



Why First Quantum Minerals Ltd Plunged 9% Today

Description

What: Falling oil prices are grabbing all of the headlines, but copper is plummeting as well.

Weak demand has crippled the industry, and this morning spot copper rates fell another 3.1% to US\$2.50/lb. These are the lowest levels we have seen since 2009.

As a result, shares of mining giant **First Quantum Minerals Ltd** ([TSX:FM](#)) plunged almost 9% in early Friday trading. Compounding the bad news, analysts at investment brokerage **JPMorgan** also downgraded the stock on balance sheet concerns.

So what: Every cent that the price of copper drops adds more weight to the worry of resource investors. That's why last week analysts at TD Securities decided to stress test Canadian miners. They wanted to see what would be the impact of US\$2.50/lb copper on free cash flows.

The results were terrible. At this price, almost every single company in their coverage universe was bleeding money. The only exception was **Copper Mountain Mining Corp**, which is projected to generate a very small surplus.

However, the company with the biggest losses might be First Quantum. The firm is projected to burn through US\$1.2 billion in cash this year, owing to major spending commitments at the Cobre Panama project and a royalty hike in Zambia. That could force management to dial back their expansion plans in 2015.

Needless to say, the combination of falling commodity prices and lower production has sent off a wave of analyst downgrades. On Friday, JPMorgan lowered its rating on First Quantum to 'neutral' from 'buy'. It also lowered its price target on the stock to \$16, down from the previous target price of \$27.

In a separate move, Numis Securities downgraded the stock last week. In its research note published on Thursday, analysts lowered their price target on First Quantum from \$37 to \$21.

Now what: The resource industry is facing its toughest challenge since the Great Recession, and quite frankly I'm not willing to call a bottom here. The reality is, there remains too much uncertainty in global

copper demand. Until buyers return, high-cost producers like First Quantum will struggle the most to survive.

It would be good to see management continue to cut back on their spending plans. But until the global demand and supply balance returns to equilibrium, producers like First Quantum will remain risky bets. That's why staying on the sidelines or owning higher-quality miners is a prudent call right now.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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