



## Why Augusta Resources Needs Hudbay Minerals

### Description

**Augusta Resources'** (TSX: AZC)(NYSEMKT: AZC) management continues to resist **Hudbay Minerals'** ([TSX: HBM](#))([NYSE: HBM](#)) hostile takeover offer, but with the recent delay to the company's environmental permit on its only project, shareholders may be better off accepting the offer, even if Augusta Resources' management has labelled it as "grossly inadequate."

On Monday June 9, HudBay extended its hostile offer for Augusta until June 20, but made no changes to the offer. Just a few weeks before Hudbay extended the offer, Augusta Resources reported that its Rosemont copper project had hit a roadblock after the environmental permit was delayed. Augusta has been working on permits for the project for seven years, and they have attracted a great deal of scrutiny since the get-go.

### Another delay could push Augusta's stock down

The federal government formally announced on May 23 that it will restart reviews of the proposed mine's impacts on eight endangered species after an ocelot was spotted on the proposed project. Prior to the setback, Augusta claimed that it would "soon" receive its environmental permit, a huge milestone for the project. Now, that permit will be delayed, with Augusta now estimating approval in the third-quarter. Since the project's delay, Augusta's shares have fallen below the \$2.96 per common share that Hudbay's offer valued the company.

This is just the latest hiccup for the company. Last November, the Environmental Protection Agency concluded that Augusta's proposals to mitigate Rosemont's damage to area water supplies were "scientifically flawed" and "grossly inadequate." The EPA advised the Corps of Engineers that the project "should not be permitted as proposed." In addition some Arizona politicians, where the Rosemont project is located, have been very vocal opponents of the project and its potential impact on the area.

### A diversified miner makes an excellent suitor

The problem for Augusta is that the Rosemont copper project is the company's only project. Until the project is operational, Augusta is not making any cash. While it is true that the project has great

potential, right now it is speculation of profit potential that is driving shares. The more the project is delayed, the more antsy its financiers and investors will get and they may decide to head for the exits. Even worse, the project may never be finished.

This is why a purchase by Hudbay may actually be a good thing for Augusta shareholders. Neither company is in a stellar financial position. Both companies lost money in 2013 and in the first quarter of this year, and saw their cash on hand decline. The thing Hudbay has going for it compared to Augusta is that it is a diversified miner.

Hudbay produces copper concentrate and zinc metal and owns copper/zinc/gold mines, ore concentrators, a zinc production facility in northern Manitoba and Saskatchewan, and a copper project in Peru. This diversity means that Hudbay is theoretically in better position to ride out what could be a bumpy and long road to the Rosemont mine's approval.

In fact, Hudbay knows that there is a long road ahead for Augusta, and this could be a good reason why the company stood pat on its offer amount. Hudbay CEO David Garofalo was recently quoted saying Augusta Resources is "essentially insolvent" and warned that the company's shareholders were at risk without a quick wrap-up in permitting for its Rosemont copper project.

### **Augusta shareholders hold out hope for a white knight**

In the meantime, Augusta Resources has stepped up its search for a white knight bidder. The company claims that it has 10 other parties that have expressed interest and are completing due diligence. But none of these interested parties have acknowledged the speculation. In the meantime, shareholders have their poison pill in place to fend off the offer, and only time will tell if they'll warm up to Hudbay's courting while Rosemont's development remains in limbo.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:HBM (Hudbay Minerals Inc.)
2. TSX:HBM (Hudbay Minerals Inc.)

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