



First Quantum Minerals Ltd.: Is the Earnings-Induced Sell-Off a Buying Opportunity?

Description

First Quantum Minerals Ltd. ([TSX:FM](#)), one of world's largest producers of copper, nickel, and other metals, announced third-quarter earnings results after the market closed on November 9, and its stock has responded by falling over 14% in the trading sessions since.

The stock now sits more than 71% below its 52-week high of \$20.05 reached back on November 26, 2014, so let's take a closer look at the results to determine if we should consider using this sell-off to initiate long-term positions or if we should use it as a warning sign to avoid the stock indefinitely.

Lower metal prices lead to very weak results

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

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Comparative Earnings Per Share	\$0.10	\$0.05	\$0.22
Revenue	\$673 million	\$706 million	\$885 million

Source: *Financial Times*

First Quantum's comparative earnings per share decreased 54.5% and its revenues decreased 24% compared with the third quarter of fiscal 2014. These very weak results can be attributed to lower metal prices, which led to its average realized selling price of copper decreasing 26.7% to \$2.28 per pound and its average realized selling price of nickel decreasing 43.2% to \$4.81 per pound, and this could only be partially offset by its total sales volume of copper increasing 5.5% to 104,613 tonnes.

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

1. Comparative net earnings decreased 47.4% to \$70 million

2. Copper production increased 5.8% to 107,485 tonnes
3. Revenue from the sale of copper decreased 21.3% to \$494 million
4. Nickel production decreased 16.2% to 9,955 contained tonnes
5. Nickel sales decreased 0.7% to 10,733 contained tonnes
6. Revenue from the sale of nickel decreased 45.9% to \$85 million
7. Gold production increased 10.6% to 56,887 ounces
8. Sales of gold increased 21.4% to 63,411 ounces
9. Revenue from the sale of gold increased 11.9% to \$66 million
10. Gross profit decreased 57.3% to \$103 million
11. Comparative earnings before interest, taxes, depreciation, and amortization decreased 26.5% to \$261 million
12. Cash flow from operations, before changes in working capital and tax paid, decreased 22.6% to \$263 million

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

It was a very weak quarter for First Quantum, so I think the sell-off in its stock is warranted, and even though it now trades at a mere 9.3 times fiscal 2016's estimated earnings per share of \$0.61, which is very inexpensive compared with its five-year average price-to-earnings multiple of 23.1, I simply would not try to catch the falling knife that it is.

With this being said, I think Foolish investors should avoid First Quantum today and only revisit it if metal prices recover or if it finds a way to turn things around in the fourth quarter.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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

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Author

jsolitro

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