



Stocks to Own if Copper Continues its Rise

Description

One week ago copper was trading at \$3.04 per pound, and was down 19% on the year. Yesterday it closed at \$3.31, representing a 9.2% increase in one week. So what is behind this sudden strength in copper? Is it just a blip that will fade away or is it the beginning of something more?

Signs of Economic Stability

Copper is considered to be one of the purest economic indicators. And it turns out that there is a slew of recent data that shows strength in different areas of the world.

Let's start with China, given that it's the biggest consumer of copper, representing 40% of global consumption. Numbers coming out of China recently have been positive. Chinese factory production increased 9.7% in July versus a year earlier and retail sales increased 13.2%. Also, fixed asset investment increased 20% in the first seven months of the year. Furthermore, China imported 8.1% more copper in July versus June, and more importantly, they are importing copper at the highest level since May 2012. China also recently announced a small stimulus package and is pushing for more affordable housing. And on the supply side, it definitely helps that China is not a big producer of copper.

Onto the United States, the second largest consumer of copper. One bellwether of the U.S. economy is the auto industry. The recent strength in this sector has been well documented. According to the IHS, light vehicle production will reach 17 million vehicles by 2017 versus 14.5 million vehicles last year. This is close to the highs in the late 1990s and early 2000s, and represents a 17.2% increase. North American auto companies are operating at close to capacity, and global car and light truck production is expected to hit 100 million vehicles by 2015 from 80 million this year. That's a very strong 20% 2 year growth rate.

And finally Europe, which is the third largest global consumer of copper. Europe is finally showing signs that it is on the mend. Sentiment came in higher than expected in August and was the highest it's been since April 2010. In addition, industrial production rose 0.7% in June after falling by 0.2% in May. It's still early on in the recovery, but these signs are encouraging.

With a rather rosy economic picture in place, let's turn to some stocks that will benefit if copper continues to strengthen.

First Quantum Minerals ([TSX: FM](#))

First Quantum Minerals is the largest Canadian copper mining company, with a market capitalization of \$11.1 billion. Approximately 80% of its production is copper, and it also produces nickel (8% of production), zinc (11% of production), and gold (2% of production). First Quantum has a healthy balance sheet and good access to capital. It's probably the safest way to play a recovery in copper.

First Quantum bought Inmet Mining in April, which gave them access to the Cobre Panama project, which is expected to be a significant project in the copper industry. The company expects to release a revised capital cost budget and project timetable for Cobre Panama in Q4 2012.

The best part about this company however is the fact that they were free cash flow (defined as operating cash flow minus capital expenditures) positive in the latest quarter, and they are highly profitable with low cash costs. Another positive development is that the company is looking to refinance \$2.5 billion of debt and management has stated that they are seeing an appetite from the big banks. It's currently financed at LIBOR plus 2.75%.

Lundin Mining ([TSX: LUN](#))

Lundin has a market capitalization of \$2.6 billion and approximately 58% of Lundin's production is copper. Free cash flow in the latest quarter was negative \$118 million and as at the end of the second quarter of 2013, the cash balance on the balance sheet was \$229 million. Management has therefore planned to reduce and/or defer capital spending until copper prices strengthen.

HudBay Minerals (TSX: HBM, NYSE: HBM)

HudBay has a market capitalization of \$1.2 billion and 31% of its production is copper. Most interesting about HudBay is the fact that the company currently has a cash balance of \$1.07 billion or \$6.26 per share, and as we can see from the chart (trust us), this is pretty much exactly where the stock is trading right now. However, Hudbay is struggling to fund its different obligations. For example, the company reduced its semi-annual dividend in July to \$0.01 per share from \$0.10 per share. Furthermore, Moodys recently downgraded the company to B3 from B2, because they believe that HudBay will have to raise more debt in order to fund its growth plans. Its debt to equity ratio is currently at 42%. With the expected capital expenditure on Constancia alone of \$960 million, we can see that the risk is that the company spends through its cash in short order.

hudson bay chart

Image not found or type unknown

Bottom Line

With copper prices showing signs of strength due to some positive economic signals from around the world, it's a good idea to have our ideas on how to play a copper recovery ready for when (or if) we are ready to pull the trigger. First Quantum is the lowest risk way to play this theme, while HudBay, because of its funding issues, is probably one of the riskiest. The bottom line though is that copper, and therefore these stocks, have much upside potential should the global economy return to a period of increasing activity and growth.

Another resourceful opportunity

That being said, there could be better ways to unearth an emerging opportunity in the resource space. Instead of copper, your portfolio could be best served by uranium – the key ingredient for nuclear power. Not only is uranium in demand in places like China, but its price isn't quite as headline driven, which could make it a more valuable commodity to secure your portfolio.

If you're curious to learn more about uranium's power, the Motley Fool has prepared a Special FREE Report that will clue you into the two best uranium companies in Canada. It's called "[Fuel Your Portfolio With This Energetic Commodity](#)," and you can [receive a copy](#) at no charge by simply [clicking here](#)!

*The Motley Fool's purpose is to help the world invest, better. [Click here now](#) for your free subscription to **Take Stock**, The Motley Fool Canada's free investing newsletter. Packed with stock ideas and investing advice, it is essential reading for anyone looking to build and grow their wealth in the years ahead.*

[Follow us on Twitter](#) and [Facebook](#) for the latest in Foolish investing.

Fool contributor Karen Thomas does not own shares of any companies mentioned at this time. The Motley Fool doesn't own shares of any of the companies mentioned at this time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:HBM (Hudbay Minerals Inc.)
2. TSX:FM (First Quantum Minerals Ltd.)
3. TSX:HBM (Hudbay Minerals Inc.)
4. TSX:LUN (Lundin Mining Corporation)

Category

1. Investing

Date

2025/08/18

Date Created

2013/08/14

Author

karenjennifer

default watermark

default watermark