



## Lundin Mining Corporation (TSX:LUN) May Go on Steroids This Year

### Description

With nearly two-thirds of its revenue coming from copper, **Lundin Mining** ([TSX:LUN](#)) could be poised to go on steroids over the next decade. At least that's the opinion of one **Citigroup** analyst.

"Prepare for a decade of Dr. Copper on steroids," noted a recent Citigroup report, which forecasted prices of US\$8,000 per tonne in 2022, rising to \$9,000 per tonne by 2028.

"We look beyond the potential trade war to longer-term copper market fundamentals and we find that current prices of \$6,200 a tonne are nowhere near high enough to enable the market to clear," the report continued. "Copper is set to outperform most other commodities under our coverage over the coming decade on a lack of mine supply growth."

It's a bold call, but one that's substantiated by several factors. Let's take a closer look at why Lundin Mining could be a big benefactor if copper spikes long term.

### A perfect storm of supply and demand

Two classic drivers are setting up a perfect storm for copper prices: supply and demand.

Over the next decade, burgeoning renewable energy and electric vehicle infrastructure will provide a strong base for consistent demand growth. Through 2030, demand is expected to grow at around 3% per year. While that may not seem overly impressive, this demand growth is contrasted by shrinking supply — a surefire way to boost prices.

Over the next few years alone, copper is expected to flip to a market-wide deficit. With demand growth outstripping production gains, the market may remain undersupplied through 2021.

Citigroup isn't alone in its bullishness. An analyst for **Australia and New Zealand Banking Group** recently told *Bloomberg* that the "overall lull we're seeing in project development will start to weigh on the market and we'll start to see supply fall well behind what are relatively conservative demand forecasts."

With structural deficits about to plague the market for years to come, it's hard not to be positive on copper over the long term.

## Here's how Lundin Mining will win

Last year, Lundin Mining produced 199,630 tonnes of copper for an average selling price of \$2.79 per pound. That selling price actually decreased by 6% from 2017 levels of \$2.98 per pound. Still, the miner made a healthy profit given its low production costs of just \$1.68 per pound.

In 2019, costs are expected to fall to just \$1.60 per pound, while production is anticipated to rise by 10-15%. By 2021, production should rise by nearly one-third. With strong production growth and falling costs, Lundin Mining is perfectly positioned to benefit from rising prices.

By 2021, Citigroup expects copper prices to rise by around 20%, fueled by supply deficits. That could push Lundin Mining's selling price closer to \$3.40 per pound. At that price, margins would rise from 40-50%. Combined with a 33% increase in output, the company's cash flow could easily rise by 50% or more within three years.

## How much can the stock rise?

If these results are achieved, Lundin Mining would likely see its valuation multiples rise. But even assuming a steady multiple, investors are set to generate annual returns in excess of 15% over the next few years. The next decade could bring even steeper gains.

While commodities and mining in general can always be volatile, Lundin Mining looks like an ideal bet for long-term returns.

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