

TRADING DESK

How to play the impending zinc supply cuts



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Teck Cominco's Red Dog zinc mine in Alaska

Courtesy of Teck Cominco

Mine shutdowns and structural issues in the zinc industry will support an upward shift in prices for the base metal beginning at the end of 2014 and stretching into 2017, Dundee Capital Markets said in a new report.

That has analyst David Charles bullish on several zinc-levered base metals producers, particularly Trevali Mining Corp.

“Trevali provides stand-out exposure to zinc as it now has moved into production and operates a producing asset in Peru while concurrently progressing a second operation towards production this year in New Brunswick,” Mr. Charles said. “The company is the only producing pure-play zinc story on the TSX and, moreover, it is undervalued compared to its base metals producing peers.”

Trevali is rated a buy with a \$1.50 per share target price, representing upside of roughly 50%.

Dundee estimates that approximately 1.6 million tonnes of zinc in concentrate production (representing about 15% of global supply) will be shut down during the next four years. This supply reduction started in the middle of 2013 when Xstrata (now Glencore) closed its Brunswick Mine in New Brunswick.

Other significant pending shutdowns in 2014 include Minmetal's Century Mine in Australia and Vendanta's Skorpion Mine in Namibia.

Mr. Charles noted that new supply will be difficult to replace quickly since zinc deposits are typically small, infrastructure is constrained, and prospective new supply has ore quality issues.

As a result of the limited number of zinc-levered stocks, he expects premiums will develop for those names with exposure to the

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“Roughly 30% of total zinc production comes from junior miners which have historically had difficulty with financing,” Mr. Charles said. “Production from juniors needs to increase as large mines close.”

In addition to Trevali, his top pick, the analyst also highlighted HudBay Minerals Inc., Lundin Mining Corp., Nevsun Resources and Teck Resources Ltd. as zinc-levered producers.

Earlier-stage zinc names include **Canadian Zinc Corp.**, Rathdowney Resources Ltd., Tirez Resources Ltd., TriAusMin Ltd. and Zazu Metals Corp.

Mr. Charles also pointed out that lead shares the strong fundamentals of zinc, but there are few companies (Teck and Trevali) that have significant exposure.

The exception is Ivernia Inc., which generates all of its revenue from lead and is the metal’s only pure-play listed on the TSX.

The analyst rates the stock a buy with a 25¢ target price.



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