



Is it Over for Tahoe Resources Inc.?

Description

Precious metals miner **Tahoe Resources Inc.** (TSX:THO)(NYSE:TAHO) has lost a third of its value in one day of trading as news reached the market that it had been forced to shutter its flagship Escobal underground silver mine in Guatemala. There are concerns that this will have a significant impact on Tahoe for up to a year or possibly longer because of that mine's contribution to its overall production and earnings.

Now what?

Guatemala's Supreme Court elected to suspend the Escobal mining licence on the basis that Guatemala's Ministry of Energy and Mines violated the right of local indigenous people to consultation prior to granting the licence to Tahoe's Guatemalan subsidiary. While there is no concrete time frame as to when the mine can be reopened, it has been estimated that operations will cease for at least three months, and it could take from six to 12 months for the appropriate legal processes to be completed.

This is a significant blow for Tahoe.

You see, Escobal is its flagship mine and is responsible for all of Tahoe's silver production.

Clearly, such a stoppage will have a marked impact on the miner's earnings and leave it incapable of achieving its forecast 2017 production and earnings.

There are also costs associated with keeping the mine on standby so as to be able to commence operations once the licence is reinstated. So far, it has been estimated that if operations are suspended for three months, Tahoe will incur additional fixed costs of US\$10 million while foregoing 5.1 million ounces of silver production, which comes to close to US\$78 million at the current market price.

The bad news doesn't stop there.

Not only could the mine be shuttered for longer than the three months, which would cause those

additional costs and lost production to balloon, but there is a possible class-action lawsuit brewing for potential breaches of securities laws. If that occurs, it will cause Tahoe to incur further costs.

This highlights the risks associated with being overly dependent on a single mine and those that arise from operating in a developing nation that is a higher-risk jurisdiction. Strife-torn Guatemala has a long history of internal conflict, political instability, and corruption, which — along with opaque legal and regulatory regimes — makes it a high-risk jurisdiction to operate in.

This isn't the first time that Tahoe has encountered difficulties at the Escobal mine.

There has been a spate of protests, some of which have blocked entry to the mine, over claims that operations at the underground mine is causing seismic activity which is damaging homes in nearby communities.

While it is speculated that Escobal could be shuttered for up to 12 months, it is important to remember that silver mining is an important contributor to gross domestic product and export income for impoverished Guatemala. The taxes and royalties that precious metals mining produces is a significant source of income for a government that is battling to raise sufficient revenue to meet its fiscal needs.

These factors, along with the reputation damage that this incident has the potential to create, puts it in the government's interest to resolve the issue as quickly and constructively as possible.

There are also claims that the Escobal mine is not located in or impacting any indigenous communities of Guatemala, and these are supported by census data.

Combined, these factors bode well for a speedy resolution.

So what?

This certainly is a serious matter for Tahoe, particularly given its dependency on the Escobal mine. The short-term financial damage will be substantial, but it is not as grave as some pundits claim and the long-term fallout should be minimal. While Guatemala is a risky jurisdiction in which to operate, it is in the interests of the government to resolve the matter in Tahoe's favour.

That means the recent sharp pullback in its share price provides an opportunity for risk-tolerant investors to acquire Tahoe at an attractive price.

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mattdsmith

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