3 Reasons Why This TSX Stock Is a Hidden Gem

Description

For investors focused on growth, investing in the shares of **Lundin Mining** (TSX:LUN) for the long term can fetch exceptional returns. Lundin Mining is a diversified base metals mining company that owns five mines in the low-risk and safe regions.

Moreover, the company maintains a strong balance sheet and has a low leverage profile, implying it can survive the current crisis. The COVID-19 outbreak didn't have any material impact on Lundin Mining's operations and shipments. However, the slowdown in demand due to the lower industrial activity did impact the prices of metals, including copper, nickel, and zinc.

Investors should note that Lundin Mining's competitive cost structure continues to drive its cash flows, thus supporting its operations and dividend payouts even amid low metal prices.

While low metal prices pose near-term challenges, Lundin Mining's fundamentals remain intact. Further, Lundin Mining's three major growth pillars position it well to gain in the long run.

Production ramp-up

Lundin Mining's years of business re-investments are beginning to pay off. The company's production volumes are forecast to increase significantly, thanks to the acquisition of the Chapada mine last year. The acquisition is likely to boost the production of copper and gold in the coming years.

Investors should note that Lundin Mining generates nearly 80% of its total revenues from copper (about 65%) and gold (about 15%), the production of both is expected to increase significantly.

The company expects the production of copper to increase to 294 Kt – 318 Kt by 2021 from 235 Kt in 2019. Meanwhile, the production of gold is projected to increase to 180 koz – 190 koz by 2021 from 142 koz in 2019.

Cash cost to decline

As the company ramps up production volumes, the cash cost per pound is likely to go down, which is encouraging. The company implemented the cost reduction program to counter the negative impact of lower metal prices.

Lundin Mining expects cash costs at its Candelaria mine to decline to US$1.35/lb in 2020 from its previous forecast of US$1.45/lb. Meanwhile, cash cost guidance improved from US$1.15/lb to US$0.85/lb at its Chapada mine.

Strong liquidity

Lundin Mining generates ample cash flows with enough liquidity to weather the current crisis. The company expects its cash flows and cash in hand to support all of its obligations in 2020. In the most recent quarter, Lundin Mining's cash flow from operations increased to US$83.4 million from US$62.1 million in the prior-year period. Moreover, cash and cash equivalents increased to US$ 366.9 million from US$250.6 million.

Apart from a strong cash position, Lundin Mining maintains low leverage and reported net debt of US$117.7 million as on March 31.

Bottom line

Barring short-term hiccups, the demand for metals and minerals will increase in the long run as they are vital for economic growth. Lundin Mining, through its diversified metals portfolio, production ramp-up and declining costs remain well positioned to benefit from the recovery in demand.

Further, Lundin Mining is an ideal stock for passive investors. The company's focus on cost reduction is expected to support cash flows, in turn, its future dividend payouts.

Earlier this year, Lundin Mining increased its quarterly dividend by 33%. Also, Lundin Mining currently offers a respectable dividend yield of 2.4%.

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Date
2025/07/21
Date Created
2020/05/27
Author
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