



## First Quantum Minerals Limited: Roaring Back to Life

### Description

As early as this past February, **First Quantum Minerals Limited** ([TSX:FM](#)) was primed to become a legitimate bankruptcy candidate. After shares bottomed at around \$2.50, however, they've risen an astounding 200%. Still, the company's stock would need to triple again to hit its historical highs set in 2014.

Should you get on the First Quantum train?

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### The worst is over

The reason behind the company's demise is a classic story among miners: it had an over-leveraged balance sheet heading into a bear market. 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.

With \$4.7 billion in debt, the company watched copper prices slide roughly 40% from 2013 to 2015. Since 2011 copper prices have failed to complete a fiscal year with positive total returns. On February 19 the company issued a "going concern" warning, saying there is "significant doubt" it could continue operating in its current state.

While there is still plenty of work left to do, First Quantum's management team believes that the most difficult restructuring efforts are behind it. "We're in the middle of a process, but we've already done the hard part," President Clive Newall said in an interview with the *Financial Post*.

A huge lifeline came on March 10 when it agreed to sell its Kevitsa nickel-copper-platinum mine in Finland to Swedish miner **Boliden AB** for \$712 million. With copper prices rebounding off their historical lows and cost-cutting measures taking hold, First Quantum feels confident that it can secure additional financing.

## Not over yet

While the worst is over, significant hurdles remain. First Quantum has more than \$1 billion in debt coming due in each of 2020 and 2021, and the company still needs to finish developing its Cobre Panama project, which is expected to cost \$6 billion.

The Cobre Panama mine won't come into production until at least 2018, so future lifelines are necessary. Reports indicate that it may be looking to sell its Ravensthorpe mine in Australia, but Newall says no sale process is currently occurring.

On the plus side, weak industry conditions make it cheaper to develop major projects. According to the *Financial Post*, Chairman Philip Pascal noted "that this is a great time to build mines, because suppliers are not busy and it is possible to drive costs down significantly."

## All about copper

If First Quantum can hold on and develop its Cobre Panama mine under budget and on schedule, shares could still have more upside. Still, the long-term price potential will be dictated by copper prices. Pascal noted that while the company has no clue what copper prices will do next, a structural deficit will likely emerge in a few years. If true, shares are almost certainly undervalued. The easy money, however, has likely been made.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

## TICKERS GLOBAL

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

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