

Hudbay Minerals Inc. (TSE: HBM)



Current Price

C\$7.00

Price Objective

C\$9.50

Holding Period

5-7 Years

Margin of Safety

35.71%

1

De-Risking Through Strong Operations

Hudbay is de-leveraging in the short-term through its strong operations

2

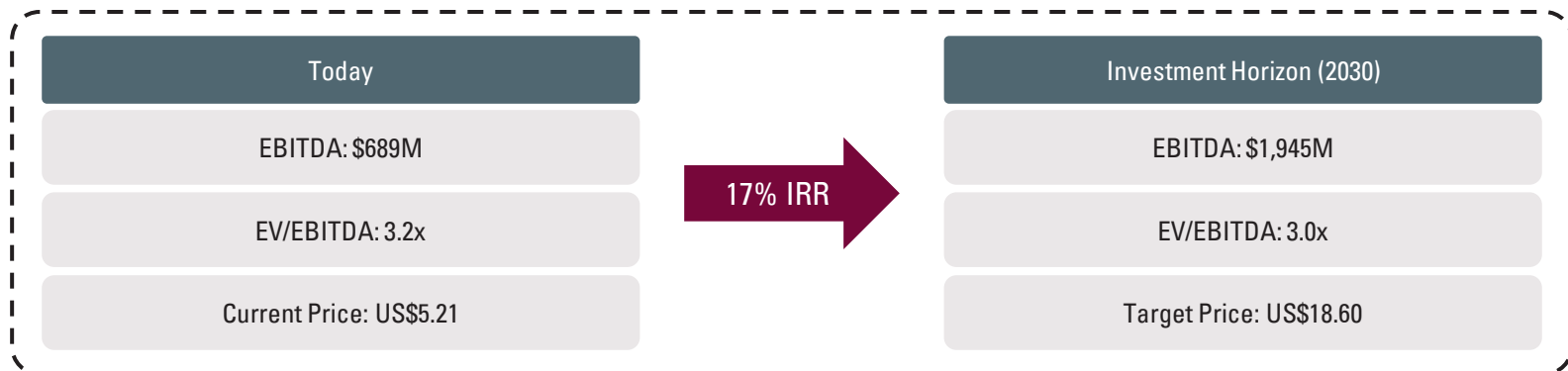
Superior Costs and Lowering Geopolitical Risk

Costs within the lower 95th percentile, and a focus on lowering its geopolitical risk

3

Well Positioned Commodity Exposure in the Short & Long Term

Stability from precious metal exposure in the short-term, and positioning to capitalize on copper supply deficit in long term



COMPANY OVERVIEW

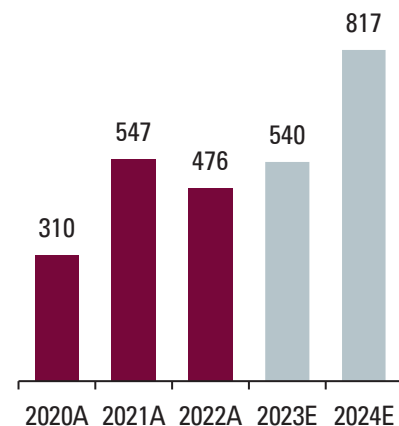
Company Summary

- Hudbay Minerals is a diversified mining company founded in 1996 with a focus on producing copper concentrate
- Hudbay operates four assets which produce gold, silver, copper, zinc, and molybdenum
- Their assets span North and South America in countries such as Canada, the U.S, and Peru, with two out of four assets currently producing
- 55% of revenue comes from copper, expected to increase to over 80% once Mason and Copper World begin production

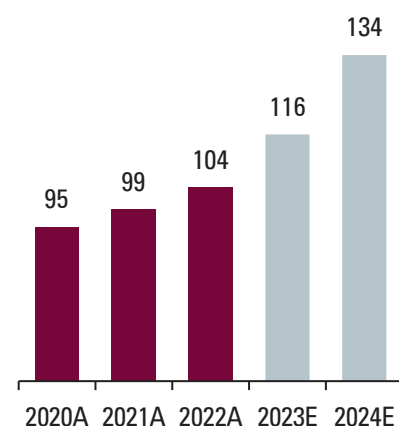
Stock Price C\$7.06	Market Cap C\$1.86B	Total Cash C\$296M	Dividend Yield 0.33%
52 Week Range C\$4.07 – C\$10.23	LTM Revenue C\$1.46B	Shares O/S 262M	Target Price C\$9.50

Recent Performance

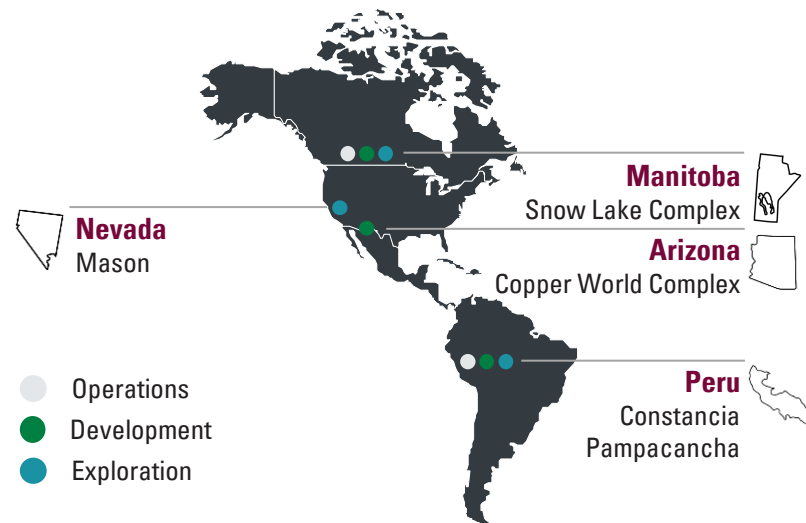
EBITDA (\$M)



Copper Production (kt)



Geographic Breakdown



Core Investment Themes



Copper mining benefits from growing demand in industries like renewable energy and electric vehicles



Copper is attractive due to the increasing demand for copper in electric vehicle batteries and infrastructure



Major focus on deleveraging through the sale of non-core assets, reduction of net debt, reducing discretionary spending



Commitment to profitable projects and returning excess cash to shareholders can enhance long-term shareholder value



Investing in a pure-play copper mining company provides exposure to the specific market trends of the copper industry

Hudbay is a diversified mining company with a long-term focus on copper production, set to take advantage of rising copper demand

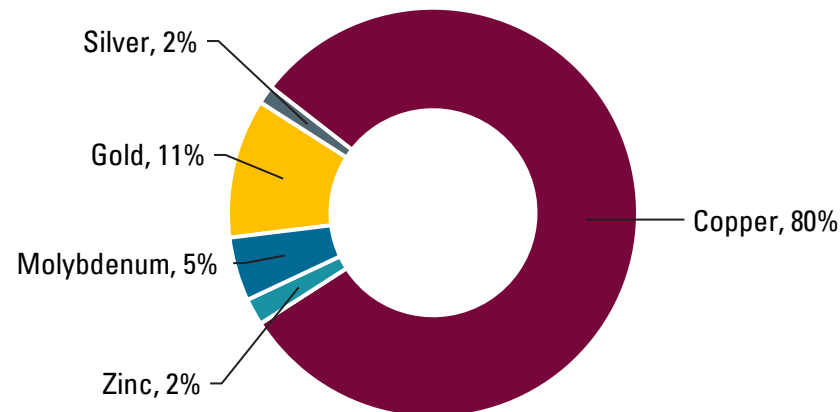
Source: Equity Research, Company Disclosure, Technical Reports.
Note: Data as of 3/4/2023. All figures in USD unless otherwise stated.

FURTHER ANALYSIS – REVENUE BREAKDOWN

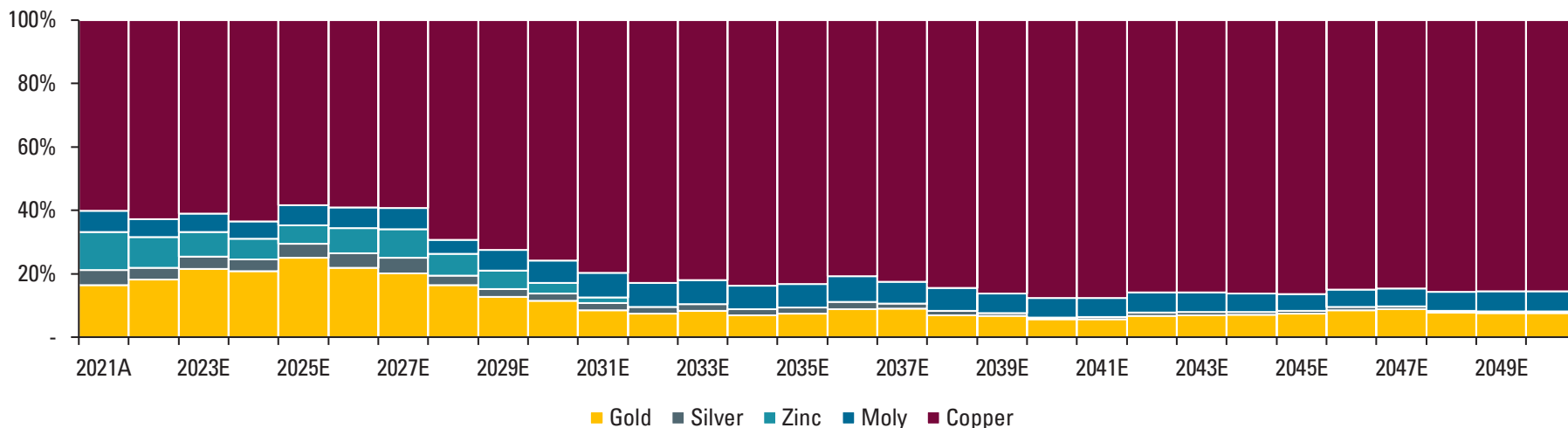
Asset Information

Mine Name	Mine Life	Information	% of Revenue
Peru			
Constancia	16 years	• Average Cu and Au production of 105kt and 60koz	81%
Pampacancha	3 years	• Open pit copper/gold mine	
Canada			
Snow Lake	16 years	• Average Au Production of >180koz	19%
United States			
Copper World	44 years	• Two phased mine plan, open pit copper project	-
Mason	27 years	• Open pit copper project	-

Life of Mine (LOM) Commodity Revenue Breakdown



Revenue Projection Breakdown

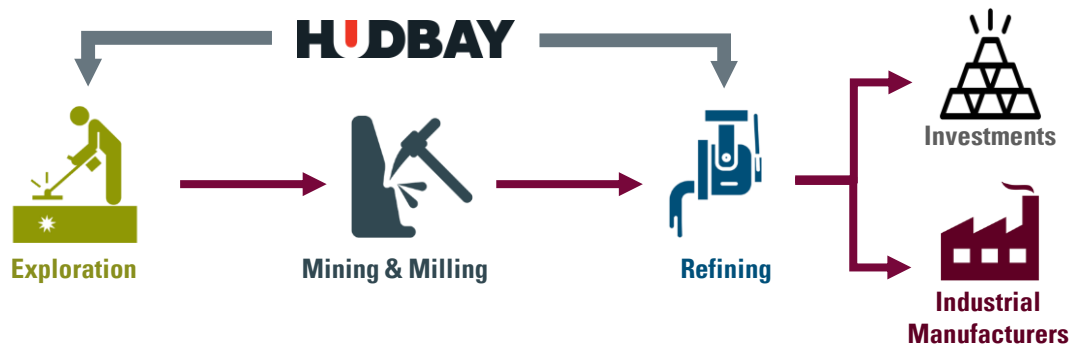


Hudbay is positioned well for a long-term primary focus on copper to accommodate growing demand

Source: Company Disclosure.

Note: All figures in USD unless otherwise stated. Asset Information reflecting current operations, LOM beginning 2021.

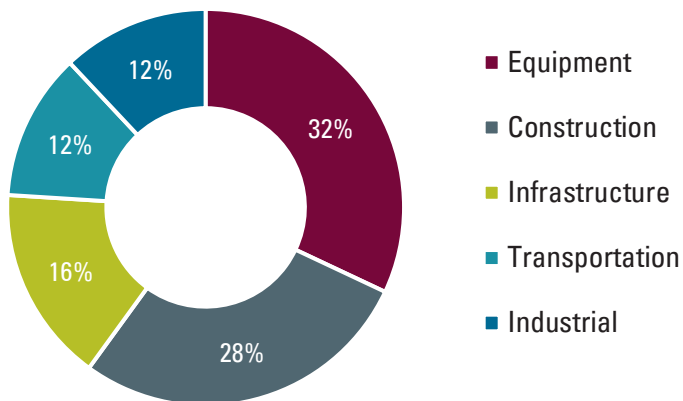
Value Chain



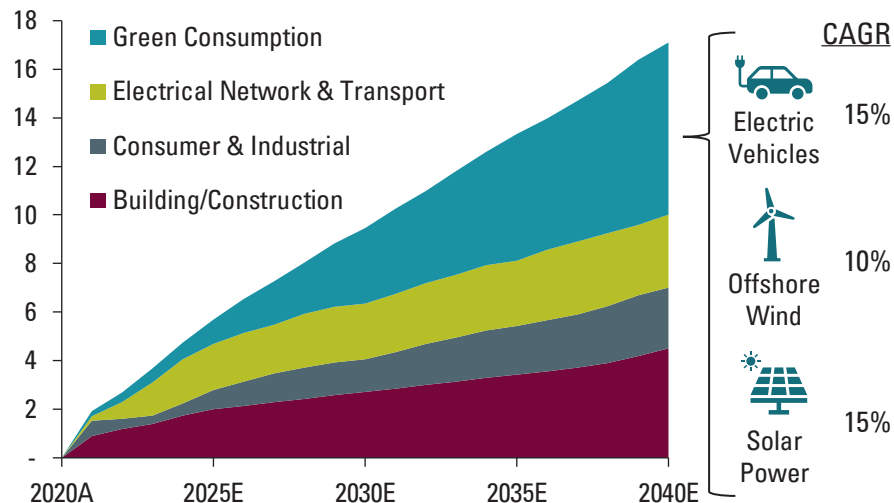
Major Copper Uses

- Building Construction**
 - Nearly half of all supply is for buildings
- Electronic Products**
 - Supreme electrical conductivity
- Transportation**
 - Automobiles, ships, planes, railways
- Industrial Machinery and Equipment**
 - Copper pipe systems, electrical motors, etc.
- Medical Field**
 - Copper's antimicrobial properties

Copper Consumption by End Usage



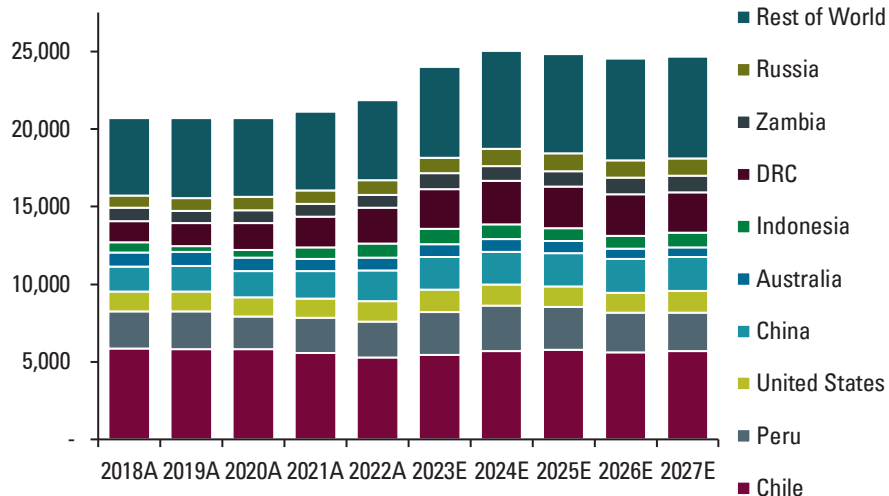
Incremental Copper Consumption Outlook (Mt)



Green consumption to drive significant demand for copper over the next 20 years as countries improve green infrastructure

INDUSTRY OVERVIEW

World Copper Producers (Mt)

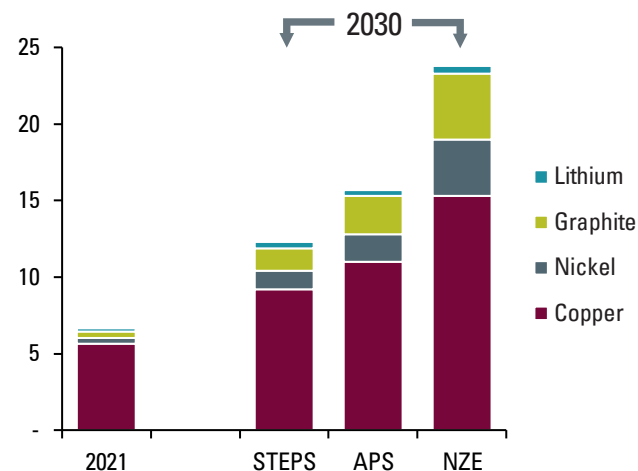


Mineral Requirements for Clean Energy (Mt)

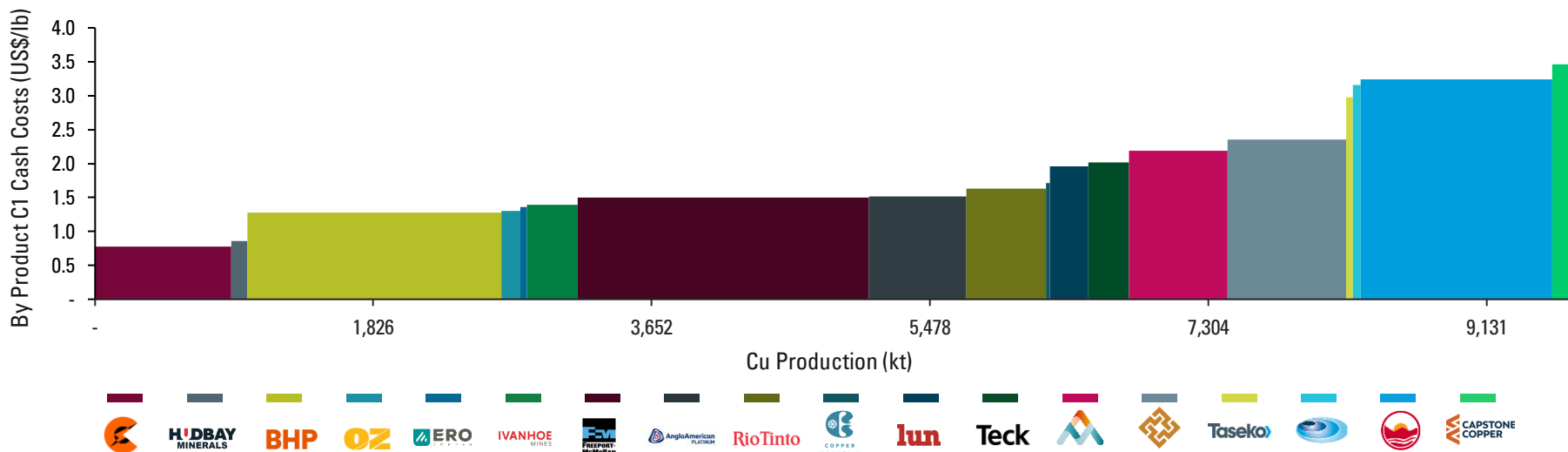
STEPS:
Stated Policies Scenario

APS:
Announced Pledges Scenario

NZE:
Net Zero Emissions by 2050



Copper Cost Curve (2022)



Significant upside potential for further growth in demand, making it a key commodity to watch in the coming years

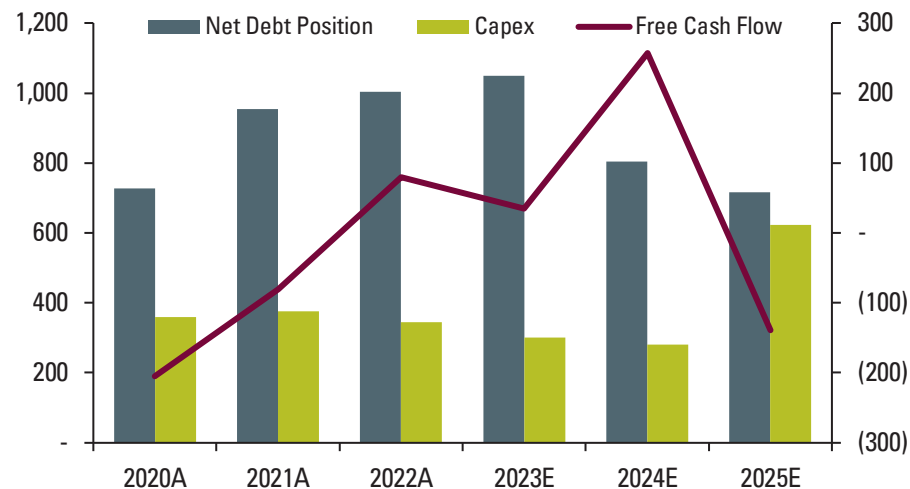
Source: BMO Capital Markets, IEA Reports.
Note: All figures in USD unless otherwise stated.

DE-RISKING THROUGH STRONG OPERATIONS

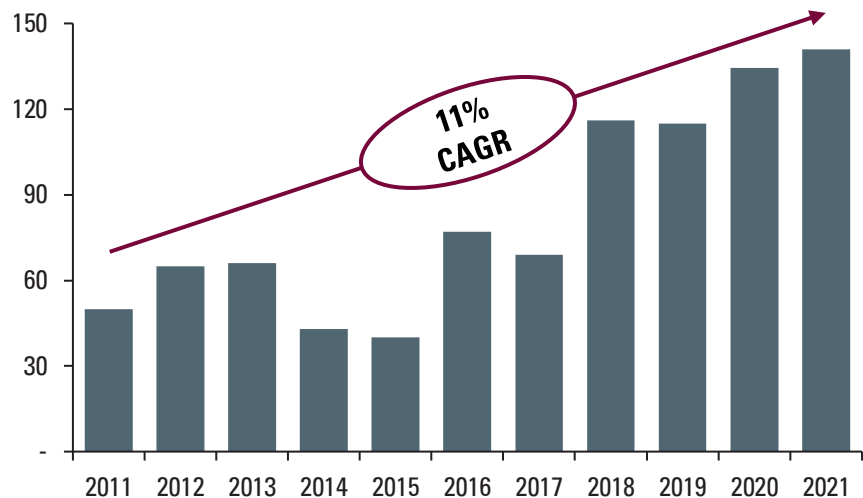
Operational Strategy

Criteria	Description
Copper Focus	Focused on the commodity with the best long-term supply-demand fundamental
Quality	Focused on long-life, low-cost , and expandable assets
Potential	Investing in early-stage to producing assets
Process	Applying their technical, social, operational and project execution expertise
Operatorship	Open to de-risk portfolio and increase risk-adjusted returns
Capital Allocation	Pursue investments that are accretive on a per share basis

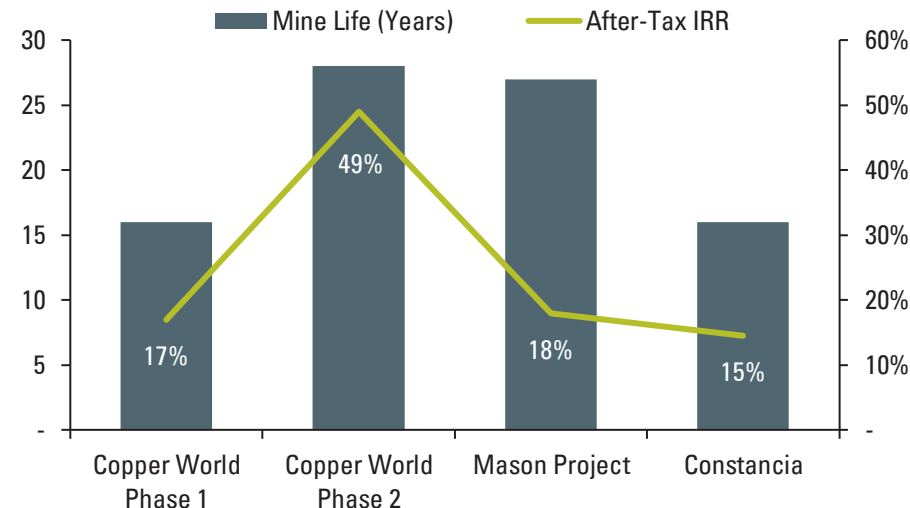
Capex to Net Debt FCF Yield (\$M)



Significant Growth in Copper Resources Per Share (t)



Consistent Ability to Operate Long-Life High IRR projects

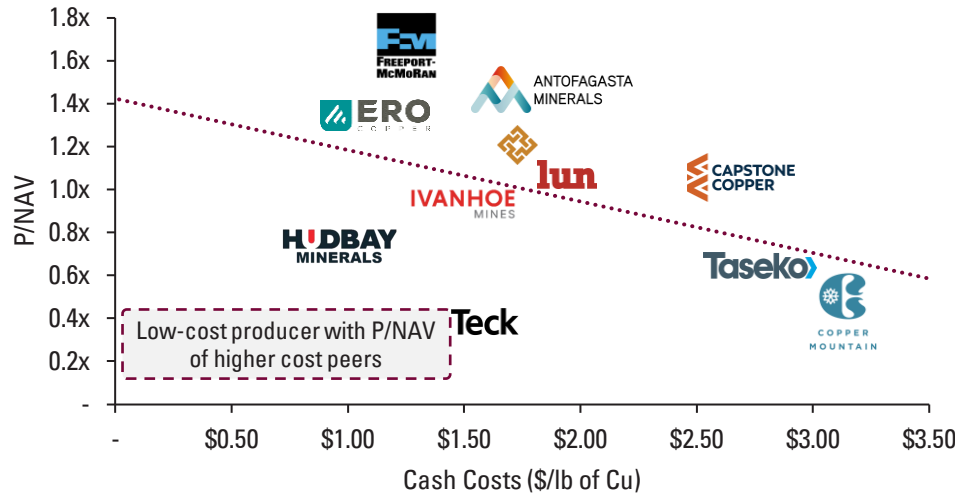


Hudbay's strong operational track record will help the company improve its debt position

Source: Company Disclosure, Equity Research.
 Note: Constancia IRR calculated at copper prices \$2.75/lb, others at \$3.50/lb. All figures in USD unless otherwise stated.

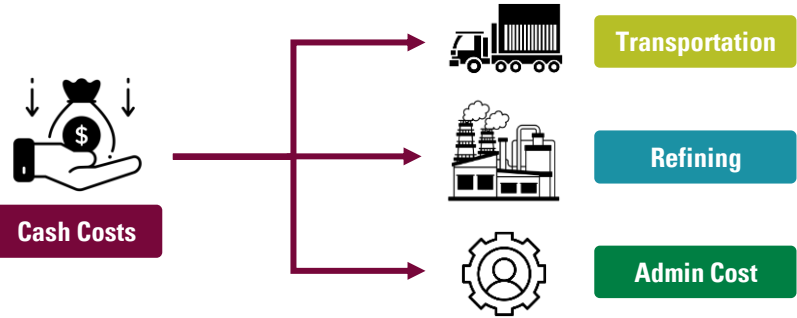
SUPERIOR COSTS & LOWER GEOPOLITICAL RISK

Trading in Line with Competitors Despite Superior Costs

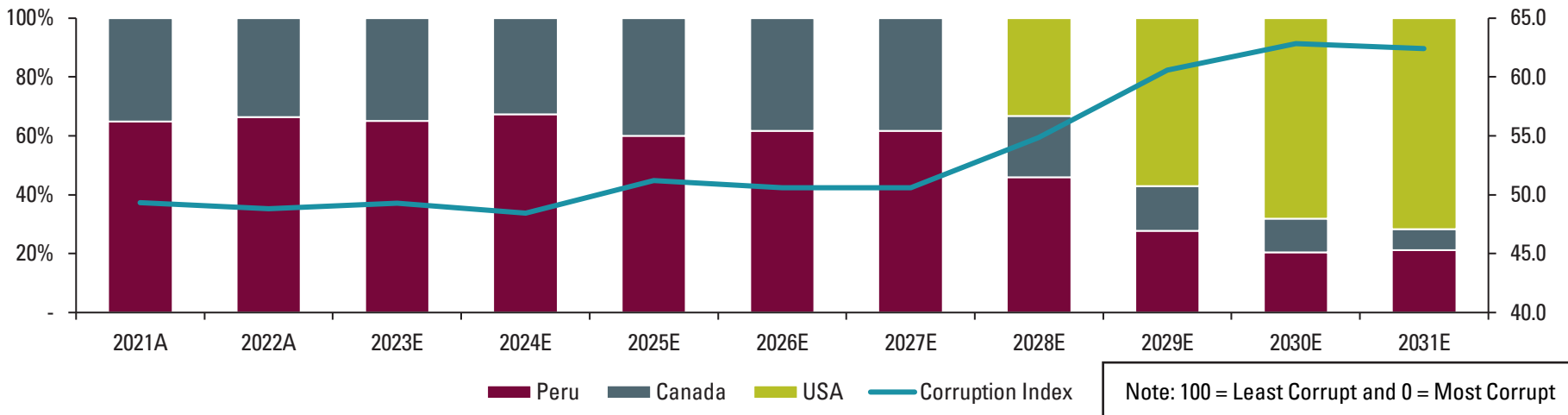


What are Cash Costs?

- Non-IFRS metric with no "standard definition" that is a great way of measuring the costs a company pays per unit of copper produced



Geographic Production Breakdown Overtime

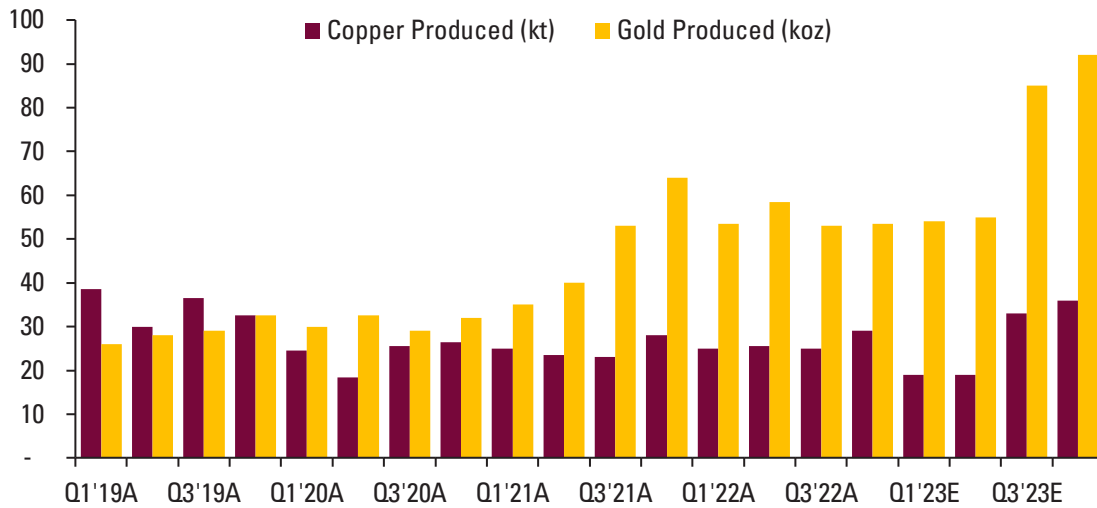


Hubbyay has a rare combination of low costs compared to peers, and an improving geopolitical risk outlook

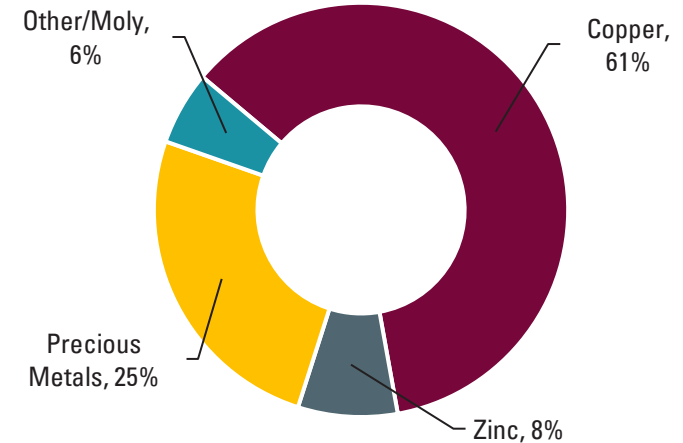
Source: Equity Research, World Economics.
Note: P/NAV numbers as of 1/16/23. All figures in USD unless otherwise stated.

POSITIONED WELL IN THE SHORT & LONG TERM

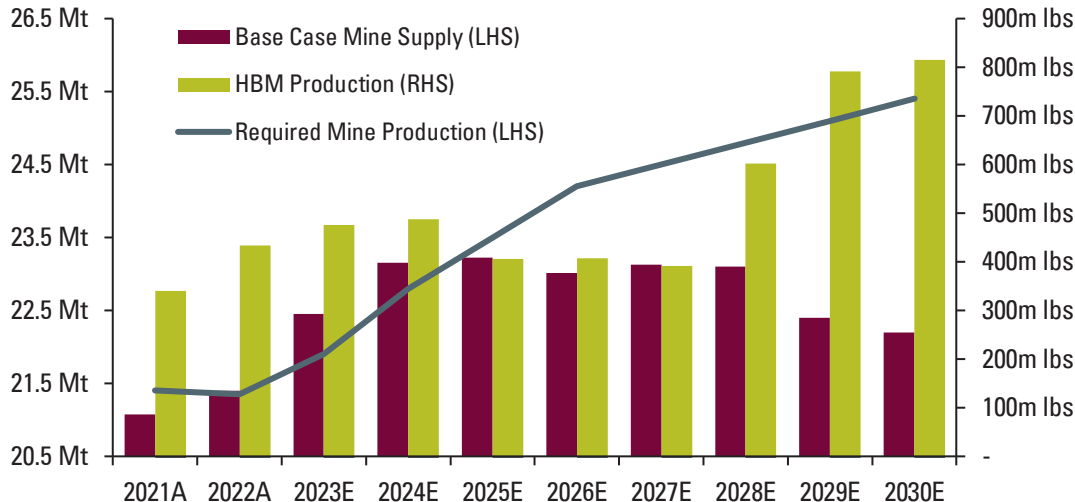
High Gold Exposure



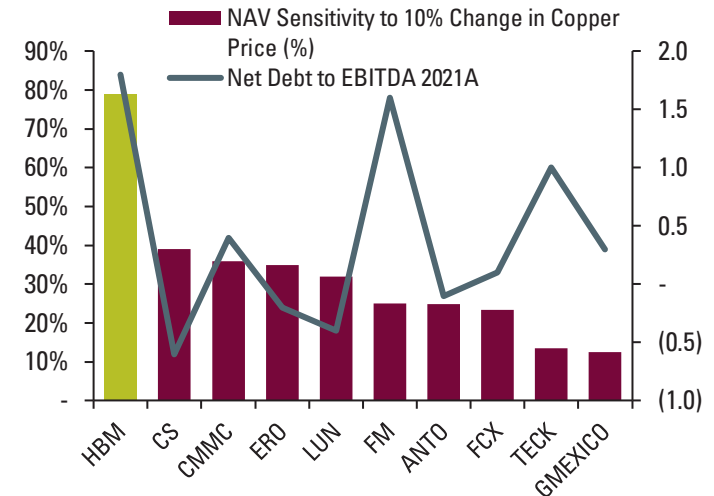
Current Revenue Mix



Ramping up Production to Meet Future Copper Demand



High Sensitivity to Copper Prices

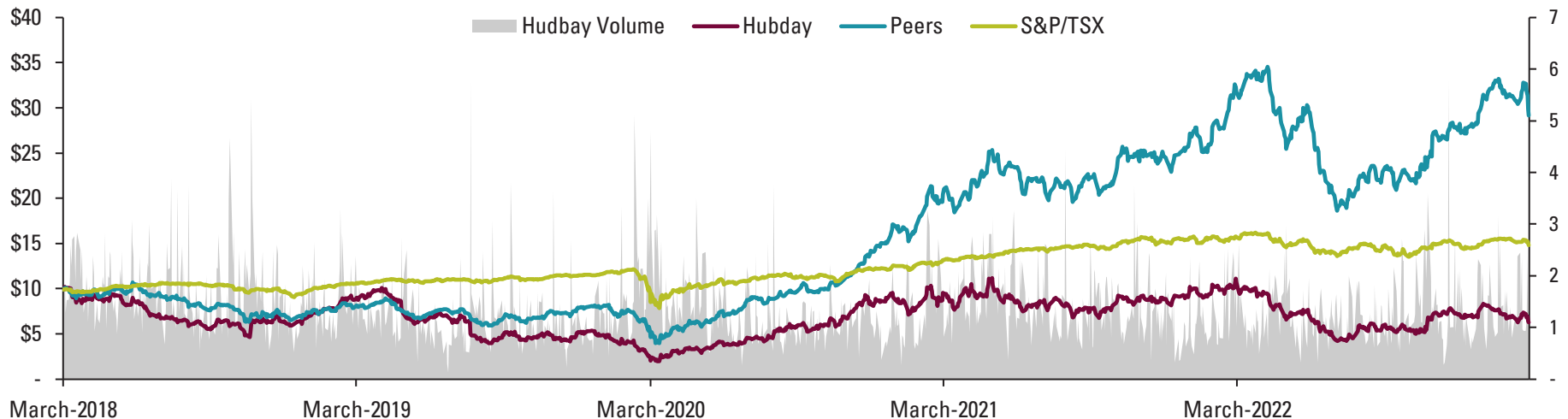


Hudbay's success is more closely tied to the price of copper than its peers, which will benefit the company greatly in the future

COMPARABLES ANALYSIS

Figures in USD	Mkt Cap	Ent Val	EV / EBITDA		Price / CF		P/NAV	EBITDA Margin		FCF Yield	Div Yield	ND/EBITDA
	\$B	\$B	NTM	3Y Avg	NTM	3Y Avg	Current	NTM	3Y Avg	3Y Avg	Current	Current
Ero Copper	1.5	1.6	5.7x	2.8x	7.3x	3.5x	1.02x	53%	64%	20.7%	N/A	0.3x
Eldorado Gold	1.5	1.5	3.9x	2.3x	4.5x	2.7x	0.74x	39%	47%	18.0%	0.0%	0.3x
Orla Mining	0.8	0.9	11.6x	5.0x	24.3x	NA	1.20x	N/A	N/A	N/A	N/A	0.4x
OceanaGold	1.2	1.4	3.4x	2.5x	3.3x	2.5x	1.15x	42%	51%	16.6%	0.1%	0.4x
Lundin Mining	5.6	5.9	4.6x	4.1x	5.8x	5.2x	1.05x	42%	43%	(12.6%)	5.4%	(0.1x)
Altius Minerals	0.5	0.6	9.9x	9.5x	12.0x	15.2x	1.18x	84%	95%	5.3%	1.3%	0.3x
Mean	1.9	2.0	6.5x	4.4x	9.5x	5.8x	1.06x	52%	60%	9.6%	1.7%	0.3x
Median	1.3	1.5	5.1x	3.4x	6.6x	3.5x	1.10x	42%	51%	16.6%	0.7%	0.3x
Hudbay	1.4	2.3	3.2x	3.5x	2.5x	2.6x	0.74x	44%	44%	1.6%	0.3%	1.4x

Relative Trading (5yr)



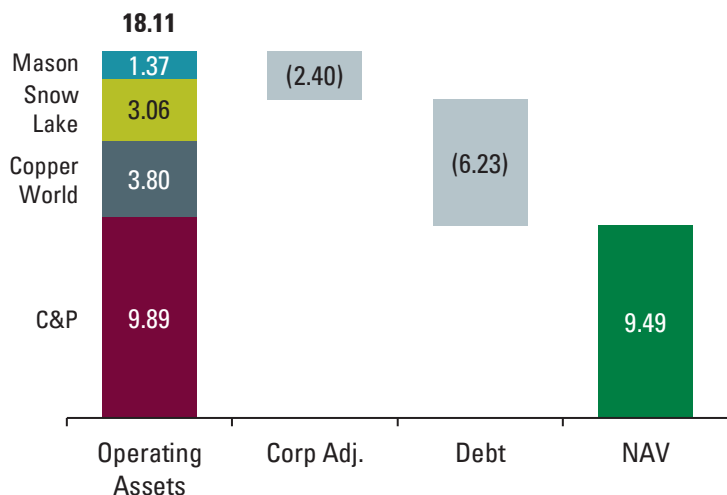
Hudbay shows financial strength compared to its rival companies while boasting a lower EV/EBITDA and P/NAV

Source: Refinitiv, Bloomberg, Equity Research.
 Note: P/NAV numbers as of 1/16/23. All figures in USD unless otherwise stated.

NAV VALUATION

Hudbay Minerals NAV Breakdown	Disc. Rate	(US\$M)	(C\$M)	(C\$/sh)	% OP. NAV	% of NAV
Snow Lake (Canada)	5.0%	612	801	3.06	17%	32%
Mason (United States)	8.0%	273	358	1.37	8%	14%
Copper World Complex (United States)	10.0%	760	995	3.80	21%	40%
Constancia & Pampacancha (Peru)	8.0%	1,978	2,592	9.89	55%	104%
Total Operating Assets	7.9%	3,623	4,746	18.11	100%	191%
Corporate Adjustments						
Cash		226	296	1.13		12%
Total Debt		(1,245)	(1,631)	(6.23)		(66%)
Corporate SG&A		(371)	(486)	(1.86)		(20%)
Exploration Expenses		(127)	(166)	(0.64)		(7%)
Pension/Reclamation Liabilities		(369)	(483)	(1.85)		(19%)
Corporate tax adjustment		161	211	0.81		8%
Net Asset Value		1,898	2,486	9.49		100%

NAV Value Bridge



Sensitivity Analysis

Discount Rate	Copper Price (\$ per lb)						
	\$3.40	\$3.60	\$3.80	\$4.00	\$4.20	\$4.40	\$4.60
6.67%	\$6.56	\$8.38	\$10.20	\$12.02	\$13.84	\$15.66	\$17.48
7.09%	\$5.85	\$7.60	\$9.34	\$11.09	\$12.84	\$14.58	\$16.33
7.51%	\$5.21	\$6.89	\$8.57	\$10.25	\$11.93	\$13.61	\$15.29
7.91%	\$4.64	\$6.26	\$7.88	\$9.49	\$11.12	\$12.74	\$14.36
8.31%	\$4.11	\$5.68	\$7.24	\$8.81	\$10.37	\$11.94	\$13.51
8.70%	\$3.64	\$5.15	\$6.67	\$8.18	\$9.70	\$11.21	\$12.73
9.08%	\$3.20	\$4.67	\$6.14	\$7.61	\$9.08	\$10.55	\$12.02

Based on our risk weighted NAV model, Hudbay is trading at approximately 0.74x NAV, implying 36% upside to our 1.0x target

CATALYSTS & RISKS

Catalysts	Likelihood	Description
Copper World Technical Report	↑ ↑ ↑	Release of Copper World technical report providing further mine details, including identification of mineral reserves
Joint Venture to Help Fund Copper World FS	↑ ↑ ↑	Hudbay is evaluating the possibility of joint venture partnerships to reduce its risk on Copper World
Regional Mineral Exploration	↑ ↑	Hudbay owns mineral-rich private land near its processing facility in Constanca and has potential for future expansion near its mines in Manitoba, Arizona, and Nevada

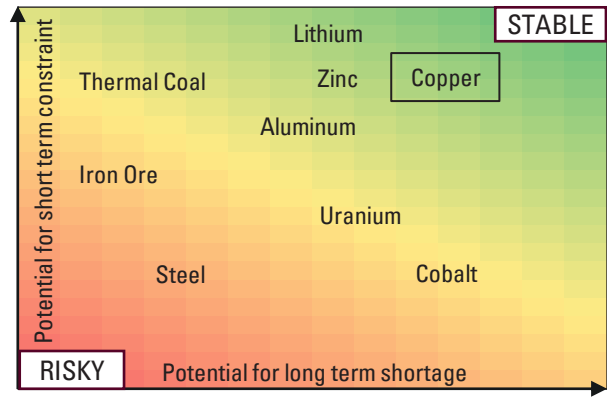
Risks	Likelihood	Description
Peruvian Blockades and Protests	↓ ↓	Social unrest in Peru has led to a 20% reduction in mining exports, and mining companies are resorting to hiring private security to transport shipments
Rising Royalty Rates in Peru	↓ ↓	Peru has confirmed that it will be increasing its royalty rates for copper mining companies to increase its annual compensation by 1-2 billion; exact rates have not been confirmed
Dependent on Price of Copper	↓	Hudbay's dependency on copper prices will increase with the production from Copper World and Mason, as copper is its primary output

Blockade

Duration (Years)	Annual Revenue Lost (\$M)	Gross Revenue Loss
1	174	10%
2	184	10%
3	146	9%
4	141	9%

Hudbay will still maintain profitability as the blockade will only account for ~10% of gross revenue loss

Stability of Copper Relative to Peers



Copper Future Usages

- Electric vehicle demand** skyrocketing due to newly introduced ICE bans
- New infrastructure projects** increase the amount of copper demanded
- Housing construction** requires a large amount of copper

The long-term catalysts for Hudbay have a higher potential upside than the risks posed by current unrests

Source: Merco, Financial Times, Equity Research.
Note: All figures in USD unless otherwise stated.

CONCLUSION

Investment Summary

- Growth:** Increase in the demand for infrastructure and technology that requires copper use
- Valuation:** Competitive valuation compared to peers as new mines start production in the coming years
- Macro:** High inflation driving a positive outlook for precious metals as investors attempt to hedge their bets against the general market
- Business:** Diversified precious metals exposure ensures ability to operate throughout the commodity cycle
- Overall:** Hudbay is positioned well to capitalize on the long term copper market deficit

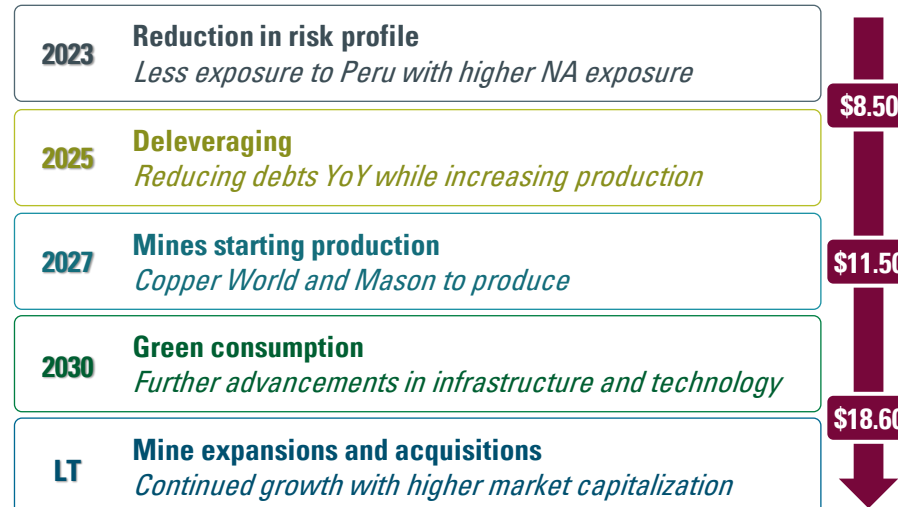
Risk Weighted Scenario Analysis

Risk Weighted Scenarios	Weight	Price (C\$/Sh)
Super Cycle: Rapid adoption of EVs and green technology leads to copper prices of \$4.50/lb	10%	\$15.55
Favourable Copper Prices: Copper prices continue to stagnate at \$4.25/lb	20%	\$11.52
Base Case: Long term copper price of \$4.00/lb	40%	\$9.50
Delay in Copper World: Delays in the Copper World mine complex will reduce NAV	20%	\$5.75
Recession: A prolonged recession hitting Chinese manufacturers leads to a reduction in copper demand	10%	\$2.00
Risk Weighted Target Price	100%	\$9.00

Consensus Valuation

Broker	Target (C\$/sh)	NAV (C\$/sh)	P / NAV	LT Cu (\$/lb)
	10.00	9.88	1.0x	3.75
	9.00	9.92	0.9x	3.75
	8.00	11.66	0.7x	3.75
	10.00	15.76	0.6x	4.50
	9.00	7.83	1.1x	4.50
	11.00	10.58	1.0x	4.00
Average	9.50	10.94	0.9x	4.04
	9.50	9.49	1.0x	4.00

Trajectory to Price Target & Beyond



Considering the outlook of copper and Hudbay's long term positioning, we believe Hudbay is a buy with a price target of \$9.50

Appendix

SNOW LAKE COMPLEX - OPERATIONAL

Snow Lake Complex



Manitoba
Snow Lake Complex

17 Years
Mine Life

12-16kt
AVG. Copper Production²

Au-Zn-Cu
Porphyry Deposits

60koz
AVG. Silver Production²

5.3k tpd
Mill Capacity

50-70kt
AVG. Zinc Production²

5%
Discount Rate

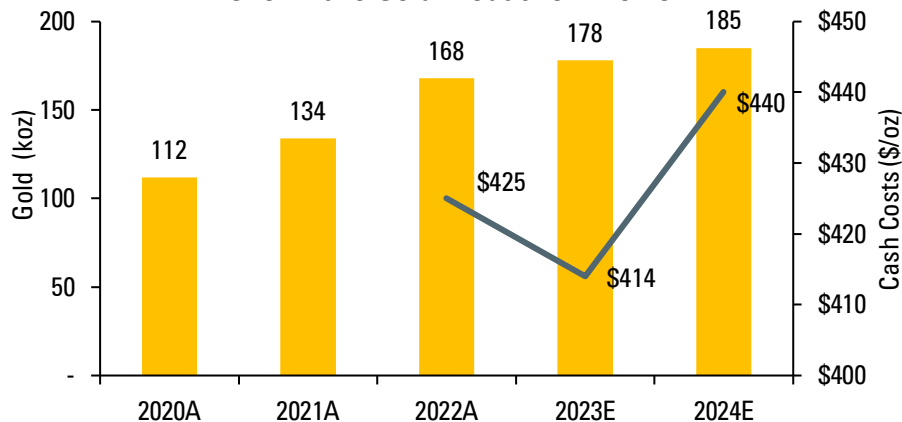
\$433/oz
Gold Cash Cost

The 100%-owned Lalor mine in Snow Lake produces gold ore for the newly refurbished New Britannia mill and base metal ore for the Stall concentrator

New Britannia mill began production in late 2021, raising yearly gold output to 180,000+ ounces at an average cash cost of \$412/oz for the next six years.

Lalor is operating at 4,650 tpd, significantly exceeding the original design capacity of 3,300 tpd and has plans to further increase ore production

Snow Lake Gold Production Profile

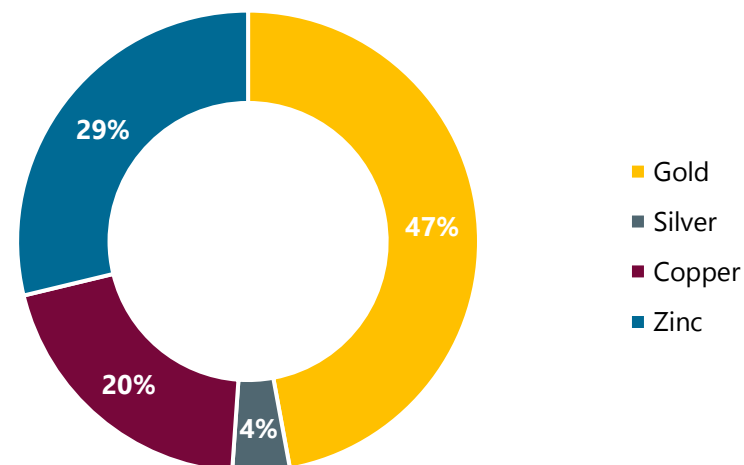


Source: Technical Reports, Company Disclosure.

Snow Lake Complex

Discount Rate	Gold Price (per oz)						
	\$1,350	\$1,450	\$1,550	\$1,650	\$1,750	\$1,850	\$1,950
4.00%	\$535	\$568	\$602	\$636	\$670	\$703	\$737
4.25%	\$530	\$563	\$597	\$630	\$663	\$696	\$729
4.50%	\$525	\$558	\$591	\$624	\$656	\$689	\$722
4.75%	\$521	\$553	\$585	\$618	\$650	\$682	\$714
5.00%	\$517	\$548	\$580	\$612	\$643	\$675	\$707
5.25%	\$512	\$544	\$575	\$606	\$637	\$668	\$699
5.50%	\$508	\$539	\$570	\$600	\$631	\$662	\$692
5.75%	\$504	\$534	\$564	\$595	\$625	\$655	\$685
6.00%	\$500	\$530	\$559	\$589	\$619	\$648	\$678

Projected LOM Revenue Breakdown



CONSTANCIA & PAMPACANCHA - OPERATIONAL

Constancia & Pampacancha



17 Years
Mine Life

105kt
AVG. Copper Production¹

Cu-Mo
Porphyry Deposits

60koz
AVG. Silver Production¹

86k tpd
Mill Capacity

\$1.15/lb
AVG. Cash Cost¹

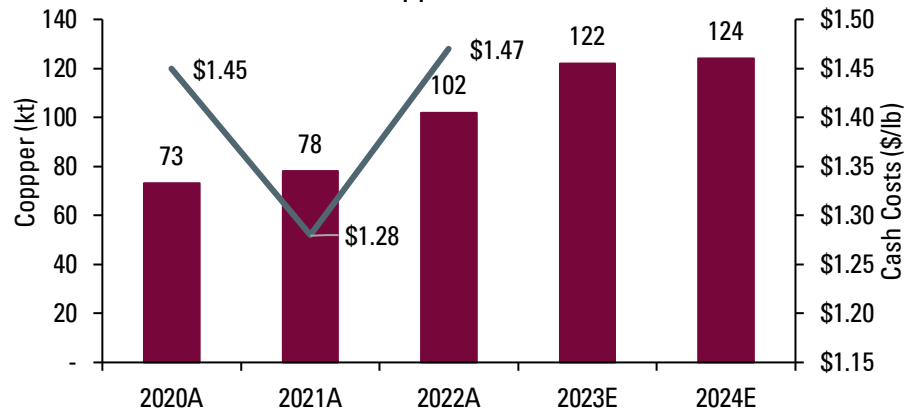
8%
Discount Rate

Over eight years, Constancia's yearly copper production averages 102,000 tonnes at net cash costs of \$1.18 and sustaining costs of \$1.71 per pound

Enhanced Constancia mine plan features higher grades from Pampacancha (2022-2025) and new Constancia North reserves, extending medium-term production

Constancia's total copper and gold production increases by 12% and 9%, respectively, compared to the same period in the previous mine plan

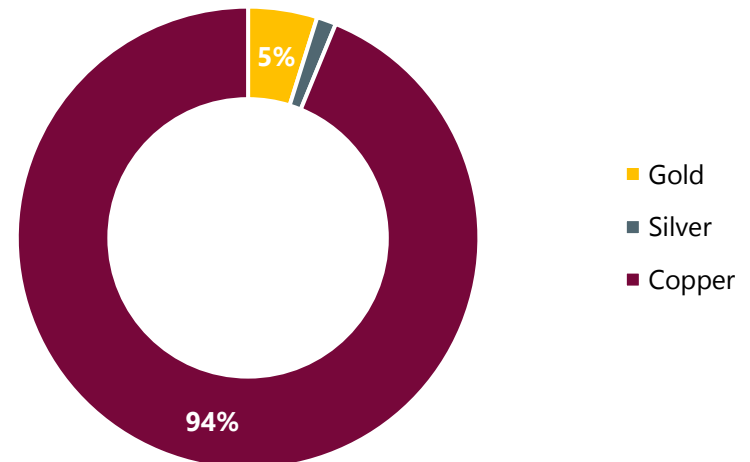
Constancia Copper Production Profile



Constancia & Pampacancha

Discount Rate	Copper Price (per lb)						
	\$3.40	\$3.60	\$3.80	\$4.00	\$4.20	\$4.40	\$4.60
7.00%	\$1,499	\$1,686	\$1,873	\$2,060	\$2,247	\$2,434	\$2,621
7.25%	\$1,485	\$1,669	\$1,854	\$2,039	\$2,224	\$2,409	\$2,594
7.50%	\$1,470	\$1,653	\$1,836	\$2,018	\$2,201	\$2,384	\$2,567
7.75%	\$1,456	\$1,636	\$1,817	\$1,998	\$2,179	\$2,360	\$2,541
8.00%	\$1,441	\$1,620	\$1,799	\$1,978	\$2,157	\$2,336	\$2,515
8.25%	\$1,428	\$1,605	\$1,782	\$1,959	\$2,136	\$2,313	\$2,490
8.50%	\$1,414	\$1,589	\$1,764	\$1,940	\$2,115	\$2,290	\$2,465
8.75%	\$1,401	\$1,574	\$1,747	\$1,921	\$2,094	\$2,268	\$2,441
9.00%	\$1,387	\$1,559	\$1,731	\$1,902	\$2,074	\$2,246	\$2,417

Projected LOM Revenue Breakdown



Source: Technical Reports, Company Disclosure.

Notes: 1. Annual average over the period 2022 to 2028 using Constancia's mine plan 2. 2023E production schedule.

COPPER WORLD COMPLEX - DEVELOPMENT

Copper World Complex



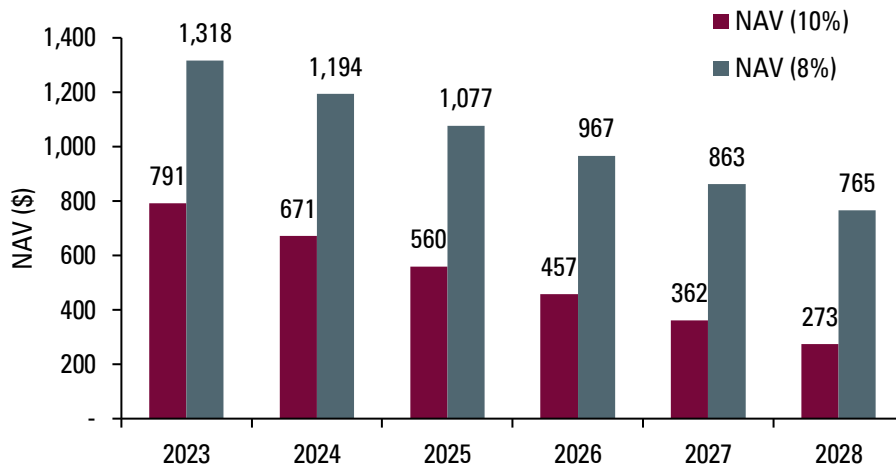
Arizona
Copper World Complex

44 Years Mine Life	86kt AVG. Copper Production ²
\$1,296M / 18% NPV / IRR	1.2Bt M&I Tonnage
0.41% M&I CU Grade	\$1.15/lb AVG. Cash Cost ²
10% Discount Rate	

Phase I has a 16-year mine life, averaging ~86kt copper production annually at cash costs of \$1.15 and sustaining costs of \$1.44/lb, respectively

Produces "Made in America" copper cathode, meeting US demand while cutting GHG and sulfur emissions from overseas shipping and processing

Two-phase mine plan: Phase I on private land needs state permits, yielding after-tax NPV_{10%} of \$741M and IRR of 17% at \$3.50/lb

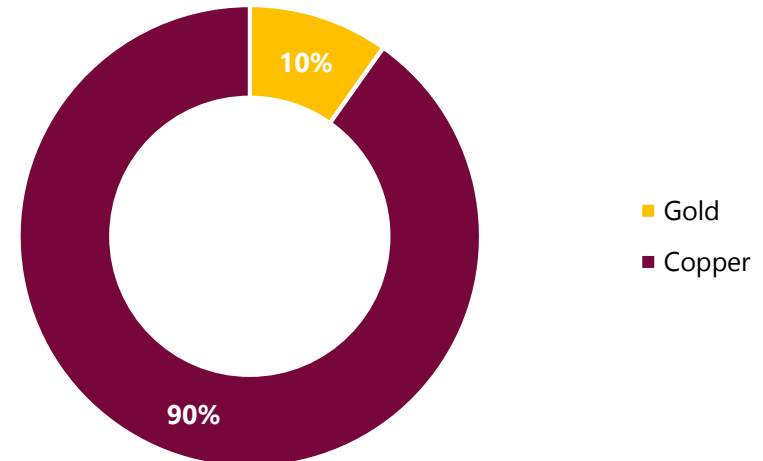


Source: Company Disclosure.

Copper World Complex

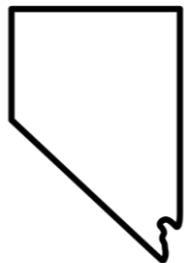
Discount Rate	Copper Price (per lb)						
	\$3.40	\$3.60	\$3.80	\$4.00	\$4.20	\$4.40	\$4.60
8.00%	\$864	\$932	\$1,000	\$1,069	\$1,137	\$1,205	\$1,273
8.50%	\$789	\$851	\$913	\$976	\$1,038	\$1,100	\$1,162
9.00%	\$723	\$780	\$837	\$894	\$951	\$1,009	\$1,066
9.50%	\$665	\$718	\$770	\$823	\$876	\$928	\$981
10.00%	\$614	\$662	\$711	\$760	\$808	\$857	\$906
10.50%	\$568	\$613	\$658	\$703	\$748	\$793	\$839
11.00%	\$527	\$569	\$611	\$653	\$695	\$737	\$779
11.50%	\$490	\$529	\$568	\$608	\$647	\$686	\$725
12.00%	\$457	\$494	\$530	\$567	\$603	\$640	\$676

Projected LOM Revenue Breakdown



MASON - DEVELOPMENT

Mason



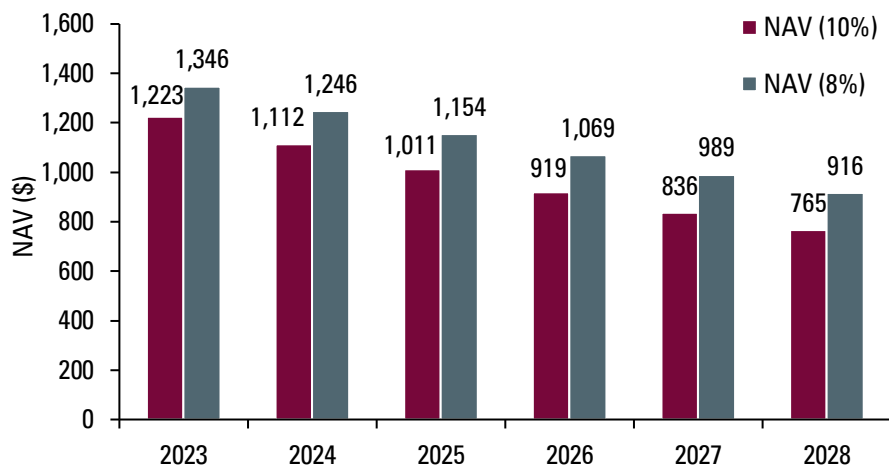
Nevada
Mason

27 Years Mine Life	112kt AVG. Copper Production ¹
\$1,191M / 18% NPV / IRR	2.2Bt M&I Tonnage
0.29% M&I CU Grade	\$1.76/lb AVG. E Cash Cost ¹
8% Discount Rate	

Acquired in 2018, Mason is 100%-owned by Hudbay and is located in the prolific Yerington Copper District

Excellent infrastructure is already in place including road access and nearby rail and power

In 2019-2020, Hudbay consolidated nearby lands, like Mason Valley and Bronco Creek, providing optimization and exploration opportunities



Source: Company Disclosure.

Mason

Discount Rate	Copper Price (per lb)						
	\$3.40	\$3.60	\$3.80	\$4.00	\$4.20	\$4.40	\$4.60
7.00%	\$207	\$300	\$393	\$486	\$579	\$672	\$765
7.25%	\$162	\$250	\$339	\$427	\$516	\$605	\$693
7.50%	\$119	\$204	\$288	\$373	\$457	\$542	\$626
7.75%	\$80	\$160	\$241	\$321	\$402	\$482	\$563
8.00%	\$43	\$119	\$196	\$273	\$350	\$427	\$504
8.25%	\$8	\$81	\$155	\$228	\$302	\$375	\$448
8.50%	(\$25)	\$46	\$116	\$186	\$256	\$326	\$396
8.75%	(\$55)	\$12	\$79	\$146	\$213	\$280	\$347
9.00%	(\$83)	(\$19)	\$45	\$109	\$173	\$237	\$302

Projected LOM Revenue Breakdown

