2 Reasons to Avoid First Quantum Minerals Ltd, and 1 Stock to Buy Instead

Description

Of all the mining companies in Canada, or perhaps even the world, none have a better track record than **First Quantum Minerals Ltd** (TSX: FM). Over the past 15 years, it has developed a reputation for buying assets very cheaply, and developing them within budget. These two traits are very rarely found in the mining industry.

Shareholders have clearly benefited along the way, with First Quantum shares returning 38% per year for the past 15 years. But there are still reasons to avoid the company, and two of them are detailed below. Then we show you a mining stock you should buy instead.

2 reasons to avoid First Quantum

1. Geopolitical risk

Let's take a look at where some of First Quantum's mines are located. The flagship mine for so many years has been Kansanshi, which is in Zambia. The company also has a big mine in Mauritania. Both of these countries have had their issues in the past. And First Quantum has been burned badly by geopolitical risk before – back in 2010, the company lost its mines in the Democratic Republic of the Congo to a government seizure.

Other countries have their own issues. For example, First Quantum inherited the Cobre Panama project when it acquired Inmet Mining in early 2013. And while Panama is a healthy country and a strong democratic government, costs could be an issue – the Panama Canal is being extended, putting a big strain on the company's workforce. If there are any delays in that project, First Quantum could pay through the roof to develop its mine.

2. Issues with copper

First Quantum made nearly three quarters of its income from copper last year, and this is a market that has its concerns.

On the demand side, weakness in the China growth story is a big problem. And many observers believe the situation in that country will get much worse. In a recent interview with Charlie Rose, short-seller Jim Chanos explained thoroughly why he’s betting against China. And how is he making that bet? By shorting companies that rely on China as a customer, such as miners.

Meanwhile, copper mine supply has not slowed down, having increased every year since 2010. As a result, the industry is in surplus, which even First Quantum acknowledges. At this point, it’s hard to tell when that will end.

1 stock to buy instead: Goldcorp

If you’re thinking of buying First Quantum, you’re clearly looking for a first-class operator. And over on the gold side, that company is without a doubt **Goldcorp Inc** (TSX: G)(NYSE: GG).

Unlike many of its peers, Goldcorp has done a fabulous job over the years. It has not gotten carried away in pursuit of growth, and does not have an overstretched balance sheet. And unlike First Quantum, Goldcorp operates in relatively safe geographies like Canada, the United States, Mexico, and Chile.

Better yet, gold is not subject to the same China concerns that copper is. And many other gold producers are cutting back, which eventually could put gold supply under some serious downward pressure.

Goldcorp may not often be thought of as a substitute for First Quantum. But as can be seen above, it should be.

CATEGORY

1. Investing

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

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