



Copper Rally: 1 Canadian Stock to Ride the Next Boom in Base Metals Prices

Description

A surge in demand for copper and other base metals could arrive early next year. That has [contrarian](#) investors wondering which mining stocks might be attractive picks.

Copper boom

Copper prices took a hit when governments around the world put their economies in lockdown to slow the spread of the coronavirus.

The metal has recovered ground and is now trading close to a five-month high. Pundits suggest this could be the beginning of a multi-year copper rally.

Why?

Massive stimulus programs around the globe will see trillions of dollars allocated to drive economic growth. Much of the money will go towards traditional jobs-producing initiatives, including new roads and bridges. However, the push to reduce carbon emissions will also see vast sums invested in renewable energy. Advanced communications networks are also set to expand.

Wind and solar

Wind farms and solar installations require significant copper inputs. As costs drop to produce the assets, the business case for building renewable energy power facilities becomes more attractive. Even in the Gulf countries, where oil is cheap to produce, governments are ramping up their solar investments.

Electric vehicles

Electric cars require significant copper. The reliability and popularity of electric vehicles is reaching the

point where it is now reasonable to expect most cars on the road will not have combustion engines in the next 10-15 years. As production ramps up, copper demand should also be strong.

5G

New 5G networks could radically change the world. While the technology is wireless, the network systems still need vast cable infrastructure to make them work efficiently.

Twisted high frequency cable, made of copper, could be the installation wiring of choice for telecom companies, especially over shorter distances. The attraction is that the power and the data can run along the same cable. Fibre-optic lines only carry data, so a second cable must be installed to deliver power. That gets expensive.

Top stocks for base metals

Teck Resources ([TSX:TECK.B](#))([NYSE:TECK](#)) is a diversified mining company. The largest division produces steel-making (metallurgical) coal, but Teck also mines copper and zinc. In addition, Teck is a partner in the Fort Hills [oil sands](#) facility.

Teck did a good job of reducing debt when three of its core products enjoyed price surges a few years ago. The result means the balance sheet is in much better shape to navigate the current downturn than in previous crashes.

Net debt at the end of Q1 was \$5.4 billion. Just US\$500 million is due in the next four years. The company currently has a market capitalization of \$7.3 billion.

Oil prices appear to have stabilized and could continue to move higher through the end of the year. WTI trades close to US\$40 per barrel right now. It wouldn't be a surprise to see Teck exit oil in the near term through a sale of its stake in Fort Hills.

Fiscal stimulus measures should drive higher demand for metallurgical coal, copper, and zinc. As a result, Teck provides a more balanced way to ride a surge in base metal prices than making a bet on the miners that focus primarily on copper.

The pandemic's surge in Latin America poses a risk for Teck's mines in the region. Investors should keep this mind when evaluating the stock.

However, Teck appears cheap at the current price near \$13.50 per share. The stock hit a closing low just under \$9 in March and started 2020 near \$23 per share. If the global economy bounces back over the next two years, it wouldn't be a surprise to see Teck move above \$25.

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