Lundin Mining is sitting pretty with over 1% of the worlds copper production and a massive war chest

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Some names are synonymous with certain industries, at least to me. Rockefeller is oil, with John D. being the founder of Standard Oil in the 1870s with a legacy that is still front and center today having spawned the likes of ExxonMobil and Chevron to name a few. J.P. Morgan is banking/finance (and railroads) with his name still emblazoned on one of the world's largest banks today.

Maybe not quite in the same league, but certainly an iconic name in the commodities industry is the Swedish-based Lundin family whose history in mining began over forty-five years ago with founder Adolf H. Lundin. Today the Lundin Group of Companies comprise twelve individually managed public companies focused on the resource sector. The commodities the companies are involved in include copper, gold, silver, zinc, diamonds, and oil & gas.

Today we'll focus on the Toronto listed Lundin Mining Corporation (TSX: LUN). Lundin Mining is a diversified Canadian base metals mining company with operations and projects in Argentina, Brazil, Chile, Portugal, Sweden and the United States, primarily producing copper, zinc, gold and nickel. Q1/22 sales by metal were 69% copper, 11% zinc, 11% nickel, 6% gold and 3% other, with the Candelaria copper-gold mine accounting for 46% of Lundin Mining's first-quarter sales. Based on these statistics it should come as no surprise that Lundin Mining's stock price has a reasonably strong correlation to the price of

copper. As seen in the chart below, Lundin Mining has slightly underperformed copper over the last year despite starting 2022 on a pretty good run.



Source: StockCharts.com

The reason for this strong correlation becomes quite apparent when you consider that Lundin Mining's 2022 guidance for copper production is 258,000 – 282,000 tonnes, representing over 1% of global copper production, which stands at just over 20 million tonnes per year. Perhaps not a dominant position but certainly a material player in the copper world. With that said, zinc production guidance of 188,000 – 203,000 tonnes represents almost 1.5% of global zinc production. Zinc prices had a good run from March to May of this year, so that could explain some of LUN's outperformance relative to copper over that period. Nevertheless, you are getting into rarefied air when it comes to companies that can claim they produce over 1% of more than one globally important commodity. Especially when you consider that LUN has a market cap of just over C$6 billion compared to the mining giants like BHP at over US$200 billion or Rio Tinto at roughly US$100 billion.

Another thing I find intriguing about Lundin Mining is that it's sitting on a lot of cash, which is forecast to continue growing based on their guidance. At the end of April, 2022 the Company had a cash balance of approximately US$680 million after paying dividends of approximately US$115.0 million and effectively no debt. More than half of the dividend was a semi-annual performance dividend, which as you can figure out from its name, won't be paid again until October. When you think that Lundin Mining increased cash and cash equivalents by US$140 million in Q1 and guidance suggest that production and costs should remain comparable then it's solely a call on commodity prices as to how

much cash keeps rolling into the coffers. That suggests to me that a transformational acquisition could happen or perhaps a special dividend or share buyback if no accretive acquisitions can be found. Either way, as long as copper prices find a floor, shareholders could be rewarded handsomely.

Lundin Mining is a large, established multi-national mining company with a pretty good pedigree in the industry. They have reasonable diversity geographically in relatively stable countries, which sadly is becoming more of a consideration for investors these days. The share price is highly correlated to copper, so if you are looking for a way to play copper prices while still getting a 4% dividend yield with the potential upside that could be derived from an almost US$700 million war chest, then Lundin Mining might be just the investment you were looking for.