



## Why Did First Quantum Minerals Ltd. Rally 52% in Just 2 Days?

### Description

The past few years have not been kind to shareholders of **First Quantum Minerals Ltd.** ([TSX:FM](#)). The stock traded in the high \$20s back in 2011, but since then falling copper prices have severely hurt the company's prospects. By early February the stock had sunk below \$3.

Then over the next couple of days, the company's shares rocketed up by 52%. Of course, this is little consolation for long-term shareholders, but was very profitable for anyone with perfect timing.

So what exactly caused this rally, and is it too late to get in?

### Some background

First Quantum has long been regarded as one of the mining industry's best performers. To be more specific, the company has been very good at buying mines for reasonable prices and then developing them on budget.

First Quantum also had some very ambitious growth plans. The company completed a \$5.1 billion acquisition of Inmet Mining in early 2013, securing a massive copper project in Panama (appropriately named Cobre Panama).

When copper prices were healthy and rising, this was all well and good. But as copper prices have plunged, First Quantum has clearly gotten ahead of itself. The company even had to do a massive equity raise last year to cover a funding gap.

Fast forward to today and First Quantum is struggling with its balance sheet. To illustrate how bad the situation has gotten, Moody's downgraded the company's debt further into junk status, while there are "significant challenges the company faces in materially lowering its leverage."

This dire situation has made First Quantum very reliant on higher copper prices. So when the price of copper does increase, the stock reacts forcefully.

## A respite for copper

The rally in First Quantum's shares wasn't caused by any company-specific news. Instead, copper rallied thanks to some positive economic news from China and a weakening U.S. dollar. Other copper miners also saw their shares gain, although not as much as First Quantum did.

## Too risky at this point

The price of copper is overwhelmingly dependent on the Chinese economy, which means that First Quantum is essentially a bet on China.

This is an extremely risky bet to make. We all know that China's growth has slowed in recent years, and there are some serious concerns about the country, including its overreliance on debt. If China's economy falters, First Quantum could find itself short of capital once again, and that would be devastating for its shareholders. Your best bet is to look elsewhere.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

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

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