



Will the Outlook for Tahoe Resources Inc. (TSX:THO) Improve?

Description

Precious metal miner **Tahoe Resources Inc.'s** (TSX:THO)(NYSE:TAHO) shares crashed to earth with a deafening thud in early July 2017 when its flagship Escobal silver mine was forced to cease operations after its [licence was suspended](#) by Guatemala's Supreme Court. Despite the positive spin put forth by Tahoe management that the mine's licence would be reinstated and that it would recommence operations within a short time frame, almost one year later, the mine remains closed.

There are growing signs that the mine will remain shuttered for some time, which is a significant blow for Tahoe and makes it a highly unappealing investment, despite claims by some market pundits to the contrary. This is because the Escobal mine is responsible for almost all of Tahoe's silver production and almost half of its revenue.

Now what?

The dispute centres on a claim by human rights and anti-mining group CALAS that Tahoe violated the local Indigenous people's right of consultation in advance of Guatemala's Ministry of Energy and Mines granting it the Escobal mining licence. While the licence was initially reinstated by the Supreme Court relatively quickly, within the three-month period anticipated by Tahoe, that court's original decision to provisionally suspend the Escobal licence was upheld on appeal by Guatemala's Constitutional Court.

Since then, the mine has remained closed because the Constitutional Court — despite being expected to announce a ruling before the end of 2017 — has requested additional information and as of yet has not issued a decision.

This forced Tahoe in early 2018 to reduce its workforce at Escobal and sharply reduce its production and earnings guidance for the year.

While the miner remains hopeful of receiving a favourable outcome, it is becoming increasingly difficult to predict what it will be. This is particularly the case in a country where resource nationalism is rising, and Tahoe has earned a reputation for running roughshod over local communities. That includes allegations of using violence to suppress community dissent and bribery to secure the Escobal licence.

Recent corruption scandals in Guatemala involving the nation's president Jimmy Morales, as well as claims that his administration mishandled the relief effort for the Fuego Volcano Crisis, are magnifying these issues and resentment against foreign mining companies.

For these reasons, it is difficult to see any satisfactory outcome for Tahoe occurring any time soon.

While the miner has focused on expanding its gold mining operations in an effort to boost gold output to 500,000 ounces annually, this won't make up for Escobal's lost silver production and revenue.

Pushback from local communities against foreign mining operations isn't restricted to Guatemala or Central America; it is occurring right across Latin America. Rising resource nationalism also affected Tahoe's operations in Peru, where there was a labour strike at its La Arena mine and continued discord from the local La Arena community. While this matter was resolved quite swiftly, it doesn't mean that it won't flare up again at some stage in the foreseeable future.

So what?

Tahoe is a [tough stock to like](#), primarily because of the issues surrounding its Escobal mine. While the successful resolution of the licensing dispute in Tahoe's favour would act as a tremendous catalyst for its stock, it is becoming increasingly difficult to ascertain exactly how Guatemala's Constitutional Court will rule. When coupled with the fact that even a favourable outcome more than likely won't end protests against the mine, it is a risky prospect to invest in Tahoe.

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