

# Nexa Reports Third Quarter 2020 Results and Adjusted EBITDA of US\$152 Million

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[Nexa Resources S.A.](#) (NYSE: NEXA) (TSX : NEXA) has published its 3Q20 Results.

CEO Message | Tito Martins

The COVID-19 outbreak remains a concern. In recent weeks, some regions have started to see an increase in the number of cases, which could result in additional restrictions from local governments to combat the spread of the virus. Governments and businesses around the world are still learning how to adapt to this new reality without jeopardizing the recovery of the global economy.

The health and safety of our employees, third-party contractors and our host communities continues to be our highest priority. International benchmark procedures to mitigate the spread of COVID-19 remain in place throughout all of our operations and projects.

We have delivered a strong quarter despite this challenging environment. Our team's commitment, together with the business continuity measures that have been adopted since the beginning of the pandemic, coupled with the Nexa Way continuous improvement program have enabled us to achieve such performance.

In Peru, mining operations gradually ramped up during the quarter, following government-mandated closures, and are operating at normal levels. In Brazil, we recorded another solid quarter. Nexa's smelters have also been operating at normal capacity utilization rates.

In terms of our project pipeline, we have recently provided an update on the Aripuanã project. The project is progressing according to the updated plan and we have undertaken different actions to mitigate further risk, such as complete the acquisition of all the critical equipment with about 70% of this equipment already on the site. The operational readiness team has been mobilized to the site.

We have also updated our capital allocation strategy and project pipeline timeline has also been revised in light of the current circumstances and our commitment to delivering growth with capital discipline. We remain optimistic about the long-term prospects for zinc and copper, and after Aripuanã starts to generate cash we intend to have a further investment discussion on the Magistral project, which as of today is the most advanced project in our pipeline.

Our balance sheet remains solid and we have proactively adopted measures to continue to strengthen our business and protect our people, contractors and host communities. Nexa has a unique portfolio of assets in Latin America and we believe we are on the right path to building the mining of the future.

Highlights:

- Consolidated net revenue reached US\$538 million in the third quarter compared with US\$564 million a year ago driven by lower volumes and average price. In 9M20, net revenue was US\$1,316 million compared to US\$1,747 million a year ago.

- Zinc production of 82kt in 3Q20 was 16% lower than in 3Q19 mainly explained by the gradual ramp up of our Peruvian mines during the quarter, which resumed operations in the second quarter after the temporary suspension required by the Peruvian government to control the COVID-19 outbreak. Compared to 2Q20, zinc production increased by 31%. Total zinc and zinc equivalent production for 9M20 was 221kt and 326kt, respectively.
- Following the end of the quarantine period in Peru and the recovery in demand, the capacity utilization rates of our smelters have improved and total metal production was 154kt in 3Q20, up 21% from 2Q20. Compared to 3Q19, production was slightly down (1.4%) and totaled 427kt for 9M20.
- In 3Q20, metal sales were 158kt, up 0.1% year-over-year and 32% from 2Q20, as demand has started to recover following the lifting of regional and global governments restrictions and totaled 424kt for 9M20.
- Adjusted EBITDA was US\$152 million in 3Q20 compared with US\$58 million in 3Q19 and US\$40 million in 2Q20 with Adjusted EBITDA for the nine months ended September 30, 2020 totalling US\$236 million.
- Mining cash cost in 3Q20 was US\$0.33/lb compared with US\$0.42/lb in 3Q19 mainly driven by the temporary decrease in operating costs and the increase in by-products credits. Compared to 2Q20, mining cash cost decreased by 7%.
- In 3Q20, smelting cash cost was US\$0.79/lb, down 20% from 3Q19 due to higher TCs and lower LME prices. Compared to 2Q20, smelting cash cost increased by 13%.
- Incremental costs related to COVID-19 amounted to US\$5.0 million in 3Q20, which were partially offset by other costs savings.
- Nexa also recognized a non-cash US\$65 million pre-tax impairment loss in 3Q20 primarily related to the Cerro Pasco cash generating unit and the Jarosite conversion project.
- Net loss totaled US\$35 million, a US\$0.22 loss per share, including the impairment loss effect of US\$49 million (net of taxes) in 3Q20.
- Net debt to Adjusted EBITDA for the last twelve months reversed its upward trend and stood at 3.23x, reflecting the improvement in the results of our operations and cash generation.
- Liquidity remains strong. Total cash amounted to US\$985 million at September 30, 2020 and our current available liquidity is US\$1,285 million, including the revolving credit facility.
- Operational efficiency initiatives program | Nexa Way
- The Nexa Way program generated an estimated positive impact to EBITDA of US\$24 million in 3Q20 and US\$67 million in 9M20.
- The Nexa Way program continues to progress and based on the initiatives implemented in 2019, we continue to target an increase of at least US\$120 million in annualized EBITDA by the end of 2021.
- In light of the COVID-19 outbreak, new initiatives have emerged and are being evaluated. In 3Q20, some of these additional initiatives have been implemented at a cost included in our SG&A of US\$7.7 million.
- We expect additional initiatives to be implemented in the next three quarters at an estimated cost of US\$12 to 27 million, temporarily increasing selling, general and administrative expenses (&#8220;SG&A&#8221;), which should generate a potential additional EBITDA contribution of approximately US\$100 million.
- Our ability to achieve this target through 2021 depends on future metal prices, production and demand recovery, among other factors.

## Guidance

- We maintain our 2020 production guidance for zinc of 300-335kt and lead of 33-38kt. We have reduced our copper guidance range by 4kt to between 26-29kt in light of the gradual ramp up of our mining operations in Peru in 3Q20, which was limited by workforce constraints due to COVID-19 related-measures. We have increased our silver range from 6,072-6,761koz to 6,256-6,761koz.
- We are updating our mining cash cost guidance from US\$0.59/lb to US\$0.45/lb.
- 2020 sales guidance of 540-580kt remains unchanged.
- Smelting cash cost guidance has been updated from US\$0.74/lb to US\$0.78/lb.
- We are also updating our 2021-2022 production and sales guidance that had previously been suspended.
- 2020 CAPEX guidance has been revised to US\$350 million versus US\$300 million due to the updated expenditures for the Aripuanã project and increase in sustaining investments, as operations have resumed to normal utilization rates.
- Other operating investments, including mineral exploration (US\$20 million) and project development (US\$12 million), have been revised downwards from US\$68 million to US\$50 million.
- Guidance is subject to the continuous evaluation of several factors, including the impact of COVID-19 on our operations, supply chain and demand for our products.
- Refer to our &#8220;Nexa | Guidance&#8221; section for further details.

## Projects

- As a result of COVID-19 related-measures and our commitment to capital discipline, Nexa has revised its project portfolio and timeline.
- Magistral engineering studies (FEL3) continue to advance and are expected to be completed in the first half of next year. In 2021, we also expect to advance further optimization opportunities analysis before moving forward with project execution, which is subject to all governance approvals throughout the process.
- The Vazante mine-deepening brownfield project continues as planned and the investment amounted to US\$1.8 million in the quarter out of the expected CAPEX of US\$13 million for the year; of that total amount, US\$9.8 million has been invested as of September 30, 2020.
- Exploration activities at the Bonsucesso project have been resumed and engineering studies are expected to restart in 2021. Bonsucesso is expected to extend the life of mine of Morro Agudo and to use the existing infrastructure and mine facilities of the complex.
- Exploration activities at the Hilarión project have also restarted at the end of 3Q20 and we plan to complete 4,550 meters of exploratory drilling.
- Shalipayco, Pukaqaqa and Caçapava projects remain on hold.

#### Aripuanã:

- On October 06, Nexa published an update on the Aripuanã project and we expect to publicly file an updated technical report in November 2020.
- Based on current Mineral Reserves, zinc equivalent production is estimated at 119kt per year for approximately 11 years. The Inferred Mineral Resources contains 2,515kt of zinc equivalent.
- The total estimated CAPEX has escalated to US\$547 million, compared to the US\$392 million set out in the Aripuanã feasibility study published in 2018, based on a detailed review and update of the project. Estimated CAPEX for 2020 is now US\$193 million (as compared to our previous estimate of US\$172 million).
- Mechanical completion is expected in 4Q21 and production is scheduled to start in early 2022.
- Aripuanã is estimated to generate an after-tax net present value (&#8220;NPV&#8221;) of US\$27 million (at a discount rate of 9%, real terms) over the 11-year life-of-mine.
- The Aripuanã project is currently positioned on the second quartile of the zinc normal cost curve based on Wood Mackenzie&#8217;s methodology, with C1 zinc five-year average cash cost estimated at US\$0.12/lb net of by-product credits.
- Refer to our &#8220;Aripuanã project&#8221; section for further details.

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

E-mail: [ir@nexaresources.com](mailto:ir@nexaresources.com)

#### 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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#### Contact

Nexa Resources - Investor Relations  
Roberta Varella  
[ir@nexaresources.com](mailto:ir@nexaresources.com)

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