Opinion **Lex**

Antofagasta/copper: red better

Miner stands to gain more than usual from rebounding prices

Antofagasta posted second-quarter production figures on Wednesday that surpassed analysts' expectations

YESTERDAY

In Chile, unlike most of Latin America, coronavirus cases appear to have already peaked, according to Financial Times data. More good news: production of copper from miners such as state-run Codelco — the world's largest — and London-listed Antofagasta have held steady this year.

Other mining nations have been less fortunate. That means Antofagasta stands to gain more than usual from rebounding copper prices, particularly if it can keep its mines open.

Chile's efforts will be well received in China, the world's largest consumer of the red metal. Beijing is focused on infrastructure projects to reinvigorate its economy, boosting metal demand. Economically sensitive copper has rallied sharply in response, up 37 per cent from its March low to $2.90 per pound. Antofagasta reported second-quarter production figures on Wednesday that beat analysts' expectations. Notably cash costs, at $1.13, were better than Antofagasta's $1.20 target. Even if some of that stems from lower energy prices, a weaker Chilean peso contributed most of that surprise.

All of these positives have probably boosted Antofagasta's shares. But never fear — there is more to come. As Chinese demand has resumed, the country's local smelters are struggling to find enough copper concentrate to fill them. Peru, another big producer of copper, has had to close many of its mines as it battles the pandemic. Peru's copper output was down 40 per cent year on year by May. All told, up to 400,000 tonnes of copper has been removed from global supply this year. Even in poor years, excess copper supply rarely exceeds this amount.

Yet even if Antofagasta and other copper miner stocks have bounced, their share prices have not kept up with mining indices. There is a good reason for this. Apart from China, the rest of the world has little need for copper right now. Investors have fallen in love with gold and its miners instead, as risk-free bond yields in the US and UK follow the path of European and Japanese yields towards — or below — zero. Gold miners trade on an enterprise value to forward ebitda valuation premium of about a fifth to Antofagasta. Still, after gold prices touched a 30-year high relative to that of copper this year, Lex senses that the ebullient optimism for the shiny metal has gone too far.

When the global industry sputters back to life in the year ahead, copper miners such as Antofagasta will quickly catch up with their golden brethren.