



Is This the Best Miner to Cash in on Higher Base Metal Prices?

Description

The prolonged slump in [base metals](#) came to an abrupt halt in late 2016 when growing demand coupled with supply constraints pushed metals such as iron ore, steel, copper, nickel, and zinc higher. While prices for iron ore and steel have softened the outlook for copper, zinc and nickel remains optimistic. The future for copper is upbeat because of increased industrial demand primarily from China, where manufacturing activity continues to expand.

You see, because of its conductive qualities, copper is an integral element used in many industrial applications. It is also widely used in construction, and the renewed focus by Beijing on [stimulating growth](#) by investing in critical infrastructure will push copper consumption higher. This is all good news for Canadian metals miner **First Quantum Minerals Ltd.** ([TSX:FM](#)).

Now what?

First, Quantum derives the majority of its earnings from mining copper, with the remainder coming from gold. The miner has seven operational mines and four development stage projects, including the massive Cobre Panama mine, which is expected to start production in 2018 and ramp up to full commercial operations by 2020. That mine will give First Quantum's production a significant lift, adding up to 300,000 tonnes of copper annually by 2020 to the miner's total output.

For the first quarter 2018, copper production grew by 10% year over year to 145,358 tons, while cash costs per pound produced remained flat compared to a year earlier and were 2% lower compared to the previous quarter. Those solid results coupled with higher copper prices, which saw an average realized price of US\$2.74 per pound compared to US\$2.20 a year earlier, gave First Quantum's bottom-line a healthy bump. The miner's net income for the quarter was US\$47 million compared to a loss of US\$114 million a year earlier, while comparative EBITDA shot up by an impressive 38% year over year.

Quantum's bottom line will likely continue to grow during 2018 and into 2019 because annual production is expected to expand by 3% and 4%, respectively, when compared to 2017. Gold production will also grow during those years, but only marginally. This bodes well for increased revenue and a stronger bottom line performance, particularly in an operating environment where

copper prices are firming.

Another appealing element of First Quantum is that it continues to maintain a solid balance sheet with considerable liquidity. At the end of the first quarter, the miner was in compliance with its financial covenants, with US\$810 million of cash on hand along with almost US\$1.7 billion in undrawn credit facilities.

Nonetheless, like any miner operating in developing nations, First Quantum is experiencing its share of problems. It is embroiled in a legal wrangle as well as a taxation dispute in Zambia with no end in sight for either. The taxation dispute is somewhat worrying, as it has a potential quantum of US\$8 billion once penalties and interest are included. However, First Quantum remains determined to dispute the Zambia Revenue Authority's initial finding and is negotiating with said authority.

So what?

First Quantum is an attractive play on higher copper and other metals prices. Its strong balance sheet, ample liquidity, and quality operations combined with higher copper means that its earnings will grow, especially once the Cobre Panama project comes online later this year.

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