

Copper Mountain up 11% on record Q1 production



COPPER MOUNTAIN MINING

Workers building the secondary crusher at Copper Mountain Mining's namesake copper mine in British Columbia.

BY SALMA TARIKH

Vancouver-based **Copper Mountain Mining** (TSX: CUM) saw its shares climb after revealing record first-quarter copper production at its 75%-held Copper Mountain mine near Princeton, B.C.

The mine produced 19.1 million lb. copper in a 34% increase over the first quarter of 2013, and slightly above the previous quarter's output of 18.6 million lb., setting a new production high. The concentrate also contained 5,400 oz. gold and 105,300 oz. silver. **Mitsubishi**

Materials Corp. owns the remaining 25% of the mine.

Laurentian Bank Securities analyst Christopher Chang notes that the copper output slightly missed his estimate of 19.4 million lb. owing to lower-than-expected mill throughput that was partly offset by higher copper grades.

During the quarter, the mill processed 2.6 million tonnes of ore averaging 0.39% copper, compared to Chang's estimate of 2.9 million tonnes grading 0.36%.

Rodney Shier, the company's chief

financial officer, says the junior was guiding copper grades of 0.375% for the year, but saw it move higher in the first quarter. "So we achieved our guidance numbers because our grade was a little bit higher and throughput was good in parts of the quarter," he says in an interview.

Chang notes that despite output missing his forecast, Copper Mountain sold 19.7 million lb. copper — above his 18.7 million lb. estimate — as it delivered concentrate produced in the previous quarter.

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In total, Copper Mountain shipped 39,000 wet tonnes of concentrate, containing 19.7 million lb. copper, 6,500 oz. gold and 98,600 oz. silver in the first quarter, generating an estimated \$69.6 million in gross revenue.

Desjardins analyst Jackie Przybylowski says the junior's quarterly sales and production matched her expectations. She applauded the company's temporary crushing strategies, which included adding a third portable crusher late last year to boost mill throughput as Copper Mountain builds a permanent secondary crusher on-site.

However, Przybylowski has a conservative production forecast of 79 million lb. copper for 2014, below the company's 80 million to 90 million lb. target.

"Although operations are running well, we continue to see opportunities for production disruption. The secondary crusher could be delayed or negatively affect production as it is commissioned," she cautions in a note.

Copper Mountain intends to complete the crusher, estimated to cost \$40 million, by the end of July. Once installed, it says 100% of the mill feed will be crushed to the minus two-inch range, allowing the mill to operate at its design capacity rate of 35,000 tonnes per day in August.

Shier says the company is "extremely confident" it will meet this timeline, adding it is using the same contractors, construction managers and crew that

built the Copper Mountain mine for the crusher. "We built the \$438-million facility on budget, and this is just a smaller \$40-million crusher built — so we feel comfortable. It is a tight schedule — no question we're pushing the guys — but by [mid-year] we feel confident that we will be up and running."

Once online, Shier says the mill should run smoothly. "With all the test work we have done to date — including last year, where we ran a 65,000- to 70,000-tonne sample through the mill of minus two-inch material — the mill performed well, and we are confident that we are going to hit our mill capacity and above."

But Chang appears less optimistic, cautioning that operating consistency could remain a challenge until Copper Mountain commissions the secondary crusher. He assumes that likely will not happen until early 2015. "In our view, we believe the operation could be approaching a bottleneck at a mill throughput rate of 30,000 tonnes per day on a sustainable basis," he comments in a note.

Shier, acknowledging that some analysts predict that there will be a ramp-up period once the crusher is installed, says it shouldn't take that long, confirming the company is on track to meet its timeline.

Both analysts, however, point out that the junior producer has had transformer failures at its ball mill. In March, Copper Mountain reported its third transformer failure that resulted in unscheduled

down time at the mill, which operated at reduced capacity for five days.

"We caution that if these failures are related to transformer design, failures could be an ongoing challenge and impact the mill availability rate going forward," Przybylowski writes.

Addressing this concern, Shier says the company has brought in an independent electrical consultant that has identified the problem. Copper Mountain is "rectifying that now with additional electric parts being put on the transformers and that should be done [before the fourth quarter]," he says.

The mill had a 91% availability rate in the first quarter — slightly below the annual 92% target rate — which Shier says was partly due to the transformer failure. "But overall, we are pleased with the mill performance and its availability," he says.

Once the crusher is online and Copper Mountain is producing at full capacity, Shier says the junior could generate more cash flow, which would help bring back an exploration program on the property and give it enough funds to explore other opportunities.

On the production results, Copper Mountain gained 11% to close April 9 at \$2.47, with a \$287-million market capitalization. It is set to release its first-quarter financials on May 2.

Przybylowski has a "hold" and a \$2.75 target price on the stock, while Chang recommends a "buy," with a \$3.25 target price.