



Should First Quantum Shareholders be Concerned?

Description

The ink has barely dried on the mining world's most recent mega-merger and already it looks like it could turn out to be a huge mistake. Finalized near the end of March, **First Quantum's** ([TSX:FM](#)) +\$6 billion takeout of **Inmet Mining** (TSX:IMN) has created the largest copper focused miner in the world and what First Quantum expects will become a top 5 global copper producer by 2018.

By completing the relatively uncontested transaction, First Quantum was able to scoop one of the world's great potential copper mines – the \$6.2 billion Cobre Panama project. The Cobre Panama copper deposit is massive, but contrary to what many a miner might have you believe, size doesn't necessarily matter. Details like revenues and expenses are what investors' truly care about.

Uh-oh

And while First Quantum is confident it can cut costs from the existing Cobre Panama budget (believe it when you see it) the recent price performance of copper does not bode well for the top line of a company that just went all-in.

A Financial Times article out over the weekend indicated global copper production is rising at its fastest rate in a decade. Wood Mackenzie, a leading consultancy, expects 2013 to see the biggest percentage increase in global mine production since 2004.

Demand for the metal, primarily from China which generates 40% of global demand, has been insatiable for a good chunk of the past decade. Supply couldn't keep up.

The thing about commodities however is that when you throw enough money at them, you tend to find more. Billions have been poured into copper projects around the world and these projects are finally beginning to come on-line. These projects are why supply is increasing at a faster rate than demand and the price of copper has declined by 28% from its 2011 high.

The scariest part of the supply/demand equation is that the copper price hasn't fallen far enough to make producers scale back on production. The price of approximately U\$3.30/lb still compares favourably to the average production cost of about \$2/lb.

Foolish Takeaway

Time will tell how this takeover plays out for First Quantum shareholders. It could turn out that Inmet's executives, who disapproved of the hostile bid, end up with the last laugh. It wasn't too long ago that **Barrick Gold** (TSX:ABX,NYSE:ABX) spent \$7.3 billion on a copper asset that is now carried on the books for just \$3.1 billion. Should the price of copper continue on its current path, First Quantum shareholders may regret the day Cobre Panama came into their life.

If you're looking for a commodity with a far more appealing supply/demand relationship than copper, look no further than uranium. Supply is in fact being removed from the market just as demand is set to take-off! Uranium has the potential to be *the* fuel that powers the 21st century and currently the market is completely ignoring it. [Click here now](#) for instant access to our FREE report titled "**Fuel Your Portfolio With This Energetic Commodity**". We think you'll be surprised just how bright the future is for uranium, just how far two Canadian names have fallen, AND **how fast** they could rebound. [Click here now](#) to access this free report, and hop on for the nuclear ride of your life.

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Fool contributor Iain Butler owns shares of Barrick Gold. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FM (First Quantum Minerals Ltd.)

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