World's Newest Copper Mine Is a Loner Until Prices Rebound

First Quantum mine nears production ahead of forecast deficit

•Company aims to rank among top five copper miners by 2020

•The end of the commodities super-cycle has left just one new major copper mine on the verge of production. Its owner says prices need to recover further before others are built.

•Cobre Panama, a sprawling open-pit mine being developed byFirst Quantum Minerals Ltd.in the central American nation, is set to begin production as early as next year and reach full output by the end of 2019. Its timing couldn’t be more fortuitous: the market for the industrial metal isset to swinginto its first deficit in six years and remain in shortage to 2020.

•The price of copper --often used as a barometer of global economic health --has gained about 25 percent in the past six monthson mine disruptions, Chinese demand and expectations of a U.S. infrastructure build up, making it the top gainer in the Bloomberg Commodity Index. That’s still not high enough to prod a new cycle of investment, says First Quantum President Clive Newall.

•"Good copper projects are scarce at these prices," Newall said in a phone interview Monday from London. "There is an incentive price to build new greenfield sites, which is significantly above the current price."

•Copper prices need to rise another 15 percent to about $6,700 a ton before mining companies commit to new greenfield projects, meaning the industry is unlikely to boost capital spending until 2019 at the earliest, Citigroup Inc. forecast in a February report. Wood Mackenzie estimates a price of around $3.30 a pound ($7,275 a ton) would be sufficient to prompt investment, assuming miners will require a 15 percent rate of return, mining and metals analyst Chang Khoo said in an email.

•**Capex Crunch**

•Three-month copper fell 1 percent Tuesday to $5,858 a ton onthe London Metal Exchange. Even with the recent gains, copper trades at almost half the price reached in 2011. Prices may climb above $8,000 a ton before the end of the decade, Citigroup forecasts. Estimates compiled by Bloomberg predict a median price of $6,414 a ton by 2020.

•“The dramatic capex crunch in the copper mining sector since 2012 has eviscerated the copper project pipeline for much of the remainder of the current decade,"analysts led by David Wilson said in the Citigroup report. The market is headed for a shortfall of 327,000 metric tons in 2017, rising to 600,000 tons in 2020,according toDavid Lilley, co-founder of RK Capital Management LLC and one of the world’s top copper investors.

•There’s a reluctance to invest after years of low prices, BHP Billiton Ltd. Chief Executive Officer Andrew Mackenzie said at a mining conference in Florida last week. Swedish-Canadian commodities entrepreneur Lukas Lundin called the industry “gun shy.” Oscar Landerretche, chairman of Codelco, the world’s biggest copper producer,said: “It’s going to be very difficult for the industry to respond even if it wanted to."

•Demand for copper --one of the most commonly used metals found in electrical wiring to air conditioners to kitchen utensils --is set to surge, driven by Asia’s growing economies and the spread of electric vehicles, Citigroup said. Yet new discoveries haven’t kept pace with the growth in demand and it can take 25 years from early exploration to bring a new copper deposit into production, according to astudyby the World Bank last year.

•**Hedging Copper**

•Labor disputes have also disrupted exports from the world’s two biggest mines in Chile and Indonesia, helping to drive up prices.

•First Quantum won’t benefit immediately from copper’s recent surge. Afternarrowly avertingbreaching loan terms last year, theVancouver-based company has hedged almost 90 percent of its 2017 copper sales at an average price of $2.25 a pound, according to Sanford C. Bernstein Ltd. That’s below the current price of about $2.65 a pound.

•"The 2017 realized price doesn’t matter," Sanford analysts led by Paul Gait wrote in a Feb. 21 report. Mining companies tend to hedge near the bottom of the commodity cycle, locking in highly depressed prices and forgoing the upside when the cycle turns, it said. "This is exactly what happened to First Quantum."

•First Quantum will stop hedging, "when we believe that Cobre Panama is sufficiently de-risked," Newall said, declining to elaborate. With the bulk of heavy construction out of the way, the project is "largely de-risked," Newall said during a Feb. 27 investor call.

•**Panama Canal**

•The company still needs to arrange $2.5 billion in project financing, which it expects to finalize this year, Newall said. First Quantum is in talks with a group of export credit agencies, which would offer insurance cover to lenders, allowing for loans with longer tenures and lower interest rates.

•The $5.48 billion project sits only 20 kilometers (12 miles) from the Atlantic coast, where it has already built a deepwater dock. Thanks to the Panama Canal, it will be able to ship its concentrate to just about any major smelter in the world.

•“Not many companies have embedded growth,” though First Quantum is one of them, said Chris Beer, a commodity fund manager at RBC Global Asset Management in Toronto.

•At full production, Cobre Panama is expected to yield 320,000 tons a year. That means First Quantum would be producing about 910,000 tons of copper annually by 2020, surpassing producers like Rio Tinto Group and KGHM Polska Miedz SA, according to a Februaryinvestor presentation.

•"We’d be heading toward becoming a top-five copper producer," Newall said.

•"It’s certainly a price where we’d make money," he said. "They’re going to get better, and that’s the ideal time to be bringing something like Cobre Panama into the market."