If You Have to Buy a Mining Stock, Make it This One

Description

No sector has taken more of a beating over the past year than mining. The main problem has been a slowdown in investment activity in China, which has put some serious downward pressure on commodity prices. But the worst may be yet to come. Many observers think that China's investment boom is in bubble territory. If they are right, and there is a crash, then commodity prices will surely sink further, spelling big trouble for mining companies.

If there is one mining company worth betting on, it's copper miner **First Quantum Minerals** (TSX: FM). Below are two reasons why.

1. A strong track record

First Quantum approaches mining projects differently than most other miners do. Instead of hiring other companies to develop mines, First Quantum prefers to keep the bulk of the work in house. That has allowed the company to keep costs under control, something that the mining industry in general does very poorly. Over its history, First Quantum has developed $2.4 billion worth of projects within 6% of budget.

The company also has a history of buying mining assets at a discount. For example, its flagship Kansanshi mine cost only $1.7 billion to build and develop. Not long ago, the consensus net asset value on that mine was $3.8 billion.

This long history of strong performance has shown up in First Quantum's share price, which over the last 15 years has returned 40% per year. Compare this with a company like **Teck Resources** (TSX: TCK.B)(NYSE: TCK), which has returned 13% per year over the same time period.

2. A decent outlook for copper

Last year First Quantum made over 70% of its revenue from copper sales, and copper accounts for the overwhelming majority of future growth too. Fortunately for First Quantum and its investors, the outlook for copper isn't as bad as it is for other commodities.

While the market currently is in surplus, there is very little exploration activity going on, and few mines are being built. Costs are increasing, too, which means that by the start of the next decade, there will be a looming deficit. Meanwhile, copper demand should hold up even if China stops constructing apartment buildings; there are plenty of other areas where copper is used, including transportation, hospitals, and consumer products.

Compare this with a commodity like steel. The metal is used primarily in building structures, making it more dependent on China's real estate boom than copper. This is bad news for a company like Teck Resources, which derives half of its gross profit from coal for making steel.

Over the past three years, First Quantum's shares have returned -4% per year, while Teck's have returned -21% per year. But as shown above, there's still a strong argument that First Quantum is the bigger bargain, and more deserving of a spot in your portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:FM (First Quantum Minerals Ltd.)
3. TSX:TECK.B (Teck Resources Limited)

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Date
2025/07/04
Date Created
2014/06/09
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