



## Is it Time to Buy Katanga Mining Ltd. (TSX:KAT) Yet?

### Description

**Katanga Mining Ltd.** (TSX:KAT) hasn't been short of drama lately. First, the stock fell about 68% from a 52-week high of roughly \$2.50 per share to as low as about \$0.80 per share. The huge drop was triggered by its partner, Gécamines, a state-owned mining company in the Democratic Republic of Congo, threatening to [dissolve the joint venture](#) between the two companies.

Then, the stock [popped about 50% in two trading days](#) because the issue was resolved, as Gécamines decided not to dissolve the joint venture after Katanga came up with a recapitalization plan.

### More drama likely to come

A *Wall Street Journal* article from last week reported that Katanga is swimming in \$9.2 billion of high-interest debt and that the company will issue \$5.6 billion in stock to retire much of its debt. When the equity is actually issued, the stock will likely fall because it will dilute the stakes of current shareholders.

In fact, Katanga stock is already down about 23% from its recent high of about \$1.50 per share, which may or may not have something to do with the press release on Monday about the chief operating officer of the company resigning with no explanation of the reason. On Tuesday alone, the stock fell more than 7%.



## Should you invest in Katanga?

Now that the stock has come off again, investors may be interested in getting in again. However, please be aware that Katanga is a high-risk investment.

Sure, as Katanga's website states, "The company has the potential to become Africa's largest copper producer and the world's largest cobalt producer." However, Katanga operates a single-site operation. If the mine were to halt its operations, even temporary, for whatever reason, the stock will certainly drop like a rock.

Take a look at **Tahoe Resources Inc.** (TSX:THO)(NYSE:TAHO) as an example. The stock fell about 50% when its Escobal mine, one of the largest silver mines in the world, was halted in July 2017. The stock hasn't moved much for almost a year. Mind you, Tahoe has other mining operations, too. In other words, Katanga is a riskier investment than Tahoe.

Investors who are looking to trade Katanga can consider an entry point between \$0.80 and \$1 per share. However, if the stock falls below that level, we could see it fall to below \$0.60 per share.

## Investor takeaway

Katanga is a high risk and potentially high reward stock. When sentiment turns positive, the stock can fly high. However, when it turns negative, it can get really ugly. So, conservative investors are better off avoiding the stock.

Those who are looking for a wild ride can consider the stock at opportune entry points. Currently it would be prudent for investors on the sidelines to wait for the equity issue before considering a position in Katanga.

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