Bright prospects: Why gold and copper are set to shine in the next few years

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Body

Gold and copper are looking good. Victor Smorgon Group's equities team, which manages in excess of $500m in funds across its equities strategies for members of the Smorgon family and private investors out of South Yarra in Melbourne, has quickly made a name for itself as a stockpicker in the ***resources*** space.

Two of the seven limbs of its global multi-strategy portfolio involve a gold and decarbonisation strategy, managed respectively by Cameron Judd and Ben Salter.

VSG's two big commodity bets have been playing out over the past seven years in gold, and three in decarbonisation, which counts its primary exposure as copper miners.

Judd and Salter came into VSG from their transaction with the Stawell gold mine in Victoria, a private operation that exposed the gulf between the profitability of well-run gold mines and the valuations seen in equities.

Even with the massive rise in prices to $US2650/oz and recent pullback after Donald Trump's election win in the US, Judd remains bullish on the fundamental outlook for gold.

"I know we've had a decent run in price, but the fundamentals for gold are very strong and I think will continue to get stronger," Judd says.

While it can hold bullion, shorts and a limited number of pre-IPO opportunities, VSG is happy going long on gold equities and investing in miners over physical gold, given inflationary pressures had eased and gold miners are growing their margins.

Judd says the main things VSG looks for in its gold equity portfolio are liquidity, low jurisdictional risk and especially cashflow.

"In the near term we'***re*** happy with development stories but we want to be able to see growth in the near term not a long way out," he said. "One of those investments was Red 5, now Vault Minerals. We started off back in 2018, looked at all the developers at the time, and Red was the one we thought had the most meat on the bones.

"Developers are notoriously volatile but it had more fat in that it could absorb any hiccups along the way. That's still a fairly large position for us, it's definitely a lot smaller than it was, but the way it's performing now and what we think it's going to be in the next 12 months, we'***re*** still very happy with that as cash generation and that's where we've positioned the -portfolio." After a merger with Silver Lake ***Resources***, Vault is now trading at 34c with a market cap of over $2bn.

Other names that fill a similar mould include Regis ***Resources*** and ***Ramelius*** ***Resources***.

"A gold mine should be printing cash, especially at these margins, so that's where we'***re*** positioned at the moment," Judd says. "We like Regis for the moment - it printed $85m in free cash in the last quarter and it should do a similar or more amount in this next quarter.

"Then we've also got the North American exposure. Calibre Mining Corp is one of those that we like that will significantly increase their production of gold in the second quarter, they'***re*** saying, of next year, but we think a little bit earlier.

"The CEO Darren Hall is an Australian with significant experience and we think that it's an interesting project. It's going to keep growing but also generating good cash, fully funded with a strong balance sheet." Carbon capers The decarbonisation strategy has grown from 3 per cent of the overall portfolio weighting in the global multi-strategy fund to 18 per cent today.

Most of that is in copper, with VSG sidestepping the opaque and volatile lithium market that surged to record highs in 2022 before crashing to loss-making levels this year.

Substitution from aluminium and scrap could cap hopes from red metal optimists that copper could surge beyond the $US5/lb record prices seen earlier this year to $US6, $US8 or even $US10/lb. But portfolio manager Ben Salter remains cautiously upbeat that supply will struggle to keep pace with demand as the electrification trend continues.

"We'***re*** probably conservatively bullish I would say," Salter says. "I'd say the market will be balanced next year but tight, so not a lot of room for error. You can look at what happened in Panama (where the government suddenly closed First Quantum's Cobre Panama mine last year).

"It took 400,000 tonnes of copper out of the market and that had a positive impact on everyone.

"Over time, we think with the electrification of everything â€¦ probably the use of copper in grid spending especially helped by data centres (and) China electrification, we think copper will be in demand more than can be met by supply. Over the medium to long term there's a strong case for copper prices' escalation, but not immediately or not spectacularly." Salter said that should facilitate good margins for producers and developers with good projects, with current prices around $US9000/tonne.

In Australia, VSG likes MAC Copper, which owns the soon to be 50,000 tonnes per annum Cobar mine in NSW. Internationally, NGEx Minerals is on its radar. Part of the Lundin Group that recently dealt half of the Filo Del Sol and Josemaria projects in Argentina to BHP for over $US3bn, NGEx owns three large copper projects in Argentina's Andes. Stockhead

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