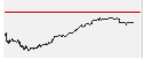
HUDBAY MINERALS INC. (HBM)

Diferido Toronto Stock Exchange - 20:25:59 09/05/2023

6.930 CAD **-2.39%**



18:01	Hudbay Minerals Inc. : BMO Capital reitera su recomendación de compra	MM
18:01	Hudbay Minerals Inc. : Credit Suisse mantiene su recomendación de compra	MM
16:58	RBC Capital Markets espera una reacción neutral de las acciones de Hudbay tras lo…	MT

Transcript : Hudbay Minerals Inc., Q1 2023 Earnings Call, May 09, 2023

09/05/2023 | 14:30

Presentation Operator Message

Operator (Operator)

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Hudbay Minerals Inc. First Quarter 2023 Results Conference Call. [Operator Instructions] I would like to remind everyone that this conference call is being recorded today, May 9, 2023, at 8:30 a.m. Eastern Time.

I will now turn the conference over to Candace Brule, Vice President, Investor Relations. Please go ahead.

Presenter Speech

Candace Brule (Executives)

Thank you, operator. Good morning, and welcome to Hudbay's 2023 First Quarter Results Conference Call. Hudbay's financial results were issued yesterday and are available on our website at www.hudbay.com. A corresponding PowerPoint presentation is available on the Investor Events section of our website, and we encourage you to refer to it during this call. Our presenter today is Peter Kukielski, Hudbay's President and Chief Executive Officer. Accompanying Peter for the Q&A portion of the call will be Eugene Lei, our Chief Financial Officer; and Andre Lauzon, our Chief Operating Officer.

Please note that comments made on today's call may contain forward-looking information, and this information, by its nature, is subject to risks and uncertainties, and as such, actual results may differ materially from the views expressed today. For further information on these risks and uncertainties, please consult comes relevant filings on SEDAR and EDGAR. These documents are also available on our website. As a reminder, all amounts discussed on today's call are in U.S. dollars unless otherwise noted.

And now I'll pass the call over to Peter Kukielski.

Presenter Speech

Peter Gerald Kukielski (Executives)

Thank you, Candace. Good morning, everyone, and thank you for joining us. In today's presentation, I'll discuss our first quarter results, touch on the operating and financial performance of the business and provide some insight into recent strategic initiatives and corporate achievements. As I've said before, I truly believe one of Hudbay's greatest strength is our disproportionately talented team for a company of our size. To complement this team, we brought in Warren Flannery as Vice President, Business Planning and Reclamation.

His experience will be a welcome addition to our organization to enhance our capital planning and operation strategy as well as reclamation and management of nonproducing facilities. In the quarter, we promoted Javier del Rio to Senior Vice President, South America and U.S.A. and Olivier Tavchandjian to Senior Vice President, Exploration and Technical Services. These team members will be instrumental in continuing to drive our strategic initiatives. In the first quarter, we took some meaningful

Información financiera USD

Ventas 2023	1 675 M	Capitalización	1 393 M
Resultado Neto 2023	197 M	VE / Ventas 2023	1,36x
Deuda neta 2023	880 M	VE / Ventas 2024	1,02x
P/E ratio 2023	6,48x	Nro. de Empleados	2 242
Rendimiento 2023	0,35%	Flotante	99,8%

» Ver más Información financiera

Gráfico HUDBAY MINERALS INC.

Duración : Auto. Período : Día

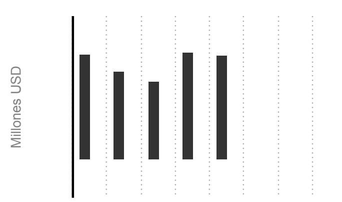
» Gráfico en pantalla completa

Tendencias en análisis técnico HUDBAY MINERALS …

	Corto plazo	Mediano plazo	Largo plazo
Tendencias	Neutral	Neutral	Al alza

» Análisis técnico

Evolución de la cuenta de resultados



» Ver más Información financiera

Consenso

Venta ▲ Compra

Recomendación promedio	ACUMULAR
Numero de análisis	15
Último precio de cierre	5,32 $
Precio objetivo promedio	7,51 $

munities while improving our low carbon footprint.

The team successfully navigated the recent Peru logistical interruptions to achieve a very strong start towards meeting our full-year operating and cost guidance at Constancia, and we are executing debottlenecking initiatives to increase the output from our Lalor mine in Snow Lake. We took several prudent measures this quarter to improve our free cash flow for 2023, and we remain focused on being disciplined with capital allocation as we continue to derisk our Copper World project in Arizona. We also see an opportunity to diversify our operating portfolio and expand our copper production scale with the recently announced agreement to combine with Copper Mountain in British Columbia, which is expected to close in late June. We are well positioned to deliver sustainable cash flow from our operating portfolio as well as to drive organic growth through advancing our leading organic copper pipeline.

Moving to the first quarter results on Slide 3. First quarter consolidated production was in line with our expectations and is on track for stronger production levels in the second half of 2023. Consequently, we are reaffirming our 2023 production guidance for all metals. Consolidated copper production was 23,000 tonnes, a decrease compared to the fourth quarter primarily due to lower copper grades in Peru as planned. Consolidated gold production was 47,000 ounces, a decrease primarily due to lower gold grades in Peru, partially offset by higher throughput and gold recoveries in Snow Lake.

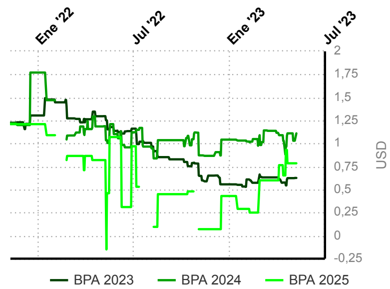
Consolidated zinc production was approximately 10,000 tonnes higher than the fourth quarter, primarily due to improved zinc grades and throughput in Snow Lake. Consolidated copper cash costs improved to $0.85 per pound from $1.08 in the prior quarter, primarily as a result of lower mining and freight costs and higher byproduct credits, partially offset by lower copper production. Similarly, copper sustaining cash costs declined to $1.83 per pound, a decrease from the fourth quarter due to lower sustaining capital expenditures and capitalized exploration. Both measures are anticipated to continue to decline in future quarters with higher production and precious metal byproducts, and we reaffirm our 2023 consolidated cash costs and sustaining cash cost guidance.

First quarter operating cash flow before changes in nonworking capital was $86 million and adjusted EBITDA was $102 million. This was a decline from the fourth quarter as a result of lower copper and zinc sales volumes, partially offset by higher realized prices. With a focus on generating positive cash flow and strong returns on invested capital in 2023, we are committed to deleveraging and disciplined capital allocation. This is demonstrated through several prudent measures we took this quarter to improve cash flow.

First, our Peru time reduced concentrate inventory levels at site well ahead of schedule, which helped to improve operating cash flow during the quarter. Second, in an effort to ensure we receive full exposure to the strong gold prices, we amended our gold forward sale and prepay agreements to defer 8 months of delivery starting with February 2023 into 2024. This is expected to increase our 2023 cash position by approximately $53 million to support our continued focus on reducing net debt. Third, as an additional prudent measure to ensure free cash flow generation and financial discipline, we extended our existing quotational period hedging program for approximately 8,000 tonnes of contained copper in the previously unsold concentrate inventory in Peru to lock in prevailing copper prices. We also entered into a zero-cost collar program in April for approximately 10% of copper production expected in the second half of 2023. The program establishes a floor price of $3.95 per pound and upside to $4.28 per pound. And lastly, we are on track to deliver our discretionary spending reduction targets by reducing growth capital and exploration spending by $65 million in 2023 compared to 2022. At the end of the first quarter, our liquidity include $256 million in cash and $355 million in undrawn availability under our revolving credit facilities.

Moving to Slide 4 to summarize our Peru operating results. During the first quarter, Constancia produced 21,000 tonnes of copper, 11,000 ounces of gold and 552,000 ounces of silver. Production levels were lower than in the fourth quarter of 2022 due to lower grades from the processing of stockpiles. This was anticipated as part of our mitigation efforts during a period of logistical interruptions from Peru Civil unrest in early

Revisiones del BPA



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Directivos y Administradores

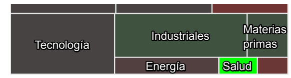
Peter G. J. Kukielski	President, Chief Executive Officer & Director
Eugene Chi Yen Lei	Chief Financial Officer
Stephen A. Lang	Chairman
Olivier Tavchandjian	Vice President-Exploration & Technical Services
Andre Taylor Lauzon	Chief Operating Officer & Senior Vice President

» Más información sobre la empresa

Sector y competencia

	Var. 1Ene	Capi. (M$)
HUDBAY MINERALS INC.	3.80%	1 393
FIRST QUANTUM MINERALS ...	28.10%	18 620
ANTOFAGASTA PLC	-4.92%	18 299
SOCIEDAD MINERA CERRO ...	-1.01%	10 327
JIANGXI COPPER COMPANY ...	26.22%	8 816
KGHM POLSKA MIED? S.A.	-3.67%	5 901

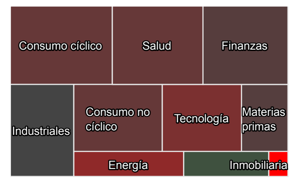
» Más resultados



» Más rankings

Rankings Stoxx Europe 600

GRIFOLS, S.A.	+9.36%
FRESENIUS SE & CO. K...	+8.73%
BANCO BPM S.P.A.	+7.55%
ORKLA ASA	+7.47%
BACHEM HOLDING AG	+5.32%
FASTIGHETS AB BALDE...	-6.78%
GENUS PLC	-7.21%
CARL ZEISS MEDITEC AG	-8.79%
VICTREX PLC	-9.62%
SAMHÄLLSBYGGNADSB...	-24.20%



» Más rankings

Divisas / Forex

EUR / USD	1.0969	-0.24%
EUR / GBP	0.8687	-0.36%
EUR / CHF	0.9761	-0.25%
EUR / RUB	85.1450	-0.37%
EUR / SEK	11.1754	-0.07%
EUR / NOK	11.5781	+0.23%
EUR / DKK	7.4442	-0.03%
EUR / CAD	1.4674	-0.20%
EUR / AUD	1.6214	-0.01%
EUR / CNY	7.5834	-0.24%
EUR / HKD	8.6016	-0.33%
EUR / SGD	1.4557	-0.06%
EUR / JPY	148.2555	-0.19%

» Divisas y Forex

Materias primas

ORO	2036.32	+0.75%
PETRÓLEO WTI	73.57	+0.95%
PETRÓLEO BRENT	77.34	+0.82%
PLATA	25.66	+0.46%
PLATINO	1103.00	+2.60%

» Materias Primas

Criptomonedas

The teams continue to operate safely and with the support from our local communities. Transportation logistics have normalized since mid-February, and we have significantly reduced concentrate inventory buildup at the mine. All mine from Pampacancha in the first quarter was 897,000 tons at record-high grades of 0.49% copper and 0.52 grams per tonne gold. Despite this achievement, total ore mined in the first quarter was lower than the prior quarter due to processing of stockpiles in order to conserve fuel during the civil unrest period. The logistical risk mitigation plans implemented during the first quarter, together with strong continued support from the local communities, enabled our plants to continue to operate uninterrupted at full capacity, supplemented with approximately 3.9 million tonnes of stockpile ore.

Recoveries of all metals during the first quarter were lower than the fourth quarter due to higher levels of impurities in stockpile ore. Full mining activities resumed in the Pampacancha pit in February and the planned period of higher stripping from March to June is progressing well with mining of higher-grade ore now expected to commence late in the second quarter, slightly ahead of the original schedule. We are on track to achieve full-year 2023 Peru production guidance with expected production to be higher in the second half of the year following the period of higher stripping activities in the Pampacancha Pit in the second quarter. Unit operating costs in the first quarter was 16% lower than the fourth quarter, primarily due to lower mining costs. Peru's cash costs for the first quarter were relatively unchanged from the prior quarter at $1.36 per pound. Cash costs are expected to decline to be within the 2023 guidance range with higher expected copper production and contributions from precious metal byproduct credits later this year. Sustaining cash costs were also relatively in line with the fourth quarter at $2.12 per pound as lower mining costs and capitalized exploration were offset by lower copper production.

Moving to the next slide on Manitoba. Production at our Snow Lake operations included 36,000 ounces of gold, roughly 10,000 tonnes of zinc, 2,000 tonnes of copper and 151,000 ounces of silver. Production of gold, zinc and silver were higher than in the fourth quarter with higher throughput and higher grades. Copper production was lower than the prior quarter due to lower head grades with the completion of a number of key initiatives aimed to support higher production levels at Lalor, improved metal recoveries at the mills and prioritization of mining higher gold grade zones at Lalor throughput the year. Full-year Manitoba production of all metals remains on track to achieve guidance ranges for 2023.

All-minded Lalor was slightly higher than the prior quarter despite being impacted by stope fragmentation issues that created delays at the rock breaker and low stope availability in March. We implemented changes to improve stope fragmentation and stope availability, which, together with the many production optimization initiatives underway at Lalor resulted in Lalor achieving higher production levels of 4,800 tonnes per day late in the first quarter and throughout April. The Manitoba team continues to advance key initiatives to support higher production levels and improved metal recoveries and have made significant progress in building long-holding inventory, optimizing the development drift size and focusing on shaft availability improvements while minimizing inefficient trucking via the ramp.

The first phase of The Stall mill recovery project, consisting of new cyclone packs, state-of-the-art Amazon sells in the copper and zinc circuits and process control improvements is on track for commissioning in May with ramp-up to higher metal recoveries by mid-2023. The Stall mill processed 19% more ore in the first quarter compared to last quarter. The New Britannia mill continued to achieve consistent production above its nameplate capacity, averaging approximately 1,590 tonnes per day. We continue to advance New Britannia improvements focused on reducing reagents and grinding media consumption. These initiatives entail minimal capital outlays, while further improving overall metal recoveries and copper concentrate grades. Combined unit operating costs in the first quarter decreased by 10% compared to the fourth quarter as a result of higher throughput arising from our production efficiency initiatives. Manitoba's gold cash costs were $938 per ounce, slightly higher than in the fourth quarter due to lower by-product credits and higher G&A, partly offset by higher gold production. Full-year cash costs are expected to decline to be within the 2023 guidance range with increa-

On April 13, we entered into an agreement to acquire all of the issued and outstanding common shares of Copper Mountain Mining Corporation to create a premier Americas-focused copper mining company. The combined company will have annual copper production of 150,000 tonnes per year from 3 long-life mines and will have a world-class pipeline of organic copper growth projects. The combined company will represent the third largest copper producer in Canada based on 2023 estimated copper production. The transaction is expected to close by late June. This combination is on strategy, and it offers several strategic benefits, as shown on Slide 6.

First, Copper Mountain enhances the scale of our business with a total of 6 key operating and development assets and one of the largest copper mineral resource bases among our peer group. Second, it geographically balances our portfolio in top-tier jurisdictions. On a pro forma basis, the combined net asset value is estimated to be 55% from North America and 45% from South America on a street consensus basis. Third, it increases our exposure to copper with expected 2023 copper production of more than 150,000 tonnes. This is complemented by meaningful gold production that helps maintain a strong position on the copper cost curve.

Fourth, we have a great opportunity to unlock value at the Copper Mountain Mine using our high-efficiency framework from our Constancia mine given the similarities between the 2 mines. Fifth, the combination provides incremental cash flows, which further strengthens the balance sheet and accelerates our deleveraging initiatives. And lastly, the combination will allow us to unlock value from a larger organic growth pipeline by more efficiently allocating capital to projects that yield the highest risk-adjusted returns. The combined company is well positioned to deliver sustainable cash flows with compelling organic growth as well as the valuation rerate as a larger, more diversified copper producer with enhanced liquidity. The transaction meets our stringent financial and strategic acquisition criteria for pursuing value-accretive opportunities and the incremental diversified cash flows will further strengthen our balance sheet and support both our deleveraging and growth initiatives. Turning to Slide 7.

We think there is substantial opportunity to unlock value at Copper Mountain for the benefit of all shareholders. One of our core competencies at Hudbay is operating efficiency as demonstrated by Constancia's leading cost position amongst copper mines in South America. Due to the similarities between Copper Mountain and Constancia, we see a tremendous opportunity to apply our team's core technical and operating capabilities and our high-efficiency framework to the Copper Mountain Mine. We estimate around $30 million of annual efficiencies and synergies.

This includes $10 million of annual corporate shared synergies and tax attributes, and we expect to achieve an estimated $20 million per year in operating cost improvements over time through the application of our framework, improving productivity, reducing costs and achieving consistent and stable operations at the Copper Mountain Mine. This further builds on the great work done by the team at site and the recent positive momentum experienced at the mine. Combined with Copper Mountain's leading technological and ESG practices, the operation will be positioned as an industry leader. We also believe we will benefit from sharing services across our Canadian assets. We've been pleased with the positive feedback we've received from shareholders of Hudbay and Copper Mountain as this transaction offers significant value for both sets of shareholders. Now moving to Slide 8.

We will have a strong presence across Tier 1 jurisdictions in the Americas with operating and development assets in Canada, the United States and Peru. We also have one of the best organic growth pipelines among our peer group, consisting of brownfield expansions and greenfield development and exploration opportunities. Our improved leverage profile and expanded operations as a result of the Copper Mountain combination will allow us to more efficiently allocate capital across our business to the highest risk-adjusted return projects to develop a steady stream of ongoing expansion opportunities. As we think about the combined portfolio, we expect to immediately pursue high-return and short-payback initiatives such as the completion of the first phase of The Stall mill recovery improvement program in Manitoba. Then we will be able to pursue low-risk, minimal capital brownfield expansions, such as throughput optimization at the Copper Mountain Mine and further store recovery improvement programs. Looking print that is not dissimilar to these mines in scale. Vale drilled 11 holes in the property over a decade ago, which all intersected copper mineralization starting at surface, including 160 meters of over 1% copper equivalent. The second, the Caballito mine previously operated by Mitsui until the early 1990s, has samples indicating the presence of high-grade copper. There is also a waste rock pile that is believed to have economic mineralization given that the historical mines cutoff grade was more than 1.5% copper. Enhancing our brownfield expansions will position the core business for future transformational initiatives such as our Copper World project and better positions us for the next wave of value-creating consolidation in the copper space.

Pre-feasibility activities for the private land Phase 1 of the Copper World projects are well advanced and the pre-feasibility study is expected to be released in mid-2023. Clearing and grading work to prepare for the future development of Copper World continues at site, including the construction of roads and other facilities. We commenced the permitting process for Copper World with the approval of a mined land reclamation plan back in May 2022. This approval by the Arizona state mine inspector was challenged in state court, but the challenge was dismissed in May 2023 as having no basis. We continue to expect to receive the 2 outstanding state permits in 2023, the Aquifer Protection Permit and an Air Quality Permit, and we are encouraged by the continued positive permitting outcomes for our Copper World project.

On receipt of these state-level permits, we will evaluate a bulk sample program to continue to derisk the project by testing grade continuity, variable cutoff effectiveness and metallurgical strategies. We also intend to initiate a minority joint venture partner process following receipt of permits, which will allow a potential joint venture partner to participate in the funding of definitive feasibility study activities in 2024 as well as in the final project designed for Copper World. The Mason project is a large greenfield copper deposit located in the historic Yerington District of Nevada and is one of the largest undeveloped copper porphyry deposits in North America. We completed a PEA in 2021, which demonstrated robust project economics from a 27-year mine life operation. We acquired nearby properties hosting several historical underground copper mines that were in production in the early 1900s. There is an opportunity to further enhance the project economics through exploration for higher-grade satellite deposits on our prospective land package near Mason. We expect to test these high-grade targets with an initial drill program planned for late 2023. Turning to Slide 9 for an update on our 2023 exploration initiatives.

Peru exploration activities recommenced with a focus on drill permitting for our highly prospective satellite properties while evaluating the potential for reserve expansion at Constancia and Pampacancha through future mining phases. We are completing the limited drill program and technical evaluations at the Constancia deposit to confirm the economic viability of adding an additional mining phase on the current mine plan that would convert a portion of the mineral resources to mineral reserves. We're also completing a drill program at the Pampacancha deposit to test mineral reserve extension potential. The results from the drill programs and technical and economic evaluations are expected to be incorporated in the next annual mineral reserve and resource update. As mentioned earlier, the past-producing Caballito property and the highly prospective Maria Reyna property are located in close proximity to the Constancia processing facility.

We commenced early exploration activities at these sites after completing a surface rights exploration agreement with the community last year. Surface investigation activities together with baseline environmental and archeological activities necessary to support drill permit applications have been completed. Drill permit applications are expected to be submitted in the coming months. And in Manitoba, our Snow Lake exploration activities are prioritizing step-out drilling for new discoveries to support future growth in annual production and mine life extension.

Our 2023 winter exploration program intersected many occurrences of disseminated copper sulfides over 2 kilometers down plunge, indicating the proximity of copper-gold feeder zones similar to the deeper lenses at Lalor. The program included 4 drill rigs testing the down-plunge gold and copper extensions of the Lalor deposit in the first step-out drilling in the deeper zones at Lalor since the initial discovery in 2009. While assays are still pending, we will continue to analyze these results and perform additiocepts identified from core logging or pending.

To close off, I'd like to reiterate our commitment to operating in a manner that demonstrates our focus on the environment, and we are proud of our already low carbon footprint. As seen on Slide 10, our climate change initiatives include committing to achieve net zero greenhouse gas emissions by 2050, with an interim target of a 50% reduction in Scope 1 and Scope 2 emissions by 2030. We've identified multiple opportunities through our emissions reduction roadmap to achieve further reductions across the business. In the first quarter of 2023, we completed 2 initiatives that will lead to further carbon footprint reductions. First, we signed a new 10-year power purchase agreement with ENGIE Peru for access to a 100% renewable energy supplier for our Constancia operation starting in January 2026.

The move to this new provider is expected to reduce total current company-wide Scope 1 and Scope 2 greenhouse gas emissions by 40% during the life of the contract, positioning the company well to achieve our 2030 climate change target of 50% emission reductions. The second will be to integrate Copper Mountain's leading climate change initiatives into Hudbay's framework to further improve our carbon footprint. The Copper Mountain Mine has the potential to be the lowest emitting open pit copper mine in the world by 2035 through the implementation of several net zero carbon initiatives. This includes their recent successful commissioning of electric trial assist haulage. They are also actively testing and researching renewable diesel, hydrogen, battery and fuel cell technology for haulage. We'll have the ability to apply Copper Mountains expertise in carbon reduction initiatives to the Constancia mine and the Copper World project. I'll conclude the presentation on Slide 11.

We believe that copper has the best long-term supply-demand fundamentals in the sector as global copper mine supply will be unable to meet demand from global decarbonization initiatives. Hudbay is uniquely positioned to benefit from the strong outlook for copper with attractive copper production growth and significant long-term optionality for investors through our leading organic growth pipeline. With the addition of the Copper Mountain Mine, we will be well positioned to re-rate towards our larger base metal peers with enhanced production, trading liquidity and scale. Tideway offers investors the highest near-term free cash flow yields, coupled with significant long-term upside through our leading copper mineral resource base. And with that, we're pleased to take your questions.

Question and Answer Operator Message
Operator (Operator)

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Orest Wowkodaw of Scotiabank.

Question
Orest Wowkodaw (Analysts)

Peter, I'm curious on your earlier comments about diluting the exposure to Peru through the Copper Mountain acquisition. And I think you mentioned a number of your non-Peru exposure now would be about 55% of NAV. When I think forward here in terms of the next couple of years, certainly, probably the biggest upside to our NAV estimates could be the exploration potential around Constancia with Maria Reyna and Caballito. Wouldn't that actually reverse the Copper Mountain advantage? And I'm just curious if you have a target in mind in terms of where you'd like to get that Peru exposure knowing that you're going to have a potential upside with the exploration in Peru.

Answer
Peter Gerald Kukielski (Executives)

Thank you for that thoughtful question. So you're absolutely right. So we are reducing exposure through increasing exposure in North America. That doesn't mean that we liworkforces in the copper mine in the world, and it's something that we need to lever going forward. Now you're correct. Once we establish exactly what it is that we have at Maria Reyna and Caballito, it certainly does have the potential to change that distribution. But also remember that at some point, we will develop the Copper World project, which tends to adjust that further. But we're not targeting any residual distribution.

We just think that the current initiative with Copper World raises the company to a better place. But I am convinced that Caballito and Maria Reyna will be operations in the near term that will significantly improve Hudbay's access to copper and production profile. Since you've asked the question, I'd probably take the opportunity to say that we've been really happy with turn of events in Peru. It looks like President Boluarte is doing a really good job of stabilizing the environment. It looks like she has appointed a qualified cabinet. And it looks like we are enjoying a period of, I would say, relative quiet, and I expect this to proceed for some time. We certainly are having no issues with proceeding with the bureaucracy with our initiatives towards getting our exploration permits for Caballito and Maria Reyna. So the quick answer is, yes, we are readjusting our distribution geographically in the short term. But over the long term, together with Maria Reyna and Caballito as well as Copper World, we expect to maintain roughly the same distribution.

Question
Orest Wowkodaw (Analysts)

As a quick follow-up, do you see more opportunities like Copper Mountain out there if that potentially Hudbay could take advantage of?

Answer
Peter Gerald Kukielski (Executives)

We always continue to look for those opportunities, Orest. And we've always said that they're hard to come by because of our pretty firm and disciplined approach to acquisitions. If there is something out there, we certainly would be interested in it. But the focus on priority #1 right now is to combine Copper Mountain into the portfolio, and then we'll think about what might be next.

Question and Answer Operator Message
Operator (Operator)

[Operator Instructions] Our next question comes from Ralph Profiti of

Eight Capital,

Question
Ralph Profiti (Analysts)

Peter, I want to come back to the move to 100% renewables at Constancia. And just wondering what exactly are those renewable sources starting in 2026. Is this capacity currently installed? And maybe give us a little bit of flavor on how much power currently accounts for the Constantia cost structure and whether or not we can see some potential savings there.

Answer
Peter Gerald Kukielski (Executives)

Thanks for that question. So as far as exactly how ENGIE's energy assets are configured, I don't know the answer to that offhand. It certainly -- I mean, we negotiated this agreement over a long period of time viewing a highly competitive bidding process. And the team in Peru serves me that we will have 100% renewable source of electricity. But my understanding is that it is almost all hydro and wind.

Ralph, Eugenio Loi here. If I could add, we got certain green certificates for this energy, and the contract starts in January 2026. So I think it's a 720 gigawatt hours a year of these renewable energy credits that -- and we consume about 710. So slightly in excess with what the contract is for and it begins in 2026, as I mentioned.

Question
Ralph Profiti (Analysts)

Great. That's helpful for context. Appreciate that. If I can ask a follow-up, Peter, it's been a while since we've heard about the tailings reprocessing opportunity. And I understand that you're looking at some metallurgical testing. Can you talk a little bit about the differing metallurgical techniques and technologies that you're looking at? And where does that stand on bringing that forward and perhaps seeing some value there as you're thinking about and prioritizing perhaps other bigger, larger-scale projects?

Answer
Peter Gerald Kukielski (Executives)

So I'll have the first kick at the answer of that, Ralph, and I'll ask Andre to maybe provide a little bit more color. But we continue to conduct metallurgical test programs and you evaluate metallurgical technologies to assess the processing viability of the tails, which, of course, if positive will lead to a future mineral resource estimate. But that said, we've also identified the opportunity to reprice the Anderson tailings in Snow Lake given the significant amount of gold that's been deposited there over many, many decades. And also given the close proximity to existing producing infrastructure at Stall and New Britannia and the fact that production from Snow Lake is unstreamed, so we may also consider tailings reprocessing opportunities in Snow Lake as future phases of our Stall mill recovery projects permit. But with respect to exactly what you asked with respect to technologies in Flin Flon, perhaps Andre can provide a little bit of color there.

Answer
Andre Lauzon (Executives)

Sure. So I'll start with the easier one and less complicated in slowly. So we're looking at it as well in the Snow Lake operation. And the technology that we're looking at is very similar to what we have at New Britannia with some slight modifications to be able to deal with some base metals that are in the tails. So our historical tailings in Snow Lake have a mixture of copper, zinc and gold at lower recoveries than we would like today. So what we've done in Snow Lake was put in place a cyanide process and the process that we would have to do to treat the tails would be managing with something similar to what they call the [Americo-type] circuit, managing the base metals first before striking gold. In Flin Flon, it's a little different. And it has both similar copper and zinc and gold. The zinc is much finer grain. And the process that we're looking at right now is how to extract the elemental sulfur from the tails. And there's a variety of metallurgical technologies that we're testing right now, and it's still very early days.

Question and Answer Operator Message
Operator (Operator)

Our next question comes from Farooq Hamed of Raymond James.

Question
Farooq Hamed (Analysts)

I was just looking at a couple of the corporate actions that you've taken in the quarter, specifically pushing back your gold prepay payments and then the hedging of some of your copper in the second half of the year. And so it looks like you're protecting your cash flows in the second half of the year. And I was just wondering if you could give

Answer

Chi-Yen Lei (Executives)

Eugene here. Thanks for the question. There are really measures taken to ensure that we have strong free cash flow generation throughout the year. And maybe the first measure was the deferral of the gold prepay. We started -- we did that in February, and we deferred 8 monthly payments of gold. And that was in a period where there was some [few] uncertainty, as Peter highlighted, and we want to ensure that we got access to a monthly cash flow basis. Obviously, having the gold price move up since we've made that deferral has helped the cost of it. The cost of it was roughly 3%, which is a lot cheaper than we'll call it, a normalized cost of capital. And with the gold price increase that we've experienced, the cost of that deferral is actually close to zero at the moment. So I think it was an effective way of cashflow management for the year.

As we indicated with our guidance, the production of copper for Peru is back-end weighted. That's about 60% in the second half. And so as we look forward to this year, much of that production is going to be in the second half. And given the volatility in the markets that we've seen year-to-date already, we want to make sure that we could be opportunistic to ensure that we were going to get that free cash flow at the end of the year. So I think you'll see a floor of $3.95 and a ceiling of $4.28 or 10% of that production. It's done on a monthly basis. And so that just ensures some smoothing of prices and again locks in some certainty. I think that $3.90 floor is probably the highest floor that you've seen in the cost of colors that our peers have done. So I think it's just an opportunity for us to manage through what we expect to be a strong cash flow generation period for the company so that we meet our deleveraging targets that we outlined earlier this year.

Question

Farooq Hamed (Analysts)

So I'm just wondering, like you said, the back half of the year is supposed to be stronger. You're supposed to have better operating performance in the back half of the year, so you think you'd naturally have better cash flow to begin with. I don't think that there's any major capital program in the back half of the year that I can think of. So I'm just trying to understand why you're wanting to protect those cash flows. Is there -- I mean most operators when they're just operating normally, they won't put in a hedge program like that. So I'm just trying to understand what specifically was the reason that you identified the back half of the year is something that you wanted to protect the cash flows.

Answer

Chi-Yen Lei (Executives)

It wasn't any capital program that we expect embark on. As you saw with our guidance, annual guidance, we're reducing discretionary spend this year to target free cash flow. And I think it's with those targets to make sure that we come out on the back of the year with lower net debt to EBITDA and a stronger cash balance as we go into 2024 and any decisions that we had to make with respect to Copper World and '25 and beyond. So just ensuring that we get that. So instead of maybe the back half of the year, if the prices are weaker, that we lose out on that cash flow generation. So just laying us laying a little bit of protection for us to ensure strong free cash flow generation. No spending significant increase that we haven't unplanned.

Question and Answer Operator Message

Operator (Operator)

[Operator Instructions] This concludes the question-and-answer session. I would like to turn the conference back over to Candace Brule for any closing remarks.

further questions, please feel free to reach out to our Investor Relations team. Thank you, and have a great day.

Question and Answer Operator Message

Operator (Operator)

This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.

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18:01	Hudbay Minerals Inc. : BMO Capital reitera su recomendación de comp..	MM
18:01	Hudbay Minerals Inc. : Credit Suisse mantiene su recomendación de c..	MM
16:58	RBC Capital Markets espera una reacción neutral de las acciones de Hudbay tras los resu..	MT
16:55	RBC Capital Markets espera una reacción neutral de las acciones de Hudbay tras los resu..	MT
15:54	Actualización de MT Newswires Canada Overnight Stoc..	MT
14:30	Transcript : Hudbay Minerals Inc., Q1 2023 Earnings Call, May 09, 2023	CI
03:02	MT Newswires Canadá Overnight Stocks To Watch: Ceno..	MT
00:12	Hudbay Minerals Inc. informa de los resultados del primer trimestre finalizado el 31 de..	CI
08/05	Hudbay Minerals Inc. Reafirma la orientación de la producción consolidada para el año 2..	CI
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18:01	Hudbay Minerals Inc. : BMO Capital reitera su recomendación de comp..	MM
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25/04	Fitch afirma las calificaciones de HudBay Minerals; bajan casi un 6	MT

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