



## Time to Buy Mining Stocks?

### Description

It's no secret that one area of the market that's been a chronic underperformer for upwards of the past year has been the resource sector. No matter where you look: gold, silver, platinum, palladium, copper, molybdenum, and coal – are all down across the board. You'd think that a growing U.S. economy and improving global outlook would help these mined metals and commodities from a demand perspective, but that just hasn't been the case.

This recent underperformance however could mean this is the perfect time to invest in this this sector. Here's a few reasons why now might be a good time to take the plunge, as well as a few miners for the radar screen.

### Where's the beef?

According to Thomson Reuters, as of last week 451 of the **S&P 500**'s components had reported earnings for the quarter, with 67% topping EPS expectations compared with the historical average of 63%. That sounds fine until you realize that only 47% topped revenue expectations, compared with 62% historically. This is a clear-cut signal that cost-cutting and not top-line growth is what's driving results. This serves as a possible indication that this rally is unsustainable and that metals like gold and silver would provide a great hedge against potential downside in the indexes.

In this space, a name that warrants your attention is **Silver Wheaton** (TSX:SLW), a streaming company that negotiates long-term deals with silver and gold miners. By giving these miners cash upfront, Silver Wheaton locks itself into paying a low, often lifetime, cost for the mined metal while excluding itself from being responsible for any maintenance or upgrade costs. With some of the most delectable margins in the industry — even after a 55% tumble in spot silver from its highs — and at 11 times forward earnings, it's a name for your watch list.

### They can cut costs, too!

Secondly, keep in mind that miners understand how to cut costs as well! With gold prices hitting a record high last year, many miners had been scrambling to expand capital expenditure budgets to take advantage of these prices. When the bottom fell out of gold prices, many of these miners were caught with their pants down, proverbially speaking, and forced to take large asset write-downs because of the

growing costs to build out a mine versus the shrinking margins brought on by falling metals prices. However, there are plenty of miners to consider that will see lower capex spending in the immediate future.

An example of this dynamic is provided by **Yamana Gold** ([TSX:YRI](#)) which already sports the gold sector's lowest cash operating costs, at \$383 per gold-equivalent ounce, or GEO, in its most recent quarter. Yamana has plans firmly in place to lower its GEO by up to \$100 per ounce by mid-year. These plans entail curbing capital expenditures that aren't cost effective, continuing with the automation of certain mining operations, which will lower long-term costs, and slicing administrative expenses. Yamana is now valued at less than 10 times forward earnings and is looking more attractive by the day.

### Supply and demand still rules

Regardless of what you *might* think, another factor worth considering is that supply and demand is ultimately what drives these miners and spot metal prices. Silver is often used as an electrical conductor, while copper has an abundance of uses, ranging from a strengthener in construction to electrical conduction. One of the biggest consumers of copper is China, and the last time I checked, GDP growth, while below the 30-year average of 10%, was still a robust 7.7% in the first quarter.

An intriguing name in the copper space is **Thompson Creek Metals** ([TSX:TCM](#)) . Thompson Creek had been known exclusively as a molybdenum miner in the past, but is set to open its Mt. Milligan mine in British Columbia by August. This mine contains some 2.1 billion pounds of copper and 6 million ounces of gold and will sport a mine life of 22 years while giving Thompson Creek the diversity it's lacked in the past. The gold, of which a 52.25% interest was sold to **Royal Gold** ([TSX:RGL](#)) in exchange for cash, will act as a byproduct reducing cost and should make Thompson Creek one of the lowest-cost copper producers around.

### On the lookout

With many of the world's markets flying high, one of the only "value" opportunities out there lies with metal and mining companies. Keep your eyes peeled for great deals primarily because of the catalysts mentioned here. Your attention could be well rewarded by this much-maligned and widely disliked sector.

Because of their heavy-weights in the TSX, resource companies have had a negative impact on Canada's passive, index oriented investors. If you own or are thinking of purchasing a Canadian index fund, you need to [click here](#) to receive our special **FREE** report "**Buy These 5 Companies Instead of Following a Flawed Piece of Advice**". Your portfolio will thank you for reading [this report!](#)

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*The Motley Fool doesn't own shares in any of the companies mentioned.*

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### CATEGORY

1. Investing

### TICKERS GLOBAL

1. TSX:WPM (Wheaton Precious Metals Corp.)
2. TSX:YRI (Yamana Gold)

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motley-fool-staff

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