Tahoe Resources Inc. Has 1 Big Advantage

Description

With most major commodities down big in recent years, global miners have faced a litany of issues. Not only did they take out substantial levels of debt during the last upward cycle, but they invested those funds into high-cost mines, banking on continued record high prices. Once the market crashed (following the slowdown in China), nearly every miner was been forced to cut spending, focusing on capital preservation rather than long-term profits.

In an industry of pain, **Tahoe Resources Inc.** (TSX:THO)(NYSE:TAHO) stands out. Last year it actually generated roughly $50 million in free cash flow. In 2016 it should generate even more. As we'll see, excess cash flow is a huge advantage in today's market.

Acquisitions are adding value

To pay down debt, nearly every miner has been offloading assets. Unfortunately for them, it's clearly a buyers' market as the number of sellers greatly outpaces potential buyers.

Tahoe has directed some of its excess cash to buying up struggling competitors at fire-sale prices. Last year it paid $1.35 billion to acquire gold miner Rio Alto Mining Ltd. The benefits were immediately recognizable.

"The combination would arguably create an intermediate multi-mine producer with low production costs, a strong balance sheet with net cash, and with a genuine growth profile," said Daniel Earle, an analyst at TD Securities Inc.

In 2015, the acquisition added 230,483 ounces of gold production from its La Arena mine, a major reason why Tahoe remained cash flow positive.

This February Tahoe also announced that it was buying **Lake Shore Gold Corp.** in an all-stock deal valued at $945 million. Lake Shore Gold has some high-quality assets including its low-cost gold Timmins West and Bell Creek mines in Ontario. The combined company is expected to produce 370-430 thousand ounces of gold in 2016 at total cash costs of only $675-725 an ounce.

All-stock deals are a big bonus

While it hasn’t been immune to industry cycles, Tahoe’s stock is actually up about 100% over the last decade. Compare this to gold miner **Barrick Gold Corp.,** which has lost over half of its value.

In a market where the availability of credit is tightening, Tahoe can use its stock as a high-worth currency to make valuable acquisitions without stressing the balance sheet.

For 2016, Tahoe is estimating that total capital expenditures will be $70-80 million to maintain current production. Including recent acquisitions, this means free cash flow should be over $100 million. Tahoe is the rare company that can capitalize on an industry where pain is the norm.

If you’re looking to invest in miners over the long term but aren’t sure when the next boom will occur, Tahoe is a great choice given it can benefit from a variety of conditions. If the market slumps, it can acquire quality assets at attractive prices. If it improves, free cash flow should pop immensely.

CATEGORY

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2. Investing

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