2 Market-Beating Mining Stocks for Your TFSA

Description

Last year was a great year for copper and zinc producers. Copper price surged by 30% to US$3.27 a pound in 2017, reaching a four-year high. The copper price has gained more than 50% in value since hitting a multi-year low at the beginning of 2016.

The rally for zinc has been even more spectacular, ending 2017 at a decade high of US$3,330 a tonne. The zinc price has more than doubled since it hit bottom two years ago.

The surge in copper and zinc prices has been beneficial for producers of those metals. Since copper and zinc prices are expected to continue to rise this year, it's a good time to buy shares of copper and zinc producers.

I present below two companies in the metals and mining sector that produce both copper and zinc. Both stocks have outperformed the TSX in 2017, and I expect it will be the case again this year.

Hudbay Minerals Inc. (TSX:HBM)(NYSE:HBM)

This integrated mining company's stock rose by 45.2% in 2017, far above the return of 6% achieved by the TSX.

Hudbay reported a strong rise in profit and revenue in the fourth quarter of 2017 due to higher copper and zinc prices.

While Hudbay incurred a loss of US$47.3 million in 2016 fourth quarter, it reported a profit of US$99.7 million, or US$0.38 per share, in the fourth quarter of 2017. This beats analysts' estimates, who'd expected EPS of US$0.25.

For 2017, Hudbay reported a profit of US$164 million versus a loss of US$35.2 million in 2016.

Hudbay's quarterly revenue soared by 31% to US$414 million, beating analysts' estimate of US$368.7 million.

The miner continues to grow positive free cash flow and is reducing debt. Operating cash flow was US$172 million in the fourth quarter of 2017, a 41% increase from the fourth quarter of 2016. For the full year, Hudbay increased its operating cash flow by 37% to US$531 million.

Hudbay reduced its net debt position by US$462 million from US$1.09 billion at the end of 2016 to US$623 million at the end of 2017.

Hudbay's stock is deeply undervalued. Indeed, its forward P/E is very low at 9.4. If you look at the PEG expected over five years, it is only 0.14. That means the stock is very cheap relative to its high expected future growth, which is expected to be 71.3% per year on average for the next five years. Rising trends in copper and zinc prices will drive growth for this miner.

Lundin Mining Corp. (TSX:LUN)

This diversified base metal mining company's stock rose by 32.5% in 2017.

Net earnings were US$133 million, or US$0.18 per share, in the fourth quarter of 2017, down from US$148.7 million a year earlier. This beats analysts' estimates, who expected earnings of US$0.14 per share. Net earnings for 2017 increased by 302% from US$92.4 million to US$371.4 million.

Lundin's quarterly sales amounted to US$533.3 million — up 16% from the fourth quarter of 2016. Analysts expected lower sales of US$528 million.

The mining company reported operating cash flow of US$230.1 million in the fourth quarter of 2017 — an increase of 113% from the last quarter of 2016. For the full year, the company reported operating cash flow of US$903.5 million — an increase of 149% from a year earlier.

Lundin improved its balance sheet significantly: it had a net cash position of US$1.1 billion at the end of 2017 compared to a net debt of US$284.1 million at the end of 2016.

With a PEG expected over five years of only 0.4, Lundin is undervalued. Earnings are estimated to grow at a high rate of 44.5% per year on average over the next five years. Like Hudbay Minerals, Lundin Mining will profit from higher copper and zinc prices.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:HBM (Hudbay Minerals Inc.)
2. TSX:HBM (Hudbay Minerals Inc.)
3. TSX:LUN (Lundin Mining Corporation)

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