



Breaking Down Hudbay Minerals' Bid for Augusta Resources: Who Benefits Most?

Description

On Friday, Canadian copper giant **Hudbay Minerals** ([TSX:HBM](#))([NYSE:HBM](#)) extended its hostile offer for **Augusta Resources** (TSX:AZC). Hudbay also dropped its minimum tender condition. But what does this all mean for Augusta and its shareholders? To answer that question, one only needs to look back a year or two.

First Quantum and Inmet: A great history lesson

Back in late 2012, Inmet Mining had a market capitalization under \$4 billion, but analysts pegged the true value of the company at \$6 billion or more. But the stock price was depressed because Inmet was in the process of developing a massive copper mine in Panama. Investors were nervous about the company's ability to fund the project, especially if there ended up being cost overruns. It was a very similar situation to the one faced by Augusta today.

So in late November 2012, **First Quantum Minerals** ([TSX:FM](#)) stepped in with a hostile \$5.1 billion offer for Inmet. First Quantum required two-thirds of Inmet's shareholders to approve the transaction. But at first, only 60% of shareholders tendered their shares by the February 14 deadline.

So what did First Quantum do? First, the company dropped its minimum tender condition, and also extended the deadline. The tactic worked like a charm – after the second deadline passed, more than 85% of Inmet's shareholders approved the deal. The other 15% had to go along, and today First Quantum owns 100% of Inmet's shares.

Will this happen again?

Besides the tactics being used, there is one big similarity between the offers made by First Quantum and Hudbay: the lack of competing bids. The mining industry is still reeling after a long history of overaggressive growth and broken promises. Many of the largest companies have new CEOs, and have promised a more conservative path to growth, with fewer acquisitions. No one else put in a bid for Inmet, and likewise it is difficult to imagine a bidding war for Augusta.

But there is also one glaring difference. The First Quantum bid was equal to \$72 per Inmet share, but Inmet never traded above \$75 per share throughout the process. Today, Augusta trades at more than a 25% premium to Hudbay's bid. So Augusta's shareholders are certainly a lot more optimistic than Inmet's were. But that optimism may not be well-founded.

Foolish bottom line

Hudbay is certainly hoping that history will repeat itself, while Augusta is hoping for a different ending. But the mining industry is still struggling, just like it was when First Quantum acquired Inmet. It's very difficult to see why Augusta shares trade at such a premium.

Investors thinking about buying shares in Augusta may want to think twice. Although such a gamble could pay off, it's a very dangerous game to play.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:HBM (Hudbay Minerals Inc.)
2. TSX:FM (First Quantum Minerals Ltd.)
3. TSX:HBM (Hudbay Minerals Inc.)

Category

1. Investing

Date

2025/08/17

Date Created

2014/03/17

Author

bensinclair

default watermark