



## Is First Quantum Minerals Limited Going Bankrupt?

### Description

On February 19, **First Quantum Minerals Limited** ([TSX:FM](#)) issued a “going concern” warning, saying there is “significant doubt” it can continue operating in its current state. Should investors worry about a possible bankruptcy?

### Debt is the problem

As of last quarter, First Quantum had \$4.6 billion of debt compared to just \$365 million in cash. The company faces a debt crisis due to its \$4.9 billion takeover of **Inmet Mining Corp.** in 2013. First Quantum has been forced to take on even more debt to finish construction at Inmet’s major mines.

The company was forced to disclose its difficulties given it’s in danger of breaching one of its debt covenants. To abide by the terms of its debt obligations, the company needs to keep its net debt less than 5.5 times its EBITDA. By the second half of this year, the hurdle gets even harder, resetting to 4.5 times EBITDA.

Following the announcement, management went on damage control. “It is important for you to remember that our secured lenders remain supportive and encouraged by the actions we are taking,” President Clive Newall said on a conference call.

The company will have to renegotiate its debt covenants to continue operating. Last year the company was successful in doing so and management expressed confidence that terms can be renegotiated again.

### What needs to happen

Dundee Capital Markets analyst Joseph Gallucci recently said that a covenant breach is “very likely” and could happen as soon as the second quarter of this year. Any plan to reduce debt is complicated by large debt maturities of \$1.1 billion in 2020, \$1.1 billion in 2021, and \$839 million in 2022.

Its major Cobre Panama project isn’t set to come online until 2018, so debt reduction will almost certainly come from asset sales. Unfortunately, these will come during a bear market when selling

prices are lowest. For example, First Quantum recently sold a nickel-copper-platinum mine in Finland for \$712 million. In 2014, it likely could have fetched at least 50% more.

With limited options, depressed asset sales will need to continue. The latest Finland sale should help reduce net debt to an estimated 4.9 times EBITDA, providing a bit of breathing room.

Once its Cobre Panama project is online, First Quantum will become a major copper producer with vastly improved cash flows. It's becoming increasingly doubtful that the company can make it until then. The project is less than half finished and will require billions more in capital expenditures. Even by 2019, when commercial production (hopefully) begins, First Quantum will face \$520 million in needed spending for that project alone.

A sizable, long-term financing hole makes a bet on First Quantum tricky. Not only do copper prices need to improve, but debt covenants will need to be renegotiated and further asset sales completed. The events that need to occur are nearly impossible to predict. Foolish investors should avoid shares.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

## TICKERS GLOBAL

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

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