Hudbay Minerals Inc. Is Attractively Valued and Ready to Grow

Description

The optimism surrounding the outlook for base and precious metals continues to grow. This has been a boon for Canadian miners such as **Teck Resources Ltd.**, **First Quantum Minerals Ltd.** and **Hudbay Minerals Inc.** (TSX:HBM)(NYSE:HBM). All three miners have seen their shares firm over the last year to be up by 32%, 69%, and 21%, respectively. There are signs of even more good times ahead for miners and Hudbay; because it has lagged behind its peers, it remains one of the top picks for investors seeking to cash in on firmer metals prices.

Now what?

For the first quarter 2018, Hudbay missed analyst expectations, reporting earnings of US$0.16 per share compared to the average analyst estimate of US$0.18. This is despite the miner reporting a 9% year-over-year increase in production and sharp uptick in net earnings, which, at US$0.16 per share, was a significant improvement over the US$0.04 per share loss reported a year earlier. Operating cash flow for the quarter also shot up by a very healthy 64% year over year, highlighting the positive effect provided by firmer copper, zinc, and precious metals prices.

The upbeat outlook for those metals indicates that Hudbay's earnings will continue to grow over the course of 2018.

You see, growing demand from the rapidly growing economies of China and India combined with short- to medium-term supply constraints will push prices higher over the course of this year and the next. This is because copper and zinc are key elements used in a wide variety of manufacturing and construction processes. That uptick in growth is being supported by a broader global economic upswing , which is causing demand for manufactured goods from China to expand.

As a result, some analysts are predicting that copper could rise by as much as 10% in value this year, while zinc could increase by up to 30%. If that were to occur, it would give Hudbay's earnings a solid lift, because those metals are responsible for the majority of its earnings. When considered in conjunction with Hudbay's low all-in sustaining costs (AISCs) of US$1.45 per pound produced, which is US$0.01 per pound lower than a year earlier, the miner's profitability will grow.

Hudbay also continues to maintain a solid balance sheet. It ended the first quarter 2018 with considerable liquidity, holding US$393 million in cash on hand, while long-term debt came to a manageable US$979 million. As cash flow and earnings rise because of firmer metals prices, Hudbay will be able to further reduce that debt, increasing its financial flexibility.

So what?

Investing in miners can be a risky proposition. It is a capital-intensive industry with considerable risks, which are magnified by the cyclical nature of commodities.

Nonetheless, the commodities cycle has returned to growth, and this is driving an upbeat outlook for base metals such as copper and zinc. That combined with Hudbay's attractive valuation and growing earnings makes it an appealing investment for those investors seeking to boost their exposure to base metals.

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