



Buy the Dip: Now Is the Time to Acquire Tahoe Resources Inc.

Description

Firmer precious metal prices over the last year have been a boon for gold miners. They have also sparked considerable interest among investors in beaten-down gold mining stocks. While in recent weeks, gold and silver have both pulled back sharply from their 2017 highs, there are signs that the underlying fundamentals for precious metals remain positive.

This makes now the time for investors to boost their exposure to gold and silver, and one of the best ways of doing so is by investing in **Tahoe Resources Inc.** (TSX:THO)(NYSE:TAHO). Because of weak precious metal prices, its stock has fallen in recent weeks, creating a handy entry point for investors.

Now what?

Tahoe continues to unlock value for investors and deliver solid results. For the first quarter 2017, production grew strongly; while silver output dipped by a modest 1% year over year, gold production spiked by a massive 139%.

This significant increase in gold output coupled with firmer precious metal prices caused earnings for the quarter to almost double compared to a year earlier. Solid production growth is expected to continue over the course of 2017 with the company forecasting that gold output could grow by as much as 10%. Along with higher gold prices, this will give the miner's earnings a healthy bump.

An important aspect of Tahoe's operations is its high-quality assets comprised of five operational mines in Guatemala, Peru, and Canada, which, combined, hold reserves of over 3.5 million ounces of gold and 310 million ounces of silver.

While operations in Latin America are perceived to be risky, many investors forget that countries such as Peru are highly dependent on mining to generate much-needed government revenue and export income. This means that the geopolitical risks associated with those operations are not as severe as many believe.

Tahoe remains committed to expanding its assets and operations by investing in developing its existing mines as well as exploring for additional ore bodies.

For 2017, Tahoe has budgeted a maximum of \$350 million for exploration and development. That amount is split 50/50 to sustain existing operations and the funding of projects. The key projects planned for 2017 are the deepening of the shaft at its Bell Creek mine in Canada and the construction of a crushing and agglomeration plant at Shahuindo mine in Peru.

These and other exploration projects will support further expansion of Tahoe's precious metals production, which the company forecasts will reach 550,000 ounces of gold and 21 million ounces of silver annually by 2019.

It has also forecast that all-in sustaining costs for gold production will have fallen by 21% compared to the US\$1,200 per ounce forecast for 2017 to be US\$950 per ounce. Along with higher expected gold prices, this will boost its margins and further lift Tahoe's earnings.

A key consideration when deciding whether or not to invest in a precious metals miner is the health of its balance sheet. It is important for investors to avoid those miners that have large amounts of debt and are potentially over leveraged.

Notably, Tahoe has a solid balance sheet. At the end of the first quarter 2017, it had US\$175 million of cash on hand and long-term debt of a mere US\$35 million. Even after factoring in reclamation costs and lease obligations, Tahoe's total long-term indebtedness comes to around US\$104 million, which is significantly less than its cash on hand and roughly a third of its annual operating cash flow.

So what?

For the reasons discussed, Tahoe will perform strongly and should report some solid operating and financial results for the foreseeable future. After falling by 7% for the year to date, it appears attractively priced. While investors wait for it to appreciate, they will be rewarded by a juicy but sustainable 3% dividend yield, which is a rarity when investing in a precious metals miner.

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