



Now May Be the Time to Look at Zinc: Lundin Mining Corporation

Description

Lundin Mining Corporation ([TSX:LUN](#)) is a mining company not many Canadian investors have heard of, but it has shown relative stability and profitability in recent years in a mining sector which has been plagued by volatile commodity prices and reduced margins.

Lundin operates mines that are not 100% focused on gold or silver; rather, they're focused primarily on zinc, copper, and nickel.

The commodity price charts for these minerals tend to move differently than those of gold or silver, so I would suggest readers take a look at a five-year chart of the commodity price of zinc and compare it to gold. Then take that same chart and compare it to the five-year stock price of Lundin. They're different correlations altogether.

I'm going to take a look at Lundin's proposed expansion of an existing zinc mine in Portugal, and what that may mean for investors interested in diversifying mining exposure across different minerals.

Mine expansion

On Thursday, Lundin announced the results of a feasibility study done on its proposed zinc expansion project for its Neves-Corvo mine in Portugal, betting that the price of zinc will continue to climb higher — a direction the metal has been trending since the beginning of 2016.

Zinc prices have remained relatively stable around the \$2,000-per-tonne level over the past five years, dipping to \$1,500 per tonne around the beginning of 2016 and since rebounding to close to \$3,000 per tonne over the past few months. The price for zinc was \$2,591.97 as of May 10 close.

These higher zinc prices have made mine expansions even more lucrative, and Lundin has indicated that this expansion project in particular should yield peak production of 180,000 tonnes per year, stabilizing around the 150,000-tonne-per-year level between 2020 and 2030, along with significant increases in the production of other minerals, such as lead.

The company has listed the current net present value (NPV) of this project as €180 million — a number

which will obviously increase should the price of zinc continue to climb, or at least stabilize at a higher level. Using a discount rate of 8%, the company was able to achieve an IRR of 22% — an impressive number given the rather conservative assumptions used in the model.

Bottom line

A non-traditional mining play, while perhaps more time intensive to analyze, can be a very effective way of adding another hedging category to a portfolio, even in a portfolio with some gold or silver exposure. Lundin's proposed expansion project should provide the company with increased earnings within a five-year window — perfect for long-term investors.

Stay Foolish, my friends.

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