



3 Mining Stocks With Plenty of Upside/Downside Risk

Description

In this current commodity price environment, the mining space is filled with excellent opportunities. That said, risk levels have risen sector-wide, leading to much of the decline in equity values in this space. Here are three of my top picks for investors looking for a decent risk/reward return in this space.

Hudbay Minerals

For those interested in gaining exposure to the [base metals](#) space, **Hudbay Minerals Inc.** ([TSX:HBM](#))([NYSE:HBM](#)) is certainly one of the better Canadian options out there, with a significant runway for long-term growth given the company's current portfolio of high quality assets, which are mainly focused on copper and zinc.

Because Hudbay mainly focuses on industrial metals such as copper, and less so on precious metals such as gold, investors can play long-term broader economic growth with this company relative to short-term economic trends that are better served by trading gold and gold producers.

Recently, Waterton, one of the company's top five shareholders, called on Hudbay to halt discussions of large acquisitions until the company's current asset base is fully monetized and the company's follow-on capital requirements for its key assets such as its Rosemont copper project in Arizona are sorted out.

Many analysts (yours truly included) believe that any sort of debt or equity-driven acquisition in the near-term could result in value destruction for shareholders, making this company a great option for long-term investors, but with some downside risk in the near term.

Barrick Gold

One of my favorite pure-play gold producers right now has to be **Barrick Gold Corporation** ([TSX:ABX](#))([NYSE:ABX](#)). The company recently engaged in one of the largest deals in the precious metals mining space in history, acquiring U.S. gold producer **Randgold Resources Ltd.** [US\\$6.5 billion](#) ([NASDAQ:GOLD](#)), creating a combined entity that will be the largest in the world.

In the gold mining space, the size and scale (in terms of number of ounces mined as well as reserves) will drive the valuation discussion in the long term for most gold producers, over and above the price of gold. In that regard, the cost advantage that a company like Barrick will be able to provide investors should lead to out-sized returns over time.

Goldcorp

A company that tends to move in lockstep with Barrick, **Goldcorp Inc.** (TSX:G)(NYSE:GG), remains one of the largest gold producers in North America and could potentially benefit from an environment of increased M&A activity in this space over the next decade or two, if I'm right.

I see an investment in a company like Goldcorp in addition to the aforementioned two options as an excellent diversification play and an opportunity to reap the long-term benefit of sector consolidation in the precious metals arena.

It has been empirically proven that gold under-performs broader equity markets over the long-term. However, as we're now (I believe) nearing the end of one of the longest bull markets in history, ramping up one's hedges in this space could be very beneficial to an investor with a long-term outlook in this current market.

Stay Foolish, my friends.

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