



## Tahoe Resources Inc. Is Trading at a Big Discount: Is it Worth the Risk?

### Description

Investing in a stock that has been in a big scandal or surrounded by bad news can seem like an awful idea — almost irrational. However, one of the most successful investors of all time, Warren Buffett, likes to find and invest in companies that are undervalued as a result of turmoil, if, of course, the company's underlying financials are strong and he sees a way for the company to climb out of its current situation. It is perhaps no surprise that he helped fund **Home Capital Group Inc.**, because he saw an opportunity to buy at a very discounted price into a company that still offers a lot of potential.

**Tahoe Resources Inc.** (TSX:THO)(NYSE:TAHO) certainly fits the build of being a company that has been deep in turmoil lately, and, depending on how you look at it, it could be a stock with no hope or one with tremendous upside.

The company operates four different mines. Its Escobal mine, which is located in Guatemala, contributed about half of its total revenue for the past few years and is also the third-largest silver mine in the world.

### Suspension of mining licence

That bad news is that the company's mining licence for the Escobal mine has been suspended and, in late August, a court in Guatemala upheld that suspension on the grounds that indigenous people were not consulted before the licence was granted. Initially, Tahoe Resources was prepared for a suspension of up to three months. However, the court recently had a hearing on August 28, and it will take several months from that date for the court to issue a ruling.

The company believes the issue could drag out anywhere from 12 to 18 months. In the meantime, Tahoe Resources will be unable to operate at Escobal and will only have access to \$75 million of the \$300 million in credit that it negotiated after news of the suspension. The danger is that if Tahoe Resources is not able to begin production by April 1, the company said it will be in default.

### Reason for optimism

A big reason I believe this will turn out favourably for Tahoe is that the courts will have to consider

indigenous rights as well as the economic impacts of the decision. The mine employs 1,600 people, and if operations are not allowed to resume, it could have a significant impact in that region of the country and will hurt local workers.

In addition, Tahoe Resources has invested significantly in the area, and if it were not allowed to continue to operate there, it would certainly have a negative impact on future foreign investment. I believe the economic consequences are too severe for the courts to take too hard of a stance on this issue and a compromise is much more likely.

### **Bottom line**

Tahoe Resources's stock is trading at only about 70% of its book value, and a lot of risk is priced into the shares. If Tahoe Resources receives a favourable ruling, then it will mean an instant boost to the stock, but bad news could send it plunging further. There's a lot of risk here, but the stock presents tremendous upside if Tahoe Resources is able to get a favourable ruling in the upcoming months.

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