



Is Copper Worth the Risk?

Description

Copper investing is not for the faint of heart. Production interruptions, price volatility, and significant capital outlays for expansion can spook companies and investors. What does it all mean for the following five companies?

1. Barrick Gold

Barrick Gold ([TSX: ABX](#))(NYSE: ABX) produced 539 million pounds of copper in 2013. As of December 31, 2013, the company's proven and probable mineral reserves were 14 billion pounds of copper. This year, the company expects copper production to be 410-440 million pounds.

Barrick's Lumwana copper mine is in Zambia and has a multi-decade reserve life. In 2013, it produced 260 million pounds of copper. But a processing disruption at Lumwana has caused Barrick to revise its copper production guidance. Barrick's copper production for Q1 2014 was 104 million pounds, down 18% over Q1 2013. This was because of lower production at Lumwana and at Zaldivar, in northern Chile. Barrick noted that Lumwana contains a large mineral inventory with strong leverage to increase copper prices.

2. First Quantum Minerals

First Quantum Minerals ([TSX: FM](#)) increased its copper production by 43% to 113,118 tonnes in the first quarter of 2014. It lowered its cash cost of production for copper to \$1.38 per pound. This represents a 9% decrease.

The company has its Kansanshi mine, 80% owned by Kansanshi Mining PLC, a subsidiary of First Quantum. The Kansanshi mine is the largest copper mine in Africa. Kansanshi can now produce 340,000 tonnes of copper (and more than 120,000 ounces of gold) each year. A multi-stage expansion project aims to increase copper output capacity to approximately 400,000 tonnes by 2015.

3. Freeport-McMoRan Copper & Gold

Freeport-McMoRan Copper & Gold ([NYSE: FCX](#)) is one of the globe's leading copper miners. For

Q1 2014, the company sold 871 million pounds of copper, versus 954 million pounds of copper for Q1 2013. "Our first-quarter results reflect solid operating performance in our North America, South America and Africa mining operations and a meaningful contribution from our oil and gas business, partly offset by the effects of reduced output from Indonesia and lower copper prices," Freeport-McMoRan said.

According to Thomson Reuters' GFMS Copper Survey 2014, copper prices are expected to remain under pressure for the rest of this year. The reason? The market has a moderate supply/demand surplus. In 2013, copper prices dropped to \$7,346 per tonne on an annual average basis.

4. Imperial Metals

Imperial Metals ([TSX: III](#)) had revenues of \$187.8 million in 2013 in comparison to \$199.4 million in 2012. This revenue decrease was because of lower copper and gold prices. In 2013, the company's Mount Polley Mine produced 38.5 million pounds of copper, versus 33.8 million pounds of copper in 2012. Its Huckleberry Mine produced 41.2 million pounds of copper in 2013, versus 35.1 million pounds in 2012.

For this year, its Mount Polley mill throughput has been excellent, with an average daily throughput of 23,930 tonnes per day achieved in April. A new hydraulic excavator was commissioned in the mine. Additionally, Imperial Metals installed a fleet-management system to increase productivity and reduce costs.

5. Southern Copper

Southern Copper ([NYSE: SCCO](#)) is set to commence construction on its important Tia Maria copper project in southern Peru in the second half of this year. The company expects to produce 670,000 tonnes of copper in 2014, and approximately 800,000 tonnes of copper in 2015.

For Q1 2014, mine production grew by 13,683 tons, or 9.2%, versus Q1 2013. In Q1, operating cash cost per pound of copper before by-product credits was \$1.87. This represents a drop of 1.4% compared to \$1.90 in Q4 2013. This was chiefly because of lower production costs.

Cost containment is essential to the viability of mining companies. For example, Copperworldwide.com noted that at the 13th World Copper Conference in Santiago, Chile, delegates said they perceived a trend towards insourcing from traditional outsourcing in Chile. It said that miners were again investing more in their own management and operational efficiency.

Can copper provide long-term gains for companies and investors willing to endure short-term pain? With a price rebound, greater global demand, and cost controls in place, these companies could be positioned for growth.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:FCX (Freeport-McMoRan Inc.)

3. NYSE:SCCO (Southern Copper Corporation)
4. TSX:ABX (Barrick Mining)
5. TSX:FM (First Quantum Minerals Ltd.)

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