

Two copper stocks to outlast falling prices



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Key takeaway: *In a time when copper prices are hard to forecast, these two stocks should thrive no matter what occurs.*

Trying to pick the direction of the up-and-down copper price is a crystal ball activity.

However, a good way to play the sector is to identify stocks with strong production growth profiles and low costs that will enable them to drive earnings even in a compressed price environment.

There is also some merit in targeting copper cathode producers rather than copper concentrate, as the end product is easier to handle and is in demand.

Finders Resources

Finders started production at its Wetar project in Indonesia in March 2014, but construction of a new facility will enable annual copper cathode production to rise from 3000 tonnes to 28,000 tonnes.

The Bankable Feasibility Study indicates comparatively low cash costs of \$1.05 per pound for the life of the mine, which is estimated to be about 10 years but with a significant likelihood of an extension, given exploration results and high grades.

Canaccord is forecasting revenues of \$193.7 million from production of 26,600 tonnes in 2015-16, Finders's first full year of near-capacity production.

The broker expects the company to deliver a net profit of \$77.6 million in 2015-16, representing earnings per share of 9¢.

This implies a price-earnings multiple of 3.6 relative to Canaccord's 12-month price target of 33¢.

The broker reiterated its "buy" recommendation following a \$10 million equity placement at 14¢ per share which was completed in June.

The high-margin project is fully funded to production, so additional funds will assist in facilitating the use of a cost overrun facility, which provides a level of comfort in the event of issues such as project delays.

The company shipped its first load of copper cathode in mid-June at a premium to the London Metals Exchange quoted price – confirmation of superior cathode pricing over copper concentrate.

Tiger Resources

After a stellar run in the nine months to March 2014, when Tiger Resources' share price increased nearly threefold from 16¢ to a high of 46¢, the company has succumbed to negative sentiment towards the commodity.

This was exacerbated by its decision to raise capital in June with the latter sparking a 15 per cent sell-off.

However, this presented a buying opportunity and analysts at Macquarie stuck by their "outperform" recommendation and attributed a 12-month price target of 53¢ to the stock.

Tiger is in the process of transitioning from a copper concentrate to copper cathode production, and the majority of funds raised will be used in the construction of phases two and three of the expansion of its Kipoi copper cathode project.

Macquarie expects a substantial ramp-up in cathode production, from 16,300 tonnes in 2014 to 42,600 tonnes in 2015.

Over the same period, copper concentrate production is forecast to reduce from 29,800 tonnes to 9200 tonnes.

By 2016, the broker expects the transition to be complete, with a full year's copper cathode production of 50,600 tonnes.

Macquarie forecasts this will generate a net profit of \$106 million, representing earnings per share of 12.2¢, up from 8.7¢ in 2015.

The broker's price target appears easily justified, based on 2014-15 forecasts alone as they imply a price-earnings multiple of 6.

SMALL CAPS

Cast an eye over cathode producers

Copper prices are never easy to predict but some miners, particularly those with strong production growth prospects, have a distinct advantage over others, writes **Trevor Hoey**.

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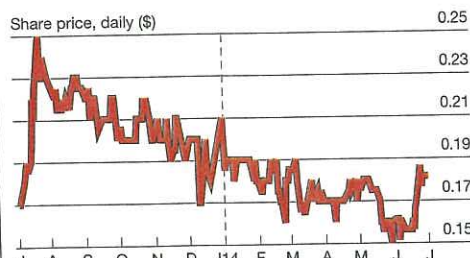
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FINDERS RESOURCES LIMITED	FND
Market capitalisation	\$119.0m
Dividend yield	N/A
Earnings per share	-5.0¢
Price-earnings ratio	N/A

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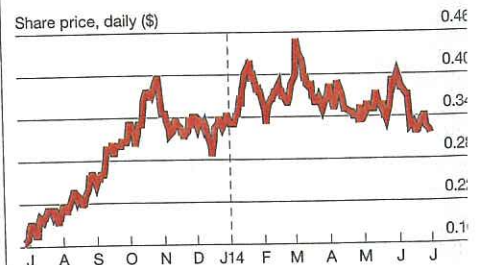
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TIGER RESOURCES LIMITED	TGS
Market capitalisation	\$287.6m
Dividend yield	N/A
Earnings per share	2.6¢
Price-earnings ratio	12.5