



## First Quantum Minerals Limited: The Only Mining Company You Should Think of Buying

### Description

If you're a serious long-term investor, you can go an entire lifetime without buying a single mining company. After all, Warren Buffett does not venture into this sector, and he's doing just fine.

It's easy to see why. Mining companies generally have zero pricing power versus their competitors, capital costs are high, and geopolitical risks can be overwhelming. Worse yet, mining is extremely cyclical, and capital routinely gets wasted in the sector. Finally, mining's rise has largely been on the back of China, whose rapid growth is arguably on shaky ground.

So if you decide never to buy a mining company, you're not missing much. However, there is one company you may want to consider: **First Quantum Minerals Limited** ([TSX: FM](#)). Below we take a look at why.

### A strong track record

First Quantum has built a fantastic reputation of buying assets cheaply and keeping development costs under control. In fact, the company has developed over \$2.4 billion worth of projects within 6% of budget, something very rarely found in mining. This is a big reason why First Quantum has outperformed so dramatically — since the company's shares became public over 15 years ago, they have compounded by over 30% annually.

The key to the company's success is its internal development team. While other miners outsource most of the work, First Quantum develops projects mainly in-house. This gives the company more control and flexibility over its projects. Competitors have shown that this is not an easy thing to replicate.

### Continued growth

First Quantum has demonstrated that it knows how to grow, and that is what the company is still doing. There's no better case in point than the Inmet acquisition.

Just to establish some context, Inmet was a large Toronto-based copper miner with a massive project in Panama. In fact, the project may have been too big for Inmet to take on — development costs were larger than the market value of the entire company! As a result, Inmet's shares traded at a big discount to net asset value.

In 2012, some of Inmet's top shareholders approached the First Quantum leadership team, saying that they would prefer First Quantum develop the project in Panama. The following year, First Quantum completed its acquisition of Inmet, again for less than net asset value. Fast forward to today, and the Inmet mines are set to contribute a major portion of First Quantum's growth, all of which were acquired for a bargain price.

### **A future for copper**

Nearly three quarters of First Quantum's revenues come from copper, an industry that currently seems unattractive. Supply is higher than demand, prices are under pressure, China could falter, and costs continue to rise.

However, underneath the surface, the future looks brighter. For one thing, exploration companies are having trouble getting financed, as are new projects. The ones that do start are rarely finished on time or on budget. Meanwhile, copper demand continues to increase as China and other developing markets grow their economies. So when looking more than five years into the future, the supply situation starts to look very tight, which should give a nice boost to prices.

### **The verdict**

There is a strong case to be made for First Quantum, but it is still a mining company, so if you want to stay away, no one can question you. However, if you want to add some mining exposure to your portfolio, this is without doubt the first place to look.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:FM (First Quantum Minerals Ltd.)

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