Will Mine Acquisitions Pay Off for Lundin Mining Corporation?

Description

Over the past two years, **Lundin Mining Corporation** (TSX:LUN) has completed three major acquisitions: it picked up a copper mine in Chile, a nickel and copper mine in Michigan, and most recently a gold mine in Ecuador for $240 million. The mining company is betting that it's buying at the bottom of the precious and base metals cycle. It's a risky bet, but one that could pay off for long-term investors.

Company President Lukas Lundin told the *Financial Post* that the trio of opportunities the company pursued comes along every 10 years, if you're lucky. "I was buying assets because good companies had to sell them," he said.

"Freeport had to sell because it took on this debt buying oil and gas. Rio didn't really want to sell Eagle mine, but the board decided it was too small of an asset. Kinross didn't really want to sell Fruta Del Norte, but decided to refocus," Lundin added in an interview with the *Globe & Mail.*

For Lundin, success or failure depends upon an expected rebound in metals prices, particularly copper, according to analysts at Macquarie.

Macquarie analyst Daniel Greenspan says copper prices could soon recover after recently touching a five-year low, and purchasing shares of Lundin is a good way to play the red metal. With costs at the company's Candelaria and Eagle mines coming in better than forecast, Lundin has a clean balance sheet, Greenspan noted.

Macquarie sees copper reaching US$2.90/lb in the fourth quarter of 2015 and eventually hitting US$3.74/lb in 2018, with demand coming from Europe and infrastructure spending in China. Production rates at copper mines around the world are expected to rise, added Greenspan, projecting global production to reach 21 million tonnes next year, up from 17 million tonnes in 2012.

Chris Ecclestone, principal and mining strategist at London-based Hallgarten & Co, takes a wider view, postulating that in the broader markets investors rotate in and out of sectors.

"They rotate out of insurance into energy; out of energy and into retail; out of retail and into banks.

Eventually they will move into the mining sector and stocks that are big and have liquidity, like Barrick, Newmont and Freeport-McMoRan," Ecclestone said in an interview with *Equities.com*. "After that they'll move into other stories, like Teck Resources and Sherritt International as well as midsize companies like HudBay Minerals and Lundin Mining."

"They'll never go into the smaller stocks, but retail investors who have seen their Barrick shares go up will sell those and start buying their favourite juniors that they think are cheap," he added. "That's the way it works. And it will work that way forever."

In the long term, purchasing Lundin is a bet in the direction of metals prices, which have struggled recently. But a comeback isn't out of the question. And with Lundin shares relatively cheap at a little over $5 (down 6% year-to-date), taking a position may just work out for the patient investor.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. TSX:LUN (Lundin Mining Corporation)

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