

# PALOS

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## Weekly Commentary

Issue No. 51 | DECEMBER 7, 2020

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## First Quantum Minerals – A World Class Copper Play

**First Quantum Minerals Inc.** (TSX: FM) is a Canadian based international mining company and one of the top 10 copper producers in the world. While copper is the company's primary focus, First Quantum also produces significant quantities of zinc, nickel, cobalt, and gold. FM operates globally and has mining facilities located in Spain, Finland, Turkey, Peru, Argentina, Panama, Zambia, and Australia.

The newest and most significant operation is the 90% owned **Cobre Panama ("Cobre")** project located two hours from Panama City, Panama. **Cobre** is amongst the largest new copper mines developed over the past ten years. The mine employs roughly 3,500 people and uses state-of-the-art technology making **Cobre** one of the most advanced mines in the world. Proven and probable reserves are estimated to exceed 3 billion tonnes and the mine has an expected 34-year lifespan. Production at **Cobre** began in 2019 and for the full year the operation produced 147,000 tonnes of copper, 60,000 ounces of gold, and over 1.1 million ounces of silver.

On October 28, the company released third quarter results. Despite numerous COVID-19 challenges, results were solid from both an operational and financial perspective. Operational impact was varied across jurisdictions depending on local restrictions. Protocols to enhance the health and safety of employees were prioritized. In July, **Cobre** began the process of normalizing operations and by August the mine was operating at full production and virus free. Forward looking guidance projects 2020 copper production to increase to 190,000 tonnes – 205,000 tonnes from a previous 180,000 – 200,000 tonnes. Gold production guidance was also increased by 5,000 ounces (75,000 to 80,000).

In other news from Q3, an updated technical report pointed to an increase in reserves and a mine life extension for the **Kansanshi** mine in Zambia (copper-gold). **Kansanshi** is 80% owned by FM. The **Sentinel** mine (also in Zambia) saw record production. Total copper production was 10% higher than in the same period 2019 and the trifecta of higher copper prices, lower production costs and favorable exchange rates boosted comparative EBITDA by 81%. Net debt was reduced by \$113 million to \$7.5 billion.

*By Charles Marleau CIM<sup>®</sup> and William Mitchell CIM<sup>®</sup>*

Copper has recently been on an upward tear. Since bottoming in March, prices are up by roughly 70% and are at the highest levels since 2013. Demand from China (the world's largest consumer) continues to rise and combined with supply-side constraints, analysts remain bullish on the red metal. With prospects for a stimulus driven economic rebound beginning in 2021 and governments spending on infrastructure, demand has the potential to surge. Additional demand could come from the renewable energy and electric vehicle industries; both of which require massive amounts of copper. A final catalyst, although not directly related to an increase in economic activity, is recent weakness in the U.S. dollar with the rationale that since copper trades in U.S. dollars, a weaker "Greenback" should drive demand.

We initialized our current position in shares of First Quantum in early September and as of December 4 FM has returned 66%. The company' has a strong balance sheet, pays a small semi-annual dividend, and a market capitalization of \$14,4 billion thus placing FM in the **Large Cap** category. With the potential for sustained growth in copper demand and our view that First Quantum is one of the premier copper producers with a strong growth profile, we are maintaining our positive outlook. We currently hold FM shares in both The Palos Equity Income Fund and the Palos Income Fund LP.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.75	12.41%
Palos Equity Income Fund - RRSP	PAL101	\$6.28	11.65%
Palos Merchant Fund L.P. (Dec 31, 2019) <sup>2</sup>	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$12.22	59.58%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$11.27	8.60%
S&P TSX Composite (Total Return with dividends reinvested)			5.84%
S&P 500 (Total Return with dividends reinvested)			16.49%
S&P TSX Venture (Total Return with dividends reinvested)			33.53%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			0.97%
Canadian Government 10-Year			0.80%
Crude Oil Spot			US \$46.26
Gold Spot			US \$1835.90
US Gov't10-Year/Moody BAA Corp. Spread			224 bps
USD/CAD Exchange Rate Spot			US \$0.7822

<sup>1</sup> Period ending December 4, 2020. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays

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