under the radar report
SMALL CAPS

ISSUE Bonus
11 JUNE 2024

COPPER REPORT

We published this copper report in late April this year in Under the Radar Report: Small Caps, focussing on the improving fundamentals of the red metal, which have been reflected in its improving price. Remember, there is no substitute for copper, which is essential for construction and for those all-important batteries that enable the transition to low-carbon energy sources.

What do you know? The BHP executives must have been reading our research, because weeks later they made a bid for another behemoth, Anglo American (AAL:LSE), initially worth just over 35bn (US44bn).

The bid has fallen away after being spectacularly rejected by the Anglo board due to BHP conditions relating to the disposal of South African assets. But the basis of the bid was compelling, which was… copper! Anglo would have increased BHP's copper production by almost a third, with its global share of production rising from 7% to just over 9% or 500k tonnes a year.

This is not the last we will hear of the BHP bid for Anglo. You heard it here first! But you need to be alert to opportunities in global markets, which then drills down into stock-specific ideas. This is what Under the Radar Report and its sister publication Blue Chip Value is all about. Get on board!



Richard Hemming
Head of Investments

the issue

COPPER ANALYSIS: THE REAL CRITICAL METAL DEAL

Sentiment is improving for copper because there simply is no substitute. We go through the fundamentals and then the stocks that give you good exposure.

COPPER STOCK OF THE MONTH

Access our favourite Copper Stock Research, Plus our best stocks to buy now list and start growing your core portfolio + accelerate with ASX Small Caps.
www.undertheradarreport.com.au

Following the acquisition of Oz Minerals by BHP last year, there is a shortage of ASX listed copper miners. Evolution Mining fills the gap!

Richard, UTRR Portfolio Manager

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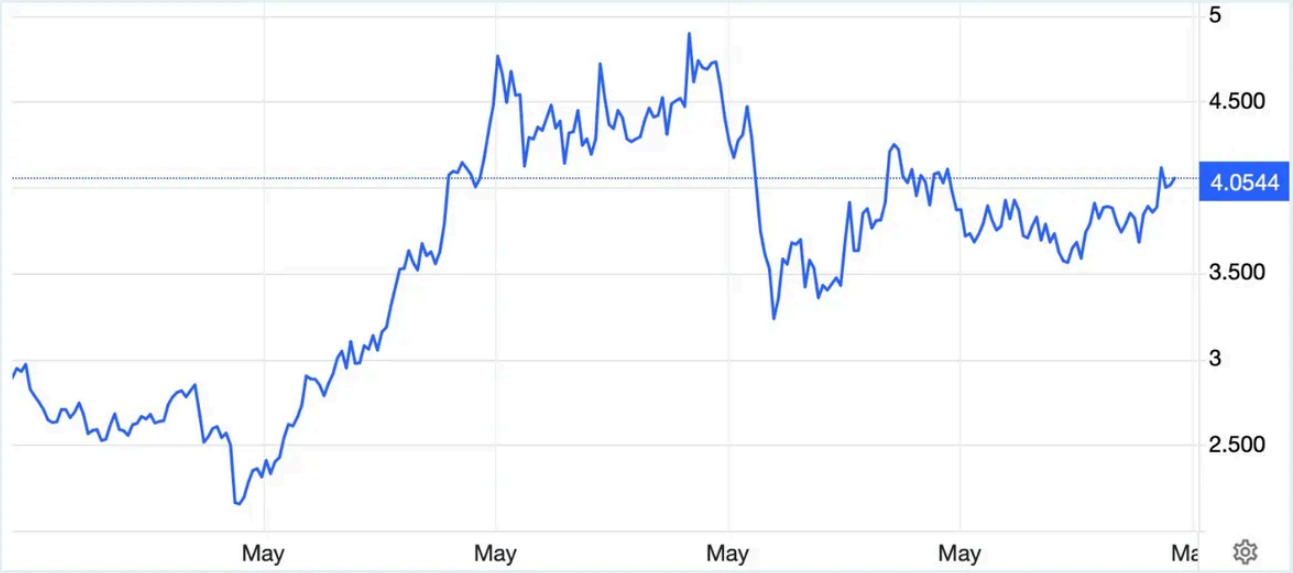
COPPER ANALYSIS: THE REAL CRITICAL METAL DEAL

Sentiment is improving for copper because there simply is no substitute for the same value or cost. There has also been supply issues, which means that less is available. We go through the fundamentals and then the stocks that give you good exposure, focusing in on Evolution Mining (EVN).

ENTERING CRITICAL TERRITORY

5-year copper price in US$ per pound.



Last month, copper breached the much watched US$4/lb level, which can act as resistance and support. Sentiment is improving. We know the demand is there because there are no substitutes that do the same job, at the price, copper does. The rally does coincide with seasonal strength, with copper often experiencing higher prices from February into March, but as we discuss, there are bigger forces in copper's favour.

SOURCE: Trading Economics

Access research on our Stock of the month.

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COPPER ANALYSIS: THE REAL CRITICAL METAL DEAL CONT.

Supply is tightening

The big news on the supply side is that a number of big producers are falling short of production guidance, as pressure mounts to deliver copper to big customers in China and the US where demand is growing. When there is a fine balance between supply and demand, hits like those listed below become meaningful, especially when added together.

A big hit to supply was from the Canadian copper giant **Teck Resources (TECK.NYSE)** which for the 12 months to 31 December (FY23) reported lower than expected production due to ramp-up challenges at one mine and a geotechnical fault at another. Then there was the suspension of production by **First Quantum Minerals (IZ1.SG)** at its Cobre mine in Panama, which produces 350k tonnes a year. Copper also production guidance was cut by **Anglo American (AAL.LSE), Vale S.A. (VALE.NSE)** and **Southern Copper Corporation (0L8B.LSE**).

Underpinning this supply tightness is that copper deposits are not abundant and there is no technology that can currently change the supply dynamics. This is in contrast to the supply characteristics of lithium and nickel.

Demand is increasing

The energy transition involves heavy use of copper, especially in applications such as wind turbines, solar panels, grid infrastructure and electric vehicles. The incremental additional demand for copper related to the energy transition out to 2030 has been estimated at 4m tonnes or an additional 16% over current annual global demand of 25m tonnes a year.

A large, well-established market

We're talking in the region of 25 million tonnes a year, second behind aluminium, which is almost double. Moreover, there is no B-grade metal, as there is in the case of nickel. From an investment angle, the copper market is already large and well established. Consumption is diversified among many end users and demand is strong. While the energy transition is important for copper demand, copper's fortunes are not as dependent on new emerging technologies and sources of demand as is the case for lithium and nickel.

INVESTMENT CONCLUSION: Copper is attractive

As a commodity, copper has relatively low price volatility and risk, but with supply and demand characteristics that are attractive. With the copper price strengthening, and the potential for higher prices, we believe investors should consider obtaining copper exposure.

At the big end there is the Oz Minerals acquirer **BHP Group (BHP)** as well as **Rio Tinto (RIO)**. Their valuations remain dominated by iron ore. We cover these stocks in Blue Chip Value. We also cover **South32 (S32)** which has copper exposure, but it's relatively low.

The most pure exposure on the ASX is **Sandfire Resources (ASX: SFR)** but we believe this stock is fully valued. There are a number of small, emerging copper producers, but none that we regard as attractive. There are also a lot of copper explorers, but few will make to production.

Our choice is **Evolution Mining (EVN)**. Although primarily a gold producer, it is now a significant copper producer as well following the acquisition of 80% of the Northparkes copper mine in December 2023.

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99% of all financial news relates to the 40 to 50 biggest companies.
So what about the rest? They're Under the Radar.

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