

Nexa Resources S.A. Announces 1Q20 Results and Provides Update in Response to Covid-19

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[Nexa Resources S.A.](#) (NYSE: NEXA) (TSX: NEXA) has published its 1Q20 Results.

CEO Message; Tito Martins

Protecting our employees and communities has always been a priority for Nexa. As part of our efforts to combat COVID-19, we implemented additional health and safety measures in all our operations on top of the protocols required by local authorities. We also have initiated a series of awareness campaigns with our employees, contractors and local communities.

The COVID-19 outbreak has had a negative effect on commodities prices and its impact on the global economy is still uncertain. Government restrictions focused on controlling the outbreak will continue to affect supply chains, prices and global demand.

While Nexa's mining and smelting operations in Brazil have been largely unaffected by the current pandemic, we have just resumed our Peruvian operations which were suspended in accordance with government edict on March 15. Assuming there are no additional required mining suspensions impacting production, we have adjusted our 2020 zinc production guidance downwards to 300-335kton, down 11% from our previous 2020 guidance. Smelting sales are also expected to decrease and the updated guidance range is 540-580kton, down 10% from our previous 2020 guidance.

In light of COVID-19 and in an effort to maintain strength in our balance sheet, 2020 capital expenditures have been reduced by 27% and are now estimated at US\$300 million. Also in response to this unprecedented scenario, we have suspended our greenfield project development and decreased exploration investments to US\$26 million. Further, we estimate corporate costs savings of US\$20 million related to bonus suspension, reduced travel expenses and third-party services, among other cost reduction measures.

Nexa did not experience any material disruption to metal sales in 1Q20. Operating cash generation, however, was adversely affected by lower metal prices and the government-mandated temporary suspension of our Peruvian mines, which will also impact 2Q20 results.

We strengthened our liquidity position to navigate these adverse conditions and, although we have increased our leverage, our current cash balance totals approximately US\$1 billion. Our balance sheet remains solid and we will continue monitoring market developments, taking the necessary measures to protect our people and ensure the continuity of our business. If market conditions change we will reassess our guidance.

Highlights

- Consolidated net revenue reached US\$442 million in the first quarter compared with US\$570 million a year ago driven by lower LME prices.
- Zinc production of 77kt was 14% lower than in 1Q19 mainly explained by the temporary suspension of our Peruvian mines in mid-March in response to the measures announced by the Peruvian government to control the COVID-19 outbreak.
- In 1Q20, metal sales were 145kt, relatively flat year-over-year.
- Adjusted EBITDA was US\$44 million in 1Q20 compared with US\$108 million in 1Q19 and US\$65 million in 4Q19.

- Mining cash cost in 1Q20 was US\$0.52/lb compared with US\$0.40/lb in 1Q19 and US\$0.41/lb in 4Q19 due to lower production, lower by-products credits and higher TCs.
- In 1Q20, smelting cash cost was US\$0.80/lb, down 30% and 10% compared to 1Q19 and 4Q19, respectively, due to lower concentrate costs.
- Nexa recognized a non-cash US\$485 million pre-tax impairment loss mainly related to Cerro Pasco cash generating unit and goodwill in Mining Peru segment primarily driven by a decrease in short-term LME zinc prices.
- Net debt to adjusted EBITDA for the last twelve months stood at 3.3x.
- Nexa declared in February and paid in March a cash dividend of US\$0.38 per common share to its shareholders for a total payment of approximately US\$50 million.
- Liquidity remains strong. Cash and cash equivalents amounted to US\$675 million at March 31, 2020 and our available liquidity increased to US\$1,019 million in April, which includes the drawdown under our revolving credit facility and a new export line entered into post 1Q20.
- Net loss totaled US\$612 million, US\$3.94 per share, in 1Q20.
- In April, S&P Global rating affirmed **BB+** rating on Nexa and changed the outlook from **positive**; to **stable**; Moodys also affirmed Nexa **Ba2** rating and changed the outlook from **stable**; to **negative**; The change reflects the expectation of a weaker zinc market due to COVID-19.
- In March 2020, Nexa filed its updated 2019 Mining Report. Mineral reserves estimates reached 3,992kt contained zinc (including the Aripuanã project).

Operational efficiency initiatives program | Nexa Way

- The program generated a net gain of US\$21 million in 1Q20.
- The Nexa Way program continues to progress and is currently at a lower-than-expected pace due to the additional health and safety measures adopted to control the COVID-19 outbreak in all our operations.
- Based on the initiatives implemented in 2019, we continue to target an improvement of at least US\$120 million in annualized EBITDA throughout 2020 and 2021. Our ability to achieve this target until 2021 depends on future metal prices, production and demand recovery, among others.

Guidance

- 2020 guidance is highly dependent on how the measures adopted to control the COVID-19 outbreak continue evolving and the time it will take for the global economy to recover. We are issuing updated 2020 guidance and we will continue to review our 2020 estimates due to the heightened uncertainty around the duration and severity of the COVID-19 disease and its effects on the global economy.
- 2021-2022 guidance remains suspended.
- 2020 zinc production guidance has been revised to 300-335kton, down 11% from our previous guidance. Smelting sales are expected to be between 540-580kton lower by 10% compared with 615-635kt in previous guidance.
- The estimated CAPEX for 2020 is reduced to US\$300 million from US\$410 million.
- In response to the COVID-19 outbreak, we have also temporarily suspended our investments in greenfield project development and we are reducing exploration expenses.

Projects

- In March 2020, Nexa published the preliminary economic assessment (**PEA**) of the Hilarión project. The average annual metal production was estimated at 115kt of zinc, 2.6Moz of silver and 20kt of lead, which represents approximately 150kt of zinc equivalent.
- Magistral engineering studies (FEL3) advanced as planned in 1Q20. Future progress may be delayed due to COVID-19 related measures.
- In light of the current macroeconomic environment, the conversion to Jarosite process remains suspended and we have recorded a non-cash US\$38 million pre-tax impairment loss in respect of this project included in the 1Q20 impairment.
- The Vazante mine-deepening brownfield project continues as planned and the investment amounted US\$4 million in the quarter.

Aripuanã

- Nexa has been working on a new rebaseline for the project.
- Production is now scheduled to start in the third quarter of 2021 and contemplates the delays we faced (i.e. weather conditions, logistics issues) and the ongoing impact of COVID-19.

- We anticipate we may have an estimated CAPEX increase of 10 to 25% versus the US\$392 million set out in the Aripuanã feasibility study, which is expected to be partially offset by some FX gain. In 2020, we expect to invest approximately US\$202 million.
- In 1Q20, construction works continued to advance and physical progress reached 39%.

For full details, please visit our Investor Relations webpage at: <http://ir.nexaresources.com/resultscenter>

About Nexa Resources

Nexa is a large-scale, low-cost integrated zinc producer with over 60 years of experience developing and operating mining and smelting assets in Latin America. Nexa currently owns and operates five long-life underground mines - three located in the Central Andes of Peru and two located in the state of Minas Gerais in Brazil - and is developing the Aripuanã Project as its sixth underground mine in Mato Grosso, Brazil. Nexa was among the top five producers of mined zinc globally in 2019 and also one of the top five metallic zinc producers worldwide in 2019, according to Wood Mackenzie.

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