the end of 2023, and how quickly will that be ramped-up to full capacity? Thank you.

Ross Carroll: Chris, with that it depends a little bit on the weather conditions. If it's in the wet season, it becomes more difficult because we have to put all the infrastructure – or continue building the infrastructure and finishing that. But then if it happens earlier in the year when it's still dry, we're able to sort of do pre-strip then, also the infrastructure construction together, or more in concert. The wet season sort of starts in November and goes through to about March, so if we happen to get the approval in the wet season, it would probably take us three months to prepare the mine or the pit for production and then we would start the pre-strip and then the mining after that. So, it depends on the season, but you're roughly looking at about three months of preparatory work.

Chris Shiu (Balyasny Asset Management, Analyst): How about the ramp-up to full capacity?

Ross Carroll: No, so the ramp-up to full capacity – that would take probably six to nine months before we'd be at full capacity.

Chris Shiu (Balyasny Asset Management, Analyst): Yes. Got it. Okay. Thank you very much.

Operator: Your next question comes from [Jimmy Feng] from Citi. Please go ahead.

Jimmy Feng (Citi, Analyst): Hi. Thanks for the presentation. I'm very happy to see the number of production of Las Bambas and the inventory decreasing. I have a few questions. The first question is regarding the inventory. We noticed in the end of first half, there is still large inventory in the Las Bambas. Do you have any guidance there – how many inventory will be reduced each month, assuming no more transportation disruptions in the Las Bambas mine at the current rate?

The second question is regarding the negotiation with Huanquire community. We note that the first meeting with the new president of the community was conducted recently, so what's the feedback? Is there any incoming key timelines for this negotiation and any target for the outcome? That's my question. Thanks.

Ross Carroll: Yes. Thanks, Jimmy. I might take question one and then let Troy Hey, who's our Head of Stakeholder Relations and Corporate Affairs, take question two. At the moment, our inventory's about 170,000 tonnes of concentrate at site, and that would – two things would impact how quickly inventory comes down. Firstly, how much we produce, and that depends on the grade. Then, obviously, how much – or how open the roads are. But sort of roughly speaking, it'd be 30,000 tonnes of concentrate, which is roughly – per month, which would be roughly sort of 10,000 tonnes of metal or a little bit under 10,000 tonnes of metal per month, would be the draw-down.

Troy Hey: Thanks, Jimmy. Troy here. Look, we're very optimistic with the discussion with Huanquire. The good things, I think, you can take from this is that we are meeting with the community. We meet again Tuesday, today, but there are also a number of informal meetings happening there – so we're able to access, we're talking, we have a schedule and an agreed – structures in terms of working groups and a schedule emerging ahead. While we don't have a particular date, I think we're growing in confidence with each meeting that we understand what issues we need to discuss, we have a clear program of meetings, and as I said, it would be absolutely fantastic to be able to get in and start work by the end of the year and nothing that we're seeing today says that we should be able to achieve that.

Jimmy Feng (Citi, Analyst): Okay. Got it. Very helpful. Thank you.

Operator: Your next question comes from Howard Lau from HSBC. Please go ahead.

Howard Lau (HSBC, Analyst): Thank you. Thank you for taking my questions. I've got a question regarding our unit costs of Las Bambas. I see that there's some increase of C1 costs this year compared to last year, so what's our expectation going forward with Chalcobamba development, and also without Chalcobamba development in terms of the unit costs? Thank you.

Ross Carroll: Howard, we're – so obviously don't have final numbers on this, but – so talking generally, if we're at that, sort of, 300,000 tonnes a year, I think you'll find the unit costs will stay relatively where they are. Then if we're able to bring Chalcobamba into production and get the higher grades, and therefore increase our production, I suspect you'd then see the costs come down to probably about – sort of a US\$1.30 to US\$1.50 range. But until we know exactly when we've got Chalcobamba, it's quite hard to predict. So, as said, if we stay at 300,000 tonnes you're probably looking at US\$1.70 to US\$1.90, but if we get up to 400,000 tonnes or close to 400,000 tonnes with Chalco, it should drop to in the range of US\$1.30 to US\$1.50.

Howard Lau (HSBC, Analyst): Okay. Got it. Thank you.

Operator: Your next question comes from Eun Young Lee with DBS.

Eun Young Lee (DBS Bank, Analyst): Hi. Thank you for the good production results. I have two questions. I'm just wondering how long is the operation possible in Las Bambas without the development of Chalcobamba? I'm just wondering with the current result in Las Bambas, so in case you can't succeed to develop the Chalcobamba pit, so what is your sustainability over the operation? That is my first question.

Second question – are you considering building an alternative transportation solution to resolve the problem with the community? I think that when you develop the Chalcobamba, you need to have more transportation method and then the way to ship the concentrate. The conflict with the local community is likely to continue, so if you are – I'm wondering if you consider any alternative transportation method to resolved this conflict entirely? That is all my questions.

Ross Carroll: Yes. Thank you, Eun Young. Firstly, if we don't get Chalcobamba, we would look at production being in that sort of 200,000 tonnes to 250,000 tonnes a year range over the – sort of the medium-term because as the grade drops in Fuerabamba, it'd be difficult for us to maintain it. So we'd sort of trend down towards that 250,000 tonnes to 200,000 tonnes a year mark, which is obviously not optimal and just notionally, this is a – sort of a 350,000 tonnes to 400,000 tonne mine so that's why Chalcobamba's so important to us.

Then as far as the alternate transport, the only real alternative is potentially building a slurry pipeline but the issue with that is it's not a short-term fix for us because to build the pipeline, we would need to get land access for the pipeline and then there's also the construction period and it'd be very hard to predict how long that would take. But I think as you can see with the approval timelines in Peru, it wouldn't be a short exercise.

Now, in regard to your question about the additional volume because of Chalcobamba, when Chalcobamba does come into production and we get a full year out of it, it will push us up to that 370,000 tonnes to 400,000 tonnes a year of production. Now, that's well within our means to transport and we have actually done that much transport or that much before so we do have enough capacity to include Chalcobamba when it comes into production but obviously that can still be subject to roadblocks.

Eun Young Lee (DBS Bank, Analyst): Thank you so much.

Ross Carroll: Thank you for your questions. Yes.

Operator: Once again, if you wish to ask a question, please press star, one on your telephone and wait for your name to be announced. We'll pause for a moment until participants register for a question. As there are no further questions at this time, I'd like to hand the conference back to Mr Liangang Li for his final remarks.

Liangang Li: Yes. Thank you, everybody, for your time, again. If you have any further questions, please feel free to catch up with our Investor Relations and Corporate Affairs teams. Thank you again. Goodbye.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may now disconnect.

End of Transcript