2 Miners Poised to Beat the Market

Description

The outlook for most commodities has improved significantly since the end of 2016. Some of the biggest gains have been made by copper, zinc, and nickel. There are signs that despite the jitters created by Trump's trade policies, base metals will continue to firm, as the global economic upswing drives greater demand for metals and other commodities. This makes now an opportune time for investors to consider **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK) and **Sherritt International Corporation** (TSX:S).

Now what?

Over the short term, firmer demand from China is expected to sustain higher metals prices, while the ever-growing popularity of electric vehicles will act as a powerful long-term tailwind for copper and nickel. This, according to analysts, will push copper and nickel prices higher during 2018, while zinc prices will peak during the year.

Copper and nickel are integral elements used in the fabrication of electric vehicles and their batteries. Both metals perform well during times of global economic expansion.

While Trump's trade policies and the threat of a trade war with China could derail the positive outlook, there are signs that the impact of those policies may not be as great as initially feared. Analysts expect that growing demand from the automotive and consumer goods manufacturing industries will offset any dip in demand caused by those threats. Higher copper, nickel, and zinc prices will also be supported by emerging supply constraints caused primarily by a lack of investment in exploration and mine development during the prolonged downturn.

Another factor helping boost demand is China's ongoing investment in infrastructure projects and state-sponsored social housing. This will drive greater consumption of steel, buoying steel-making coal, nickel, and iron ore prices. These factors bode well for metals miners during 2018.

Teck is Canada's largest coking coal miner. It reported record revenues and cash flow from operations for 2017 because of substantially firmer steel-making coal, copper, and zinc prices. Falling operating expenses during the year saw Teck's margins expand, and this trend will continue into 2018, boosting the miner's profitability. The recent rally in crude, which sees West Texas Intermediate trading at over US$65 per barrel, will also benefit Teck because of its 21% interest in the Fort Hills oil sands project.

The extra cash flow generated by higher metals and coking coal prices in 2017 allowed Teck to pay a supplemental dividend of an additional $0.40 to shareholders at the end of the year. There is every likelihood that it will pay a further supplemental dividend in 2018 if steel-making coal, copper, and zinc prices remain firm.

Nevertheless, Teck's production of copper and steel-making coal are forecast to remain relatively flat during 2018, which means it won't experience the same substantial increase in earnings that occurred in 2017. This will limit the upside available for investors.

It is here that Sherritt becomes an interesting but riskier play on higher metal prices. The nickel and cobalt miner, which has seen its stock punished in recent months to be down a massive 38% for the year to date, is a world leader in mining nickel. The miner's price has been weighed down by an overbaked perception of risk because of a heavy debt load, which forced it to restructure its balance sheet.

Sherritt has been able to eliminate $1.4 billion of debt and repaid $425 million in debentures. It also has no major liabilities due for three years, giving it plenty of time to benefit from higher nickel, cobalt, and oil prices, which will boost cash flow, allowing to further reduce debt.

There is also considerable concern about the degree of geopolitical risk associated with its operations because of its partnership with the Cuban government in the Moa and Fort Site mines, which are responsible for over half of its finished nickel production. Sherritt's oil and gas operations are also located in Cuba, magnifying those apprehensions.

However, the thawing of relations between the U.S. and Cuba, along with Havana's growing desire to modernize its economy, mitigates much of this risk.

The shift to electric vehicles, which is driving greater demand for nickel as well as cobalt, as well as the recent surge in crude will both give Sherritt's earnings a healthy lift, bolstering earnings and ultimately its shares.

So what?

The positive outlook for metals will give both miners earnings a solid boost. While Teck is the less-risky opportunity, there are signs that Sherritt offers considerably greater upside, albeit with significantly more risk.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:S (Sherritt International Corporation)
3. TSX:TECK.B (Teck Resources Limited)

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