



Short Sellers Are Betting Big Against These 2 Mining Stocks

Description

Over the past few weeks, both **First Majestic Silver Corp.** ([TSX:FR](#))([NYSE:AG](#)) and **Harmony Gold Mining Co.** ([NYSE:HMY](#)) have seen their short interest explode. First Majestic went from 4.4 million shares short to 8.1 million. Harmony Gold saw its short interest grow from 5.5 million shares to 15.1 million.

Because short sellers benefit when stocks fall in value, metals investors should take note. Does rising short interest indicate anything about the future of First Majestic or Harmony Gold? Are mining companies primed for another downturn?

The rally has short-term headwinds

Over the past 90 days, the Dow Jones Precious Metals Index rose over 100%, stemming from a rebound in gold, silver, and platinum. As precious metal producers, the shares of First Majestic and Harmony Gold were sure to rebound. While many believe the downturn is over, one major bank isn't ready to jump back in.

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Jorge Beristain, an analyst at **Deutsche Bank AG**, believes the industry still faces a supply glut. For the market to sustain any meaningful rebound, the market will need to endure additional supply cuts and project cancellations. Supply should tighten eventually, however, as a vast number of operators need to focus on reducing debt levels rather than investing in long-term projects.

A strong dollar and weak global demand should add additional near-term headwinds to a potential recovery.

Can First Majestic or Harmony Gold buck the trend?

Both these companies are actually in advantageous positions. Even if the latest rebound isn't sustained, First Majestic and Harmony Gold can take advantage of struggling competitors with their strong balance sheets. For example, First Majestic has more cash than total debt. Harmony Gold only

has \$170 million in net debt versus a market cap of \$1.6 billion.

Compare these numbers to a company like **Barrick Gold Corp.**, which has \$7.5 billion in net debt versus a market cap of \$19.1 billion. Smaller miners typically fare even worse.

Ample financing capabilities should allow both First Majestic and Harmony Gold to buy up assets at a discount should the market move lower yet again.

“What I’ve done in First Majestic is I buy assets at the bottom of the market,” said CEO Keith Neumeyer in a recent interview. “In the case of First Majestic Silver, we bought one company called Silver Crest, adding our sixth-producing mine to our portfolio and another five million ounce producer, which is now our biggest mine. I think we picked it up for basically ... I know we picked it up cheap.”

How should you invest?

CEO Keith Neumeyer says it’s “very common” for mining stocks to outperform metals during an industry upturn. That’s proven true yet again over the last few months. If you were bottom-picking the market, it may already be too late.

If you’re a long-term investor, however, buying well-capitalized companies such as First Majestic and Harmony Gold is a great option. If precious metals rebound, those stocks will undoubtedly appreciate. If there’s more downside to come, expect both companies to take advantage of a struggling industry, acquiring competitors at decade-low prices and magnifying long-term earnings potential.

The short sellers are likely playing short-term movements. Buy-and-hold investors shouldn’t worry.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AG (First Majestic Silver)
2. NYSE:HMY (Harmony Gold Mining Company Limited)
3. TSX:FR (First Majestic Silver)

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