Why Now Could Be a Great Time to Buy First Quantum Minerals Ltd. or Teck Resources Ltd.

Description

The past three years have not been fun for mining investors. Over this time, the **S&P/TSX Capped Materials Index** has lost over 40%. Seemingly nothing has worked out well – gold has tanked, potash has had to deal with increased supply, and base metals producers have suffered from slowing growth in China.

That last category – base metals producers – may be an opportunity in this environment. Specifically, you may do very well to buy **Teck Resources Ltd.** (TSX: TCK.B)(NYSE: TCK) or **First Quantum Minerals Ltd.** (TSX: FM). Below we take a look at three reasons why.

1. Improving economies

Much of the miners' woes can be traced to China, whose slowing growth has led to reduced prices for products like steelmaking coal and copper. And the news from China could get a lot worse.

That being said, other countries could easily pick up the slack. The most important of these is India, a country of over 1.2 billion. Like China, India has also slowed down recently, mainly due to a dysfunctional government. But that could soon change – the new Prime Minister, Narendra Modi, has the right priorities, and his party has an outright majority in parliament. So we should see an end to the constant bickering and gridlock in India's government.

So ideally, India can reaccelerate, and make up for any shortcomings from China. Interestingly, a recent Goldman Sachs report predicted that India's growth rate would overtake China's by 2016. That would provide welcome relief for mining companies like Teck and First Quantum.

2. Falling oil prices

There are some very distinct winners and losers from oil's current slide. And the mining sector is a big winner, for a couple of reasons.

For one, countries like China and India should benefit nicely from falling oil prices. The two countries are big energy importers, and the fall in prices means extra money in the pockets of citizens, businesses, and governments. So these economies could get a nice boost, helping metals prices. The story is similar in other important markets.

Secondly, fuel makes up a big portion of a miner's costs (by one estimate, 25% of a miner's cost comes from fuel). So the energy plunge should help the mining sector make better margins.

3. Look at what happened last time

This all seems somewhat familiar. In the late 1990s, both metal and oil prices were severely depressed.

This helped countries like China, who were able to grow spectacularly, without paying too much for energy imports.

Meanwhile, supply struggled to catch up – remember, it takes years to build a mine from scratch. What followed was a long period of rising metal prices, and the shares of miners (especially First Quantum) rose tremendously. If history repeats itself, then this is something you definitely want to be a part of.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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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