Nexa Resources S.A.

1Q18 Nexa's Transcript Presentation and Q&A

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1Q18 Nexa's Transcript Presentation and Q&A

	Participants
T	Mr. Tito Martins - CEO of Nexa Resources
M	Mr. Mario Bertoncini - CFO of Nexa Resources
P	Presenter

P – Good morning and welcome to Nexa Resources conference call.

All participants will be on only listen mode. Should you need assistance, please signal conference specialist by pressing the star key followed by zero.

After today's presentation, there will be an opportunity to ask questions.

To ask a question, you may press star, then one in your telephone keypad.

To withdraw you question, please press star, then two.

Presenters in this call Mr. Tito Martins, CEO of Nexa Resources and Mr. Mario Bertoncini, CFO of Nexa Resources, also joining the call, Nexa's executive team and Mr. Leandro Cappa, head of Investors Relations.

Please note this event is being recorded.

I would now like to turn this call over to Mr. Tito Martins, CEO of Nexa Resources. Mr. Martins, the floor is yours, sir.

T – Thank you,

Good morning everyone and thank you for joining Nexa's first quarter earnings call.

On slide 3, right after the disclaimer page, you will see the agenda for today´s call.

We are going through the following topics:

- First quarter main events and performance; then
- Nexa's CFO Mario Bertoncini will discuss our operational performance and consolidated results
- Closing the first part of the call, we will remind you of our projects and priorities for 2018.
- Then we open for a Q&A session

Please go to slide 4.

As we had already discussed in the last call, we have clear priorities for 2018. Safety comes first, we are working to meet our guidance and we want to deliver our project pipeline.

Last week Nexa's first Greenfield project on the pipeline, Aripuanã, was granted the preliminary environmental license, or "LP".

The LP certifies that the project is in compliance with the environmental standard, is an important milestone for the implementation of the project.

All the other Greenfield and Brownfield projects particularly Shalipayco and Magistral in Peru are also on track.

Following the best disclosure practices, we filed on Monday Nexa's form 20F for 2017 and the mineral reserves and resources report, the total net increase of reserves, comparing with the reports of last year was 8.9 million tons. This is a remarkable result for our exploration campaigns and reinforce our long-term track record of converting resources into reserves.

Regarding metal sales has been consistent and growth is expected. I would say is back to normalized levels when comparting to the same quarter of 2017.

As announced in February, we paid a share premium of 60 cents per share in March 28, resulting a 3.4% yield at that time.

Finally is important to mention that our credit was reinforced by the three major rating agencies. Fitch, for example, not only confirmed the 'triple b minus' rating but also revised our outlook to stable.

Going to the next slide, slide 5.

Our performance highlights are:

Mining production was in line with first quarter of 2017, reaching 134 thousand tons of zinc equivalent. With higher treated ore volumes, offsetting lower grades in Cerro Lindo mine.

On the smelting side, as I just mentioned, sales were robust totaling a 5% increase in the quarter when compared with first quarter of 2017, production performance is back to a normalized levels and our three smelters are operating at full capacity.

Revenues increase reflecting the better performance from smelters and consistent base metals prices increase. You will see on the next slide, zinc price closed the quarter at an average of 3,421 dollars per ton, an increase of 23% compared to the year before.

EBITDA increased 33%, to 191 million dollars when compared to first quarter of 2017. This was not only due to base metals prices, but also because of volume growth.

Net debt to adjusted EBITDA was 0.37x at the end of the quarter, a very comfortable level. And following our financial discipline we are always working to reduce our cost and extend the average maturity of our debt.

Please move to next slide, slide 6.

Market fundamentals

On average zinc went up 23% in the first quarter compared to the same quarter in 2017.

This price level is supported by consistent demand and significantly low metal inventories. LME stocks closed the quarter with only 34 days of consumption, it happened even after some shadow stocks became visible at the beginning of March.

China continues to release sound macroeconomic results supporting the demand for base metals in general; we may see an increase of zinc imports there along the year.

Copper and lead prices have also stayed in higher levels following this trend.

I am going to pass to Mario Bertoncini, our CFO, who will discuss our results.

Mario, please.

M – Thank you Tito,

Moving on to page 7, we present our mining performance in the first quarter.

Let me remind you that we convert our production by metal to a zinc equivalent basis using full year 2017 LME prices in order to present comparable figures

The zinc equivalent production in Nexa's mining operations totaled 134.0kton 1Q18, in line with the same period of the previous year. The volume of treated ore increased by 4% in this last quarter, and also benefited from an increase in copper and silver grades. On the other hand, grades in Cerro Lindo were lower as Tito mentioned before.

This production level represents 101% of the volume planned for the quarter and it was considered in our annual guidance.

At the bottom right part of the page we have our mining cash cost after by-product credits which were 41% lower in the quarter, benefiting from higher by-product prices and lower Treatment Charges (TCs).

Please, let's move on to slide 8, where we discuss our smelting performance.

Sales of metallic zinc in the first quarter of this year where 5% higher compared to 1Q17, totaling 137 thousand tons, supported by higher production once our smelters operated at full capacity, and as discussed in previous quarters, fully recovered from the impacts of rains and floods in Peru at the beginning of 2017.

The Brazilian metals sales were in line with the previous year

The smelting costs were positively affect by the higher LME prices and lower TCs.

Moving on to the page 9.

Our revenues went up 23% to 676 million dollars in the first quarter of 2018 primarily due to higher metal s volumes and base metals prices in the global market

The higher revenues allowed us to reach an adjusted EBITDA of 191 million dollars in the quarter resulting on a sound margin of 28% and an increase of 33% when compared to the same period of last year.

On the upper right part of the slide, we present our Capex breakdown for the period, reinsuring our focus on the mining investments, which accounted 61% of the 33 million disbursed until March. This is 6% higher than the Capex for the first quarter of 17.

On the bottom part of the page is our free cash flow before investments, debt principal and dividends, which shows a higher investment in working capital mainly due to higher LME prices and some inventory increases when comparing to the same period of last year.

Let's move on to the next slide

Regarding our operational segments

The EBITDA in mining increased 59% compared to the first quarter of 17, as a result of higher LME prices, already said, and also due to lower Treatment Charges. The EBITDA margin grew from 39% to 49% in mining.

For the metals division, we had a decrease in the EBITDA, despite the growth in volumes. The pressure down on treatment charges is caused by the unbalance between market supply and demand for zinc. We also had a 4 million dollars non-recurring provision regarding a dispute on electric energy supply in Peru.

Let's move on to page 11 where we talk about our guidance for 2018.

We are reiterating our guidance for 2018 that we released last February.

We have increased so far the total treated ore by more than 4% in our mines. There was a trade-off between increased copper and silver production offsetting some decline in zinc when we compare the first quarter this year with the same quarter last year.

Lower grades, specially in Cerro Lindo mine were expected at the beginning of this year as we get prepared to access higher grade areas throughout the year.

Let's on move to the next slide to discuss our guidance on capex and project related expenses.

We also reiterate our guidance for capex and project related expenses for this year.

We will discuss the main projects in more detail further on. Regarding the main milestones for the year in terms of expenditures, I would like to highlight:

- First, in Vazante we placed orders for long lead-time items for the dry-stacking project and the life of mine extension is on schedule there
- On the other front, we expect to submit Aripuana project for approval during the second half of the year
- Another front is in Cerro Lindo new waste disposal area and seawater pipeline replacement projects are also advancing
- And, finally, the last topic here, we already have appointed the engineering contractors for the development of FEL2 of Magistral and Pukaqaqa.

The expenses on mineral exploration and project development advanced and will be intensified on the next quarters.

Let's move on to slide 13 where we present liquidity and indebtedness

Following our financial discipline, cash, and leverage targets, we continue to analyze opportunities to keep reducing debt cost and extend the average maturity of our debt to be implemented on the following months.

As of the end of March of this year, the average maturity of the total debt was 6.6 years at an average cost of 5.0% p.a..

During the first quarter of this year, we amortized 60 million dollars in export credit notes in order to reduce our interest costs.

In terms of currency, 91% of total debt is denominated in U.S. dollars and the bonds account for 76% of this total debt.

By the end of first quarter, Nexa reported a cash balance of 1.1 billion dollar and a net debt of 260 million dollars, resulting in a 0.37x net debt/adjusted EBITDA ratio, when considering the last twelve months adjusted EBITDA.

Now I will pass back to Tito so he can talk about our projects and priorities for the year.

Thank you.

T – Thank you Mario, let’s go through the highlights regarding our projects and operations.

In Cerro Lindo, the EIA was approved for a new disposal area and FEL3 was completed for the replacement and upgrade of the seawater pipeline.

In Vazante, Ausenco was appointed to develop the detailed engineering for the dry stacking tailings project and the long lead lime orders have already been executed.

The life of mine extension project, the deepening of Vazante, is advancing well. 64% of overall physical progress is completed and production from lower mining levels already accounted for 52% of Vazante’s production.

As we discussed earlier, Aripuanã was granted the preliminary environmental license and FEL3 is 58% completed. We will discuss Aripuanã in more detail in the next slide.

FEL2 is advancing for Magistral and Pukaqaqa. During the first quarter, the focus was to execute the drilling campaign and appoint the engineering contractors to develop the FEL2. Ausenco was appointed for Magistral and JRI for Pukaqaqa.

Please move to the next slide

As mentioned before, our main Greenfield project, Aripuanã, achieved an important milestone. We have been granted the preliminary environmental license, LP.

Usually, in Brazil the LP is considered the most complex and challenging permit to be obtained because it is the first time that the authorities and communities have an official information about the project.

The project had a great acceptance by the members of the environmental committee, reinforcing the concept that Aripuanã must be aligned with the best practice for a project of this type. For example the project use dry stacking process which is much more environmental friendly and safer than tailing dams, we want to have, at least, 70% of the water recirculating in the production.

The project development is on schedule. The fel3, which is our final stage for the feasibility study, is 58% concluded and we expect to submit the project for approval and construction in the second half of 2018

To remind you a little bit more about the project, Aripuanã is a volcanic massive sulphide deposit. Having zinc, copper, lead, silver and gold with 22 million tons of measured and indicated resources and 25 million tons of inferred resources according to the preliminary economic assessment. It has 24 years life of mine at a 1.8 million tons per year of processing capacity.

The Aripuanã region, despite being distant from the main urban areas of Brazil, has attractive infrastructure. Including power, water and available labor force.

Let´s move to the next slide

Reserves and resources:

We are always investing to develop our mining resources and reserves and we are glad to show the successful results of the updated mining reports that were disclosed together with our form 20F annual report this Monday.

Since the reserves and resources that we disclosed in the prospectus for the IPO from June 2017, we added 8% reserves in terms of metal content converted to zinc equivalent.

The main additions were in Cerro Lindo and Vazante. This reserves growth allowed us to increase our life of mine based on reserves in Vazante and Atacocha and maintain the life of mine of Cerro Lindo.

Let´s move to the closing remarks

Our operating and corporate teams are focused on achieving the goals for the year and Nexa is well positioned to meet the guidance we went through today.

As a result of the mineral exploration campaigns, we raised our reserves more than what we had mined until. This is what gives Nexa the perspective of a solid growth plan and value creation.

Our Brownfield and Greenfield projects are on track, and the Aripuanã LP approval is a great example of the success of our efforts. I would like to thank all the teams involved in this complex process. We plan to take this project to board approval in the second half of this year, and hopefully start construction still in 2018.

Thank you very much for listening to us. We will now open the call for questions.

P – Thank you, sir. We will now begin the question and answer session. To ask a question, you may press star then one on your phone, if you're using speakerphone, please pick up the headset before pressing the keys. If an intended question has been addressed and you would like to withdraw your question, please press star, then two.

Again, that is star, then one to ask a question. At this time, we will just pause momentarily. To assume our roaster.

The first question we have concerns Thiago Lofiego of Bradesco, please go ahead.

Question – Thank you, good morning everyone! So I have got 2 questions, the first one on zinc inventory levels. Do you guys see any risk of additional shadow stocks appearing and impacting zinc prices? We've talked about this recently, and this apparently had been a concern. And also, how do you see the impact of some mines like Huallaga River and some restarts coming to the market along 2018 and 2019? The second question is on strategy and capital allocation. You lost the bidding process for Michiquillay in Peru. So are you evaluating any other growth initiatives on copper, on any other metals? And if not, considering your under-leveraged balance sheet, should we expect higher dividends ahead? Thank you.

T – Thiago, thank you very much for your questions. About the zinc inventories, I would say it was a good surprise to see the shadow inventories coming to the market. Some of the experts are saying that the inventories were very old ones, more than 20 years old which implies that the rest of the inventories available are coming up to the market. So proves that we've been saying along the last, almost 12 months, there is a strong demand. Demand is still there. The supply has not been enough to cover with the demand. You asked about the new mines coming to light, according to the numbers we've seen released by different analysts, with the new mines the supply will not be enough to cover the demand we may see in the next few years. I would say, we're talking about at least 300/400ktons of additional demand in the market against the average supply that varies in between 250/200ktons.

New projects, of course we have the obligation to keep an eye in the opportunities in the market. Michiquillay, we were not very happy about what happened, but we would never pay what southern offered to pay for a project that size, with the level of risk that project has. We are confident that our pipeline of projects actually, can be well developed, is our priority. We will come up first with Aripuanã, Magistral and Shalipayco are moving very well. Pukaqaqa may be also a good surprise for us the next two years, so we will pursue the development of those projects and keep an eye in other opportunities. That's what I can say, so far.

In terms of dividends, we will be following our policy; we want to provide a certain level of dividends to the market, to keep some stability in paying that. So, we follow the policy as it is today.

P – The next question we have is from Orest Wowkodaw of Scotiabank.

Question – Hi, good morning! I was wondering if we can get a bit more color on the smelting business and respective EBITDA there, which seem kind of continued compression on EBITDA. I guess I wanted to be cleared is that the adjusted EBITDA number 30 million, is that still include this 4 million Peruvian against electricity dispute. Then, I was curious if you could give us more details about what that is about, and whether that has any cost implications moving forward.

T – Thanks Orest for your question. Just to clarify, yes. The EBIDTA presented for the 1Q18 already includes the provision on energy dispute, a provision of 4 million dollars, as said. What do has an impact as well and we have to be aware is, basically, the dropping TC, as in Treatment Charges. Is a kind of trade off, when TCs goes down, our mining segment is benefited from that, and our smelting segment is not, it has a decline on EBITDA. If you add the TC effect on the 4 million provision, it basically explain more than 80% of OPs variation.

Question – Ok, in terms of this electricity dispute have cost implications moving forward.

T – No, it is already provisioned and ready most probably for a settlement on negotiated basis.

Question – Ok, so you are not expecting operating cost increase, because of power.

T – No, we are not.

P – Next with Peter Grishchenko of Barclays.

...

P – Do us pardon everyone; it looks like that line accidentally dropped. We will proceed to the next question that comes from Terence Ortlan of TSO.

Question – Thank you, good morning everybody! Congratulations for the credit revision with Moody's, S&P and Fitch. Just a question on that. They obviously looked all the forward-looking CapEx and the balance sheet issues, it wasn't a cut-off of the revision of the last few quarters, was it?

M – Yes. Terence, thanks for the question. Regarding the CapEx, we reiterate our guidance that is our total CapEx for the year of $280 million. As expected and is normal for the first quarter of the year, the same occurred last year, for instance, the CapEx is a kind of (inaudible) in amounts throughout the year. And another important thing to mention that is, of course, accounting wise that's the financial schedule for the CapEx, the CapEx we need to report. And the physical advancement, it's not exactly at the same proportion, is ahead of the financial [disbursement] and accounting, okay.

T – We mentioned during the presentation that everything is in the proper speed and I would say that we are not concerned at all about the level of investments we will be performing along the year.

Question – Moody's and S&P and Fitch ratings included the revisions of the capital in the stable BB+ and Ba2, they include all the capital spending you submitted to them, there will be no more revisions besides that, is there?

T – Exactly, yes. We in order for them, we leave this credit ratings; and it was confirmed all of these numbers, they do have with us, [it's reopened], yes.

Question – The 5% weighted average cost of the debt, how much is it variable, how much is it fixed?

M – This is basically fixed and we have a small amount of our debt today around $200 million out of the total gross debt of $1.4 billion; that is in total terms LIBOR plus; the remaining part is fixed.

Question – Ok. And one more question, sorry. In the smelting side, the CapEx, what's -- going forward, what is the CapEx requirements on the smelting side that we should be modeling forward? I mean this year first quarter was a pretty big number. What is the number for remainder of this year? You already have (inaudible) beyond that, what is smelting expenditure that you expect to incur?

M – Most of the CapEx that is spent in the smelting has to do with sustaining. We do have one project that has been performing along 2018 and should be ready by the end of the year, beginning of 2019, which is the Jarosite the project, with total value is $23 million. Besides that, if you look at now our guidance, we are forecasting to the smelter $108 million, right? So if you discount the $20 million, we would be around $80 million a year to the smelters. We do not have any plans to actually increase the smelting capacity. Just the bottlenecking, what we have -- with the assets we have today.

Question – And finally on the TC/RC on the refining charges, where do you see this heading going in the next -- besides this year, going into 2019, given the balance has been for you [and the industry]?

T – It's a good question. It's a very good question. We haven't seen yet the final agreement about the TCs in 2018. Market analysts are working with the possibility to have -- to see -- we agree with that, we may see a drop in the TCs. The benchmark was $170 per ton. We -- market is talking about something between $140, $150, $155. Next year, if we are right in saying that there will be a lack of concentrate in the market, we should see that this is dropping a little bit more. According to what we are seeing in terms of availability of concentrates in the market.

Question – With less...

T – Sorry, we have to move on, we have a big line of questions. Sorry about that.

P – And the next question, sir, will come from [Peter Gusenko] of Barclays.

Question – Apologize for some tech issue earlier. I wanted to follow up on the earlier question on your cash balance and new projects. Since you brought up Michiquillay development that, I think, Southern Copper won. The project was fairly large, about $2.5 billion in addition to what they paid. So should we expect it to pursue some huge projects of similar magnitude that would impact your liquidity fairly quickly? Or you intend to target smaller Greenfields that have longer development schedule?

T – Thanks for the question, Peter. You are right. Our intentions regarding [TCI] were to be with the project, which we have the concession in order to have a chance to look at it, and actually, we never thought that we would be able to develop it by ourselves. We knew and we understood that we should be with someone else, at least an additional partner or maybe a group of partners, because of the size of the project, right? Our projects, our pipeline of projects, the size of them, they suit us. I mean, the size of each of the projects are more -- they suits more our size, our financial capacity, our resource capacity. By resource, I mean not only the financial resource but also our capability to manage projects of big size or medium-size size. What I would say is, of course, if we have a chance to access bigger projects, being able to be partners with other companies, we will try to do it, but always have -- bear in mind that we would have to prioritize the projects. We have the pipeline of vis-a-vis another potential projects. We keep saying since the beginning, we don't want to stockpile the projects, we want to develop a project by -- every project independently and in its own timing. I mean, Aripuanã is the priority; after Aripuanã, we have Shalipayco; after Shalipayco, we have Magistral. We understand that we do not have enough resource to develop a -- more than one project at the same time. And if there is an opportunity to develop another project, new one from outside, we would actually have to prioritize and replace one of the -- one of those that are in our pipeline.

Question – Got it. That's very helpful. And if I can just ask one more question. On your ratings, your discussions with S&P, and even some extent to Moody's, can you maybe provide some indication of what the rating agencies need or request from you to get to IG because one can argue your balance sheet certainly resembles one of the IG corporates. So just wondering from their perspective, how should we think of getting to IG?

T – Ok. And we have worked hard, people at -- with rating agencies in order to that. As probably you know, we used to be investment grade by the 3 rating agencies and we lost that when Brazilian Republic lost it, along with a lot of corporations throughout Latin America. We do have an impact so far, according to the rating agencies regarding the sovereign, although we do generate 2/3 of our EBITDA out of Brazil, and even in Brazil, although the Brazilian market is important for us, we do also export from Brazil. We are working on this and in order to address all these topics. I cannot anticipate to you. Of course, it's a rating agency decision. But we have been working on this.

P – And next we have Rodolfo Angele of JPMorgan.

Question - Just one question for you. Can you comment on the trends you expect to see in terms of the grade set at Cerro Lindo, please?

T – Ok. [Else] we had -- in the last call, the call of the year results, I think we mentioned that the -- we were expecting to see the grades lower levels for the first quarter, but along the year, we're expecting to see the grades moving up, increasing along the year. That's why we reinforced the guidance for the year. So we are not surprised to see the performance, and that is why we try to compensate it, actually producing more run of mine.

P – Next we have Alex Hacking of Citi.

Question – Yes. I have 2 questions. The first one is, in the press release, you noted that CapEx was $20 million below expected due to some delays of approvals. Could you maybe give a little more color there? And then the second question is about the Aripuanã. Congratulations on getting the preliminary environmental license. As part of that process, did the authorities request any major changes for the design of the project or other areas that they wanted to do more study on? Or do you believe that you can proceed largely as you originally planned?

T – Thanks for the question, Alex. In terms of the CapEx, when we mentioned the approvals, it has much more to do with internal approvals, actually has nothing to do with the permits of licensing. It's more a bureaucratic method, internal bureaucratic method. Actually, as mentioned before, we are already in a very good track in terms of physical development of the projects, but financially speaking, there are some delays. So you'll see, along the next quarter and the following one, the level of CapEx matching the -- what is expected for the -- in our budget. In terms of Aripuanã, what happened is, we had -- every time you get a permit, you have some conditions established by the Environmental Committee and those conditions should be fulfilled in order to get to have the final installation permits. Of course, we had that, nothing that actually interfere with this success of the project, with the development of the project; only minor issues. So there will be no significant changes in what we have planned so far. We are very confident that we should be able actually to apply for the installation permit along the next [few] months. And then, as I said before, we want to have the permit granted in the second half, and with that getting the approval from our board to start construction. Our intentions are to start construction to the end of the year.

P – Well, at this time, we're showing no further questions. We'll go ahead and conclude today's question-and-answer session. I would now like to hand the conference call back over to Mr. Tito Martins for any closing remarks. Sir?

T – Thank you. I would like to thank you -- all of you who've participated in the call, stating that we are really confident that we can perform as we plan. I mean, we are not seeing any issues that can prevent us to move on ahead in the year, with the light production -- the levels of productions and performing our CapEx, and all the things that we planned at the beginning of the year. I thank the team. As I said, also it was a very complex situation to have the approval for Aripuanã. We are very proud of that. You have to remember Brazil has been under a lot of pressure when the matter is mining. A few accidents and incidents happened along the last 2 years. And having a new project being approved, it proves that we are doing the right thing. Thank you very much once more. Have a good day.

P – And we thank you, sir, also to the rest of the management team for your time also today. The conference call is now concluded. At this time, you may disconnect your lines. Thank you again, everyone. Take care, and have a great day.

Participants of the Q&A:

Last Name	Name	Company
Angele	Rodolfo	JP Morgan
Grischenko	Petr	Barclays
Hacking	Alex	Citi
Lofiego	Thiago	Bradesco BBI
Ortlan	Terence	TSC
Wowkodaw	Orest	Scotiabank