How to Bet on Mining… Without Buying Mining Stocks

Description

The past few years have not been kind to mining investors. Slumping commodity prices and rising costs have caused a lot of pain to nearly everyone invested in the sector.

Now that the sector is depressed, contrarians may be looking to step in. But mining companies tend to make mediocre businesses at best. After years of rising costs, poor returns, and broken promises, it's understandable that many investors would rather avoid mining stocks altogether.

Fortunately, there are good companies in Canada – companies that get good returns – that would benefit from a rebound in mining. They may be the best way to bet on a resurgence in the sector.

Finning International

Finning International (TSX:FTT) is the world's largest Caterpillar dealer, operating in Canada, South America, and the UK. Much like auto dealers, the key to Finning's business is parts and service, which accounts for about half of revenue, and a much larger percentage of profit.

Finning has shown it can earn high returns throughout the cycle – pre-tax return on invested capital averaged 18% from 2006 to 2012. Impressively, ROIC was above 10% in 2009, despite one of the worst mining environments in recent history.

Toromont Industries

Canada's other major Caterpillar dealer is **Toromont Industries** (TSX:TIH). Toromont's returns are just as high as Finning's – for example pre-tax ROIC was 26.5% in 2012 – even though parts & service accounted for only 30% of revenues.

Like Finning, Toromont has earned consistently high returns throughout the cycle. Return on equity has averaged 20% over the last decade, and never dipped below 9% in any given year.

Ritchie Brothers Auctioneers

Ritchie Brothers Auctioneers (TSX:RBA)(NYSE:RBA) is the world leader in heavy equipment auctions, making the company the **eBay** of heavy equipment. This gives it a fantastic advantage – buyers are drawn to the market with the most sellers, and sellers are drawn to the market with the most buyers. This means that RBA's lead in heavy equipment auctions is very difficult to penetrate.

This shows up in the company's numbers. Both revenue and earnings have grown every year except one over the past decade. Over this time period, dividends have grown every year. Longer term, the company hopes to achieve both EPS growth and ROIC of 15% per year.

Foolish bottom line

These three heavy equipment companies have all proven to be very consistent performers, even when the mining industry was getting battered.

Unsurprisingly, their share prices have not gotten beaten up nearly as much as the miners themselves. All three of them have either seen their share prices flatline or increase since 2011. Meanwhile, the **S&P/TSX Mining Index** has fallen by about 40%.

So even though these stocks are not as depressed as the mining stocks themselves, they still offer a great opportunity to bet on a mining recovery. And as an added bonus, their investors can sleep at night.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:RBA (Ritchie Bros. Auctioneers)
2. TSX:FTT (Finning International Inc.)
3. TSX:RBA (Ritchie Bros. Auctioneers)
4. TSX:TIH (Toromont Industries Ltd.)

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