These 3 Miners Could Soar in the Next Few Years

Description

Just about anyone would like to stay away from miners right now. That's understandable. Looking at the big picture, the **S&P/TSX Capped Diversified Metals & Mining Index**, which consists of the likes of **Teck Resources Ltd.** and **First Quantum Minerals Limited,** has fallen from a high of $1,600 in 2011 to the current levels of under $450, a multi-year decline of over 70%.

The **S&P/TSX Global Mining Index** gives a similar picture. From its 2011 high of $126, it has fallen to under $50, a multi-year decline of over 60%. The index's top holdings include **Goldcorp Inc.** (TSX:G)(NYSE:GG) and **Barrick Gold Corp**.

There's a chance that companies could go bankrupt. However, the ones that don't will come out stronger. Here are three miners that could soar as soon as demand for the base materials start picking up again.

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) has one of the best chance of survival because it is the world's largest silver streaming company. It doesn't run its own mines, which saves it a lot of money. It has contract agreements to buy gold and silver from other mines at a low fixed cost.

Silver Wheaton can also leverage itself on soaring prices of precious metals when that happens. At the end of the day, Silver Wheaton is your safest bet to gain exposure to precious metals.

At $15, it yields 1.8%. It is the cheapest it has been in a decade based on its price-to-book (P/B), price-to-sales (P/S), and price-to-cash-flow (P/CFL) ratios. Its P/B is 1.0.

Dominion Diamond Corp. (TSX:DDC)(NYSE:DDC) is a major diamond producer operating exclusively in Canada, and it's the world's third-largest producer of rough diamonds. The diamond producer supplies rough diamonds to the global market through its sorting and selling operations in Canada, Belgium, and India.

What I like about Dominion Diamond is that it has only had negative earnings once in the last 10 years, and its debt-to-cap is only 2%. So, it's unlikely to default. From its 52-week high of $24, it has fallen over 40% to $14, and it's hitting my buy zone of $12-14. Currently, it has a P/B of 0.7, the cheapest it has been since it hit a P/B of 0.4 in 2008.

Dominion Diamond has plans to invest $965 million in its Ekati mine from 2015 to 2020 and $157 million in its Diavik mine from 2015 to 2018. Other growth projects include Misery Main, which is coming into production in the first quarter of 2016, and the Jay Project, which is planned to come online in 2020. Dominion Diamond is expected to regain growth in 2016.

Goldcorp Inc.

Goldcorp is a gold miner operating in Canada, the United States, Mexico, and Latin America. Even in the midst of multi-year decline in gold prices, Goldcorp is still able to maintain an investment-grade balance sheet. Its S&P credit rating is BBB+ and its debt-to-capital is 15%, which is low compared to Barrick Gold's 48%.

From a 52-week high of $30, Goldcorp has fallen over 44% to $16.6 per share. It is the cheapest it has been in a decade based on its P/B, P/S, and P/CFL ratios. Its P/B is 0.6.

In conclusion

There's a reason why these miners are at historically low valuations. Demand has slowed and prices have declined. However, they could soar once demand for gold, silver, and diamonds starts to pick up. All three pay a dividend, but don't count on that dividend being secure because their company performance is based on commodity prices. Instead, consider these miners as potential turnaround opportunities for outsized gains.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:WPM (Wheaton Precious Metals Corp.)

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