



Is the Post-Earnings Drop in First Quantum Minerals Limited's Stock Overdone?

Description

First Quantum Minerals Limited ([TSX:FM](#)), one of world's largest producers of copper, nickel, and other metals, announced second-quarter earnings results after the market closed on July 29, and its stock responded by falling over 8%. The company's stock now sits more than 60% below its 52-week high of \$27.29 reached back in July 2014, so let's take a closer look at the quarterly results to determine if we should consider using this weakness as a long-term buying opportunity, or if we should avoid the stock for the time being.

The results that sent its shares lower

Here's a summary of First Quantum's second-quarter earnings results compared with its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Q2 2015	Q2 2014
Comparable Earnings Per Share	\$0.03	\$0.26
Revenue	\$610 million	\$945 million

Source: First Quantum Minerals Ltd.

First Quantum's comparable earnings per share decreased 88.5% and its revenue decreased 35.4% compared with the second quarter of fiscal 2014. These very weak results can be attributed to two primary factors.

First, metal prices have fallen sharply over the last year, which led to the company's realized selling price of copper decreasing 10.8% to \$2.65 per pound and its realized selling price of nickel decreasing 29.2% to \$5.98 per pound.

Second, the company's sales volumes fell dramatically compared with the year-ago period, including its copper sales decreasing 26.3% to 84,382 tonnes and its nickel sales decreasing 18.1% to 8,721 contained tonnes.

These two factors led to First Quantum's total revenue from the sale of copper decreasing 34.5% to \$449 million and its revenue from the sale of nickel decreasing 41.9% to \$86 million.

Here's a quick breakdown of 12 other notable statistics from the report compared with the year-ago period:

1. Copper production decreased 3.3% to 104,233 tonnes
2. Nickel production decreased 25.9% to 9,059 contained tonnes
3. Gold production decreased 6.6% to 56,725 ounces
4. Sales of gold decreased 15.5% to 50,804 ounces
5. Platinum production decreased 33.7% to 6,104 ounces
6. Sales of platinum decreased 31.6% to 7,223 ounces
7. Palladium production decreased 32.4% to 4,731 ounces
8. Sales of palladium decreased 25.4% to 5,431 ounces
9. Zinc production decreased 40.4% to 8,220 tonnes
10. Sales of zinc decreased 51.9% to 7,411 tonnes
11. Comparative earnings before interest, taxes, depreciation, and amortization decreased 60% to \$161 million
12. Cash flow from operations, before changes in working capital and tax paid, decreased 59.6% to \$157 million

First Quantum also declared an interim dividend of CDN\$0.033 per share, and it will be paid out on September 21 to shareholders of record on August 28.

What should you do with First Quantum's stock today?

It was a terrible quarter for First Quantum, so I think the post-earnings drop in its stock was warranted. However, I also think it has led to a great long-term buying opportunity because the stock now trades at very attractive valuations, including just 23.2 times fiscal 2015's estimated earnings per share of \$0.44 and a mere 8.8 times fiscal 2016's estimated earnings per share of \$1.16, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 25.6.

I think First Quantum's stock could consistently trade at a fair multiple of about 16, which is a discount compared with its five-year average multiple because of its weak financial performance as of late, but this would still place its shares upwards of \$18.50 by the conclusion of fiscal 2016, representing upside of more than 81% from today's levels.

With all of the information above in mind, I think First Quantum Minerals represents one of the best investment opportunities in the metals and mining industry today. All Foolish investors should take a closer look and strongly consider using the post-earnings weakness to begin scaling in to long-term positions.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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