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The new gold and copper rush: the best ways to invest

Gold and copper have soared this year – how can you profit from the dash for miners?

Mining's return to relevance was confirmed this spring as gold and copper prices soared and industry heavyweights went into battle over the best mines. Investors often worry they've missed the boat after price runs like these, but there are still plenty of opportunities out there.

The gold market has undergone a structural change in the past two years. Gold has traditionally done poorly when interest rates are high and the dollar is strong. But buying in emerging markets has pushed the precious metal price up above $2,400 an ounce (oz).

Chinese demand for gold bars and coins is at its highest level since 2017 as consumers look for alternatives to weak real estate and equity markets. Central banks have been driving prices higher for some time, with record buying in 2022 and 2023 as governments looked for alternatives to the dollar to store national wealth.

"The really strong central bank purchases are mostly an emerging market phenomenon, and they're not being driven by a view on the Fed or a view on the dollar, but much more longer term, strategic geopolitical motivations," says World Gold Council chief market strategist John Reade.

Western institutions and retail investors have largely stayed on the sidelines: May was the first month in a year in which there was an inflow into gold ETFs.

Reade says Western investors have stayed away for two main reasons. In Europe, there is still pressure on household budgets, and sellers are keen to take advantage of strong prices, while in the US equities are offering returns strong enough to keep investors focused elsewhere.

This is why traditional influences on the gold price, such as the path of interest rates and inflation, are still important. "If we were to see US interest rates and Western interest rates come down... see the dollar start weakening, then that would bring Western buying more to the fore, which could then join with the emerging market buying," he says.

This dynamic is what sector specialists hope will establish a much higher floor for the gold price. George Cheveley, manager of the Ninety One gold and natural resources funds, asserts that this floor will be above $2,000 an oz. Philip Newman, founder of consultancy Metals Focus, says "now, if there is a correction, you will see very large movement into that, whether it's the hedge funds, whether it be those asset allocations, or whether it's the retail investors as well."

Unlike gold, the copper price is typically a function of pure supply and demand factors. The latter centres on the energy transition, with copper needed to increase energy grid capacity and meet the needs of industries ranging from automotive to real estate and white goods manufacturers.

But the ramp-up from $8,000 a tonne in February to above $11,000 last month stemmed from both a tighter physical market and then a pile-on triggered by **BHP's (BHP)** pursuit of **Anglo American (AAL)** and its copper portfolio. "It has been fascinating to see the turnaround in macro-driven interest in the sector over the past two months, which realistically is a combination of longer-term macro investors, momentum players and tourists," says BMO Capital Markets analyst Colin Hamilton.

Supply factors include November's closure of the Cobre Panama mine, which had produced 330,000 tonnes of copper in 2022, and Anglo American cutting 2024 and 2025 guidance for the Quellaveco, Los Bronces and Collohuasi mines. These cuts contributed to a scramble for metal.

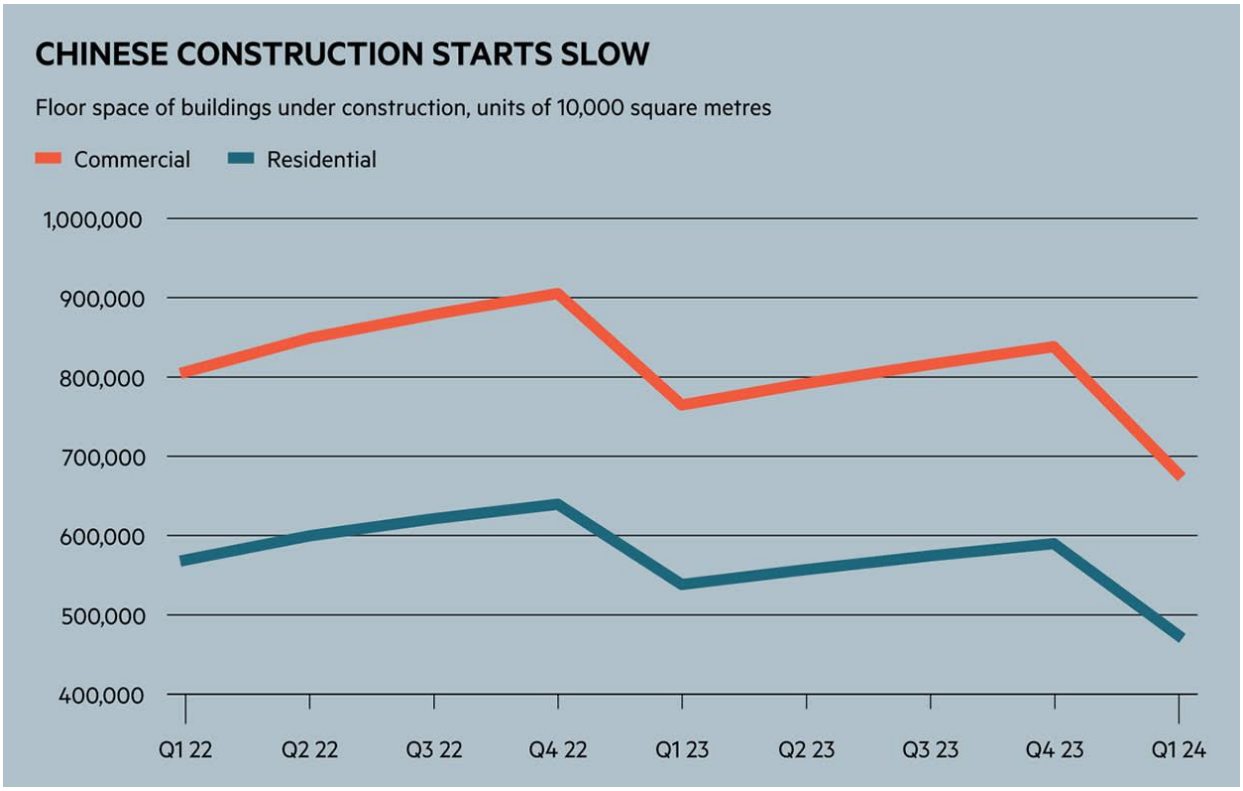
Then came the BHP offer for Anglo. Hamilton said the move triggered a rethink on copper market dynamics because it showed BHP was assuming a higher long-term price, potentially as high as $11,600 a tonne. "When the largest mining company says 'I really do need some copper', the market went 'oh, maybe this copper story is real," says Cheveley.

Alongside supply uncertainty is the hike in the cost of building new mines, as well as the permitting risks that come with greenfield development. BHP has seen this first-hand with its 45 per cent-owned Resolution copper project, which is being fought by a local First Nations group in Arizona.

But May's prices are likely to be a spike rather than stage one of a consistent climb north. The consensus forecast for 2025 and 2026 is $9,400 a tonne, while the more bearish analysts at Liberum see prices averaging around $7,000 a tonne.

"We think copper over the medium term will be noticeably stronger on a tighter market," says Rob Crayfourd, co-manager of commodities funds at specialist asset manager CQS. "[But] we have caution near term because the Chinese property sector is such a big proportion of demand."

Copper is used at the completion stage of construction. That means demand can lag property starts, which have tumbled this year. "We think that a lot of the generalist [buyers] don't fully appreciate some of those dynamics," Crayfourd adds.



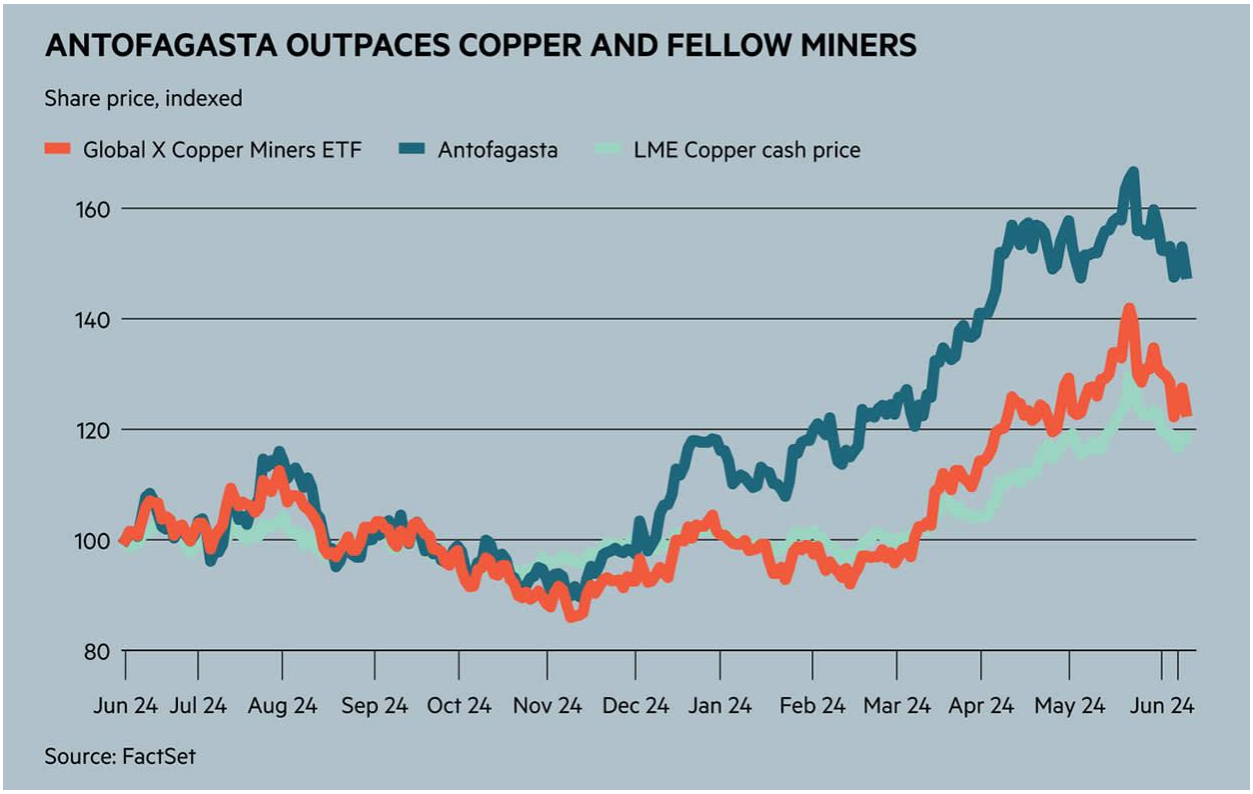
In summary: even at record highs, gold has some room to run, but copper experts have called the top for the red metal in the short term.

Positioning

Another issue for those keen on copper is that the pure-play investment options are limited and quite expensive.

The more diversified major miners do offer very high margins and continue to pay good dividends even after cutting payouts back at the highs of 2022. BHP, **Rio Tinto (RIO)** and Anglo American all remain solid picks, for different reasons. Rio Tinto has come to the top of the tree in copper terms after getting the Oyu Tolgoi underground mine working, while BHP has performed better on the iron ore side in recent years. **Glencore (GLEN)** also has plenty of copper but investors have already pushed the shares up around a quarter in the past three months.

Of the copper specialists, **Antofagasta (ANTO)** trades well above the typical diversified miner on a forward price/earnings ratio of 27 times. In the US, **Freeport McMoRan (US:FCX)** is also trading at 27 times earnings.



Smaller operators are far cheaper, but carry more risk given the production is all from one or two mines. **Atalaya Mining (ATYM)** trades at under 10 times, and **Central Asia Metals (CAML)** is at a similar level. The latter also has a lead and zinc mine in addition to its low-cost copper asset in Kazakhstan. CAML shares hit a multi-year high last month as renewed appetite for copper, as well as zinc, gave it a lift.

A stronger share price gives management more options in a long-running hunt for another mine for the portfolio. But as chief executive Nigel Robinson says, the buzz around copper means finding a good value asset is no easy task.

“It is very difficult to find a copper mine that is fully developed and therefore producing or is at an advanced development stage that you're able to buy cheaply,” he says. In lieu of a transformational purchase, CAML has put £3mn into a private Scotland-focused explorer, Aberdeen Minerals, and also funded greenfield exploration in Kazakhstan. “[Investing in Aberdeen] is a bit high risk, we accept that. But they’ve got good management, and we like the geology of what we're looking at,” Robinson adds.

If those in the industry without the deep pockets of a BHP are looking that far down the development path to find value, we would take that hint and look more to gold for growth options at the moment.

The big gold players

Whereas gold exchange-traded funds (ETFs) have seen returns soar on the back of bullion’s price rise, the major gold miners have largely disappointed investors in recent years. **Barrick Gold (US:ABX)**, for example, reported free cash flow of $32mn in the first quarter on revenue of $2.7bn. High costs have

knocked returns, so while the rising gold price has improved its top line, profits have not climbed as significantly. Investors have remained wary as a result. Cheveley at Ninety One put this down to both operational delivery and risk appetite. “Investors have certainly rewarded companies who've had better delivery in terms of meeting guidance, meeting production [targets],” he says.

Barrick is down 3 per cent year to date, while fellow Canadian major **Agnico Eagle Mines (US:AEM)** has risen 27 per cent. Cheveley, whose gold fund holds both companies, says the market has backed Agnico because of its stability and also the perception its mines in Canada, Australia and Europe are in more stable jurisdictions than those of Barrick, which has more assets in Africa and South America.

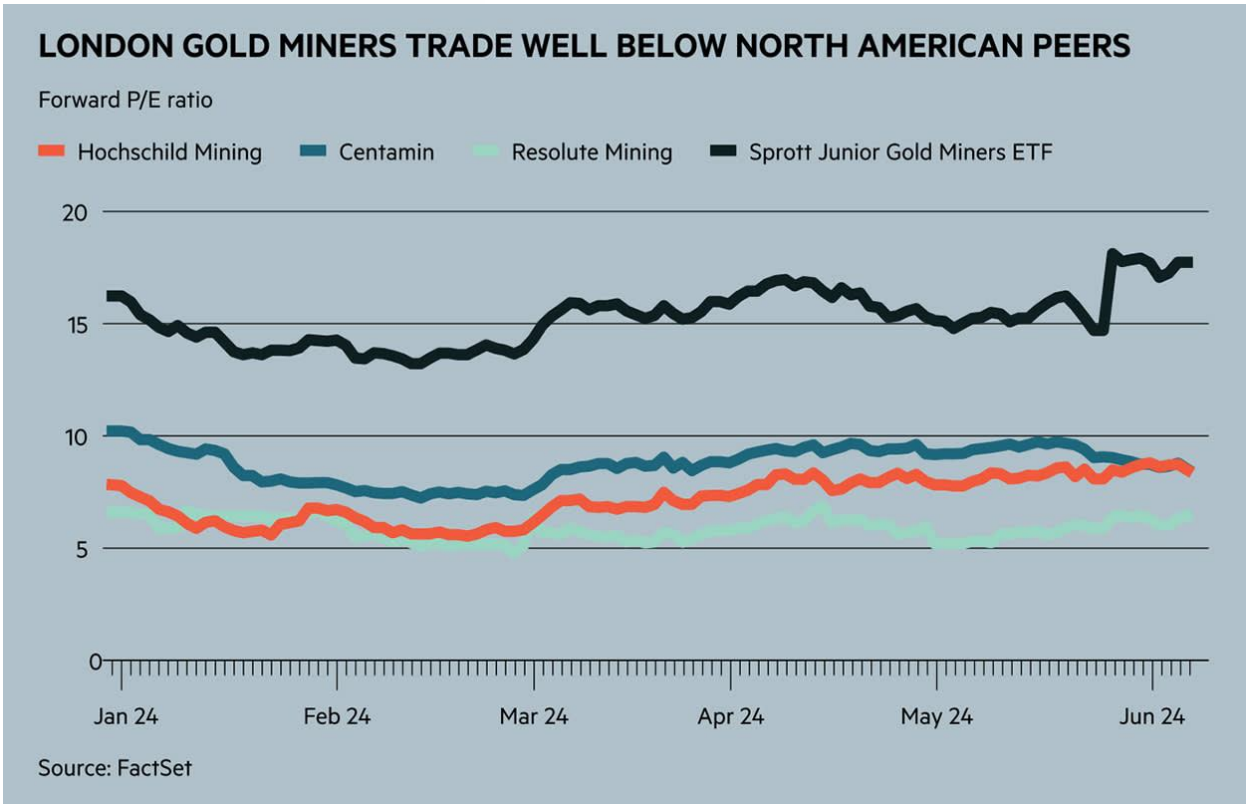
Jurisdictional risk can vary – former Barrick subsidiary Acacia Mining saw its mines in Tanzania closed for spurious reasons, but Cheveley says the country is now far more welcoming to miners. On the other hand, the security situation in some West African countries, such as Mali and Burkina Faso, has remained difficult.

The outlook for the majors is for significantly increased profits in the next two years, however. Consensus forecasts for cash profit growth at **Newmont (US:NEM)** and **Evolution Mining (AU:EVN)** are over 70 per cent this year, while fellow ASX whale **Northern Star (AU:NST)** will see its cash profit climb almost 40 per cent in the year to 30 June. Analysts reckon Barrick’s improvement will arrive in the next financial year, with cash profits flat in the current year despite gold’s recent run-up.

But Cheveley says he is hopeful gold equities can start outperforming the gold price. “If you look at them in the context of the current price, equities look cheaper than they did back in February. And then the question then is, well, ‘why haven't they moved more?’”

For UK investors, there are more growth-oriented gold names listed in London. **Endeavour Mining (EDV)** is flat year-to-date after the drama concerning former chief executive Sebastien de Montessus, while royalty giant **Wheaton Precious Metals (WPM)** is up 9 per cent.

The mid-caps have done better. **Hochschild Mining (HOC)** has seen its shares surge after opening a new mine in Brazil, while investors have backed the **Resolute Mining (RSG)** recovery (shares have risen by a third this year) and sent Pan African Resources (PAF) up over 40 per cent. Valuations remain fair, however, given the uptick in profits now set to emerge, particularly if gold stays above $1,800 an oz or so in the coming years. Each of these mid-cap miners trades on a forward PE ratio of less than 10 times, as does **Centamin (CEY)**. Extra cash will allow for expansion spending alongside continued dividend payments, as we saw in 2020 and 2021 when the bullion price was also strong.



Junior minors

Life is good for junior gold miners at the moment. But great deals remain on the market, pointing to re-rating opportunites.

Segun Lawson, chief executive of £175mn market cap Thor Explorations (THX), positions this as an opportunity for growth. “Projects that are build-ready in the US have very good value,” he says. “There are a lot of [companies with a market cap of] between $50mn and $100mn with a [completed]feasibility study.”

For comparison, ASX-listed Emerald Resources (AU:EMR) produces roughly 100,000 oz a year at a mine in Cambodia, similar to Thor’s target for this year, and has a market cap of A$2.5bn (£1.3bn). Emerald is priced on its very promising expansion prospects in Australia, a much more highly rated jurisdiction, but either way this is a jarring difference in valuation.

Lawson’s company has built a new gold mine in Nigeria, and is close to paying it off after two full years of operation. The test now will be how to use the cash flow that is on the way. Thor will also have to keep adding to reserves as the mine only has a few years of gold resources, and it will do this both through expanding the openpit reserves and potentially expanding underground. Another project is on the way in Senegal.

This scenario – a company with one producing asset and growth on the horizon – is the optimal time to buy in, says Crayfourd. These companies “control their own destiny” because they have a source of cash

flow as well as nailed-on growth plans. When it comes to pre-revenue companies, he says the fund tries to be the "last money in" before production, in a bid to ensure the financing, engineering and design planning work is largely already done.

Caledonia Mining (CMCL) is another single-mine operator, albeit with a much longer track record than Thor. It has just published a preliminary economic assessment (PEA) for the Bilboes project, bought last year in an all-share deal. Caledonia has traded at a discount to peers because its Blanket mine is in Zimbabwe, meaning frequent power supply issues and some worry over the government situation.

The company has outlined a $400mn mine build that would be paid off in two years assuming an average gold price of $1,884 an oz. Bilboes is also in Zimbabwe, but the chance to buy a quick-return, 168,000-oz-a-year gold project with a share issue was obviously too good to pass up.

The flow of explorer floats has slowed in recent years in London, but our preference would be for these growth plays that are underpinned by cash flow at existing operations. Risks remain, of course – **Hummingbird Resources (HUM)** has proved a cautionary tale.

The company owns one mine in Mali, Yanfolila, which produces around 80,000 oz a year, but has spent the past few years building the Kouroussa mine in Guinea, a more highly rated jurisdiction.

Getting this operation up and running has been stymied by a dispute with the contractor hired to do the mining itself. This is now over, and the company will soon be running at 200,000 oz a year, although we would wait before buying in for the net debt pile to be reduced from the $228mn reported as of 31 December and at least a quarter of consistent production from Kouroussa.

Readers will notice all these countries are well away from the so-called 'tier one' mining countries of Canada and Australia, but that can be an advantage as well. "We love quality assets, but we're really focused on timelines on the developer side," says Crayfourd. "We'd rather be in a tier-two or tier-three jurisdiction with a tier-one asset, just because of that quicker permitting time."

What should be clear is that buying a gold miner will not provide the safe haven for cash that a direct gold investment will, be that through a physical purchase or (to a lesser extent) an ETF.

For copper, buying the red metal directly is possible through products like the **WisdomTree Copper ETF (COPA)**, although buying now would mean you are implicitly backing the very top end of industry demand forecasts for the next year or so.

Like everything in life, we would build gold mining into a portfolio in moderation. We would also be wary of the pre-production 'promoters' – especially among North American gold and silver juniors. One company recently had to withdraw drill results and accused its former chief executive of tampering with the numbers. This is where a focus on small-cap producers provides some protection: the management team has done it before and knows how to build a mine, and won't have to give away half the company to fund the project. Happy hunting.