



Base Metals Miners Are Poised to Soar in 2018

Description

Base metals such as copper, zinc, and nickel have been caught in the doldrums for some time, but despite the latest market meltdown, there are signs that 2018 is shaping up to be a solid year for the widely used metals. Renewed demand combined with lower-than-projected supplies makes now the time for investors to consider adding miners such as **Teck Resources Ltd.** ([TSX:TECK.B](#))([NYSE:TECK](#)), **Sherritt International Corporation** ([TSX:S](#)), and **First Quantum Minerals Ltd.** ([TSX:FM](#)) to their portfolios.

Now what?

When it comes to commodities, especially base metals, it all boils down to China, which is responsible for consuming 50% of all base metals globally. The latest [developments](#) surrounding China's economic outlook and the global economy bode well for increased demand. The International Monetary Fund (IMF) upped its growth forecast to 6.6% for 2018, and despite waning manufacturing activity, there are signs that China's gross domestic product (GDP) could grow at a faster clip. That, according to some analysts, is despite declining manufacturing activity.

Nonetheless, the recent softness in the industrial sector could be due to Beijing's desire to rein in heavily polluting and non-productive industries rather than a downturn in genuine economically productive activity. There are also China's plans to further invest in much-needed infrastructure projects, notably in the transportation sector, which will also stimulate growth and demand for base metals, especially steel.

A weaker U.S. dollar has also been further stimulating demand for many base metals, notably copper and zinc. Base metals are priced in U.S. dollars, and a downturn in the dollar can spur demand, because it makes it cheaper for base metals to be purchased in other currencies.

Nevertheless, the whole story is not solely about growing demand. The other side of the equation relates to supply, and it is here where it gets particularly interesting for base metals.

Stockpiles for many base metals have been in decline over the last year in part because of lower output from mines and higher-than-expected demand.

Nickel inventories in China fell to their lowest level in 10 years this week, and the metal's price has risen by a healthy 22% over the last year. This will act as a powerful tailwind for nickel miner Sherritt. The miner's fourth-quarter 2017 adjusted EBITDA for its metals mining business shot up by a massive 66% compared to a year earlier, and 2018 nickel production is projected to grow by up to 13% compared to 2017, giving Sherritt's earnings a further lift.

A similar phenomenon is giving copper a solid lift with the red metal's market price having gained 11%, which will give Teck and First Quantum's earnings a solid bump in coming months, because both generate a significant amount of earnings from mining copper. Teck also stands to benefit from firmer [demand for steel](#), because, as Canada's largest miner of coking coal, it earns just over half of its gross profit from steel-making coal.

The growing demand for stainless steel will also benefit Sherritt, because nickel is used in the fabrication of a wide range of steel alloys. It will also act as a tailwind for **Labrador Iron Ore Royalty Corporation (TSX:LIF)**, which owns a 15.1% equity interest in the Iron Ore Company of Canada. The company receives a 7% gross overriding royalty and a 10-cent-per-tonne commission on all iron ore products produced, sold, and shipped by the Iron Ore Company of Canada. That means it will benefit from higher steel prices, which some analysts have predicted will rise by 10%, and greater production volumes.

In the past, any solid earnings growth has resulted in the payment of special dividends, which, for 2017 alone, lifted its yield to an impressive 10%.

So what?

The increased bullishness surrounding the entire base metals complex makes now the time for investors to boost their exposure to nickel, copper, and steel miners before the optimistic outlook for the underlying commodities is fully priced in.

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:LIF (Labrador Iron Ore Royalty Corporation)
4. TSX:S (Sherritt International Corporation)
5. TSX:TECK.B (Teck Resources Limited)

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Date

2025/07/02

Date Created

2018/02/14

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