



Investors Breathe Life into Commodity Stocks

Description

Over the last two days, we have been seeing some nice action in commodity stocks. Does this represent the beginning of a turnaround?

First Quantum Minerals Limited ([TSX:FM](#)): two-day return of over 60%

The big news out of the company is its efforts and commitment to strengthen the balance sheet in this difficult environment. Specifically, the goal is to reduce net debt by at least \$1 billion through a combination of asset sales and other strategic initiatives by the end of the first quarter of 2016.

The Cobre Panama project's total cost is now estimated to be \$5.95 billion (7% below the previous estimate), with **Franco Nevada's** initial contribution of \$330-340 million to be paid to First Quantum during October.

Furthermore, the company has already made certain moves to further protect cash flows, including a \$700 million reduction in capital expenditures planned for the year, a reduction in the workforce, and lower salaries. The work force has been reduced by 644 and salaries have been cut by 20%, all of which has led to annual savings of approximately \$420 million.

The company has also entered into hedges for approximately 170,000 tonnes of copper production (42% of total production) at an average price of \$2.411 per pound.

And, of course, also helping First Quantum shares lately has been the rise in copper prices, which have risen to the highest prices since September 21, as the International Study Group has concluded that the global copper market will be tighter than expected, as production cuts have taken their toll on supply. Copper is currently trading at just over \$2.30 per pound and has come down from highs of almost \$4.50 per pound in 2011-2012.

The stock trades at a price-to-book ratio of 0.4, and with the improvement in the balance sheet, probably represents a good opportunity for investors to consider.

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK): two-day return of 30%

Teck Resources is a base metal and energy producer, having exposure to copper, coal, zinc, and oil. So, it is also reacting to the strength in copper and oil prices. However, looking at the company from a long-term perspective, with steel-making coal accounting for 32% of revenues in 2014, the company is no favourite among investors, for good reason.

The balance sheet is not that bad, with a debt-to-cap of 32%, but with a commitment for further spending on Fort Hills, and a possible write-down of the Fort Hills asset, there seems to be too much uncertainty surrounding this company at this time.

The company is cash flow positive, generating \$704 million in the second quarter of 2015, with capital spending at that level as well.

CATEGORY

1. Investing

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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Author

karenjennifer

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