



Trump's Trade Rhetoric Makes Now the Time to Buy This Miner

Description

Trump's [policies on trade](#) and his erratic as well as inflammatory rhetoric on China has introduced an unanticipated degree of volatility to the global economy. It is also impacting commodities, notably industrial metals with copper alongside silver being among the hardest hit. The red metal, which, because of its widespread industrial use, is a gauge of global economic health and has plummeted sharply in recent weeks to be trading at close to its lowest level since July 2017. Even industry insiders including Chilean copper miner **Antofagasta PLC** has cautioned the market about the impact of trade tensions on copper and the resultant poor outlook for the metal.

As a result of the growing pessimism surrounding copper and weaker prices, miner **First Quantum Minerals Ltd. (TSX:FM)** recently saw its stock decline sharply to be down by 13% since the start of 2018. Nevertheless, this is still significantly less than the **Global X Copper Miners ETF**, which has shed 28% over the same period, indicating just how fearful the market has become because of Trump's position on trade.

Nonetheless, recent events have created an opportunity for contrarian investors seeking to boost their exposure to industrial metals, and copper miner First Quantum offers an attractive opportunity to gain exposure to the red metal.

Now what?

First Quantum reported some solid second quarter 2018 results. Quarterly copper production was 6% greater than the equivalent period in 2017, although costs during the quarter rose compared to a year earlier. Cas costs per ounce sold were US\$1.28 per pound or 7% higher, while all-in sustaining costs (ASICs) – a key measure of operational profitability – were 12% greater, thereby reflecting higher royalties in Zambia and increased capital expenditures. Even with copper trading at US\$2.56 a pound, First Quantum's AISCs indicate that the miner will remain profitable, especially as its focus on cutting expenses gains traction.

The strength of its second-quarter earnings was further borne out by gross profit tripling year over year to US\$271 million and EBITDA surging by a remarkable 75% to US\$466 million. As a result of this

notable financial performance, First Quantum reported second quarter net earnings of US\$135 million, which was a vast improvement over the US\$35 million loss announced a year earlier.

While weaker copper and the less than optimistic short-term outlook for the metal means that First Quantum's earnings over the remainder of 2018 may not be as strong, the miner is on track to meet full-year guidance and deliver credible results.

The consensus is that over the [long-term, demand](#) for copper will remain strong. The growing popularity of electric vehicles, Beijing's planned economic stimulus and better than expected global economic growth will all serve as positive catalysts for the red metal. Greater long-term demand for copper will act as a powerful tailwind for First Quantum boosting earnings as well as profitability, which should boost its market value.

This will be further supported by the Cobre Panama project, which is 80% owned by First Quantum and expected to commence production in 2019. Development of the mine and its supporting operations was 76% complete at the end of the second quarter. On commencing production, Cobre Panama is expected to produce 150,000 tons of copper in its first year and eventually reach 350,000 tonnes annually by 2021, giving First Quantum's earnings a significant lift.

First Quantum's balance sheet also remains in good shape. It finished the second quarter with US\$1.5 billion of cash and US\$6.4 million of long-term debt, which is a manageable three-times trailing cash flow from operations.

So what?

Recent market jitters over the short-term outlook for copper has created an opportunity for investors seeking exposure to the red metal. This is because analysts expect it to outperform over the long term, and this view is supported by a range of underlying fundamentals. Leading copper miner First Quantum stacks up as an attractive means of betting on higher copper over the long-term.

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