2 Miners to Cash In on the Buoyant Outlook for Metals

Description

Despite growing Middle East tensions and the threat of a trade war, the outlook for many commodities, including base metals such as copper, zinc, and nickel, remains positive. This can be attributed to the global economic upswing and supply constraints because of a lack of investment in exploration in mine development during the protracted slump in metals.

According to a recent report from **Bank of Nova Scotia**, tightening supply and rising demand will push metals prices higher with them expected to see strong fundamental support in coming months. That bodes well for miners, including copper miner **First Quantum Minerals Ltd.** (TSX:FM) and diversified metals miner **Hudbay Minerals Inc.** (TSX:HBM)(NYSE:HBM).

Now what?

Scotiabank analysts expect copper to average US$3.10 a pound over the course of 2018 and then rise to US$3.25 a pound during 2019. They expect zinc to surge to US$1.60 per pound during 2018 which is 9% higher than the current spot price. Those prices will more than likely remain in play for a sustained period because of tightening supplies and rising demand. Much of that is being driven by the ongoing global economic upswing as well as the rapid expansion of India's and China's economies.

You see, both copper and zinc are important elements used in the fabrication of a range of manufactured goods as well as construction. That is good news for First Quantum, because copper is responsible for generating most of its earnings. Because of projected low all-in sustaining costs (AISCs) of US$1.65-1.85 per pound of copper produced, firmer prices will give First Quantum's bottom line a healthy bump — even more so, because First Quantum has successfully completed a program to reduce expenses, causing AISCs to fall by 24%.

The miner's stronger balance sheet and well-laddered debt profile, where there are no material repayments due until 2021, endow First Quantum with considerable financial flexibility. Growing cash flow from higher copper prices and improved margins will allow the miner to bolster its coffers and reduce debt, strengthening its balance sheet further.

The optimistic outlook for copper and zinc will also benefit diversified miner Hudbay, which earns 63%

of its revenue from copper and 24% from zinc. It also reported some impressive AISCs for 2017, which came to US$1.52 per pound produced. That highlights the profitability of Hudbay's assets, particularly in an environment where copper and zinc are expected to firm further.

Unsurprisingly, Hudbay intends to ramp up its mining of precious metals during 2018 to take advantage of firmer gold and silver prices. Gold is responsible for 9% of the miner's revenue, while silver contributes 3%, and despite pulling back in recent days, as geopolitical tensions in the Middle East as well as on the Korean Peninsula eased, gold is still trading at over US$1,300 per ounce. By boosting its 2018 precious metals production by up to a remarkable 45% year over year, Hudbay's earnings will grow substantially.

So what?

Both miners are solid investments for investors seeking exposure to the positive outlook for base metals. The prolonged slump in metals and other commodities saw them focus on reducing costs and strengthening their balance sheets, leaving them primed to unlock value for investors now that metals prices are climbing again.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:HBM (Hudbay Minerals Inc.)
2. TSX:FM (First Quantum Minerals Ltd.)
3. TSX:HBM (Hudbay Minerals Inc.)

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