The Stock Picker's Guide to First Quantum for 2014

Description

When it comes to Canadian miners, very few companies have done as good a job of creating value for shareholders as copper miner **First Quantum Minerals** (TSX:FM). While the common theme in this sector seems to be poorly timed acquisitions, steep cost overruns, and dramatic write-downs, First Quantum has bucked the trend.

The company prides itself on its strategy of keeping most of its mine development operations in-house, rather than outsourcing the bulk of the work to engineering firms, and its track record speaks for itself. From 2000-2011, production grew 21% per year but much more importantly shareholder returns were 32% per year, well ahead of its peers.

First Quantum is best-known as a copper producer in Africa, but also has operating mines in Europe and Australia. The company has had plans to continue growing rapidly and become one of the world's largest copper producers.

Yet it was still a big surprise when First Quantum launched a hostile takeover attempt for Inmet Mining in late November 2012. After sweetening the bid slightly to $5.1 billion, the bid was ultimately accepted by Inmet's shareholders the following year.

The takeover gave First Quantum the Cobre Panama project, a massive undertaking that Inmet estimated would cost $6.2 billion to develop. During the takeover process, First Quantum claimed it could develop the project for up to $1 billion less, and after the bid was successful, the company shut down the project for review. The results were revealed just last week.

Surprisingly First Quantum actually raised the cost estimate for Cobre Panama to $6.4 billion, and also announced the project would take longer to complete than originally expected. On the bright side, the company also raised the annual production forecast by 20%. Analysts generally reacted positively to the news.

The events of last week are a perfect example of how First Quantum is perceived by analysts and investors. In today's mining environment, most announcements of cost overruns and project delays would not be well-received, even if production estimates were raised at the same time.

In fact, First Quantum and its investors have not been as badly burned in today's environment as other miners. Over the last two years, First Quantum shares are down 16%. Meanwhile Canada's largest base metals miner, **Teck Resources** (TSX:TCK.B)(NYSE:TCK) is down by 57% over the same time period. Other large copper miners **Hudbay Minerals Inc** (TSX:HBM)(NYSE:HBM) and **Lundin Mining Corp** (TSX:LUN) have fallen by 50% and 37% respectively.

Such is the conundrum that investors face in every sector. Is it wise to pay a little more for a company with a better track record? Or would it be better to go after a more troubled company, in the hopes of scoring a bargain?

Investing in First Quantum clearly requires having faith that its management will continue to execute as they have done in the past. But if that happens, then the higher stock price will be well worth paying.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:FM (First Quantum Minerals Ltd.)
3. TSX:HBM (Hudbay Minerals Inc.)
4. TSX:LUN (Lundin Mining Corporation)
5. TSX:TECK.B (Teck Resources Limited)

Category

1. Investing

Date
2025/06/28
Date Created
2014/02/05
Author
bensinclair