



Is This Beaten-Down Silver Miner a Deep-Value Opportunity?

Description

The last two years have been particularly tough for intermediate silver and gold miner **Tahoe Resources** (TSX:THO)(NYSE:TAHO). After being forced to shutter operations at its Escobal silver mine in Guatemala, its market value has cratered to see its shares trading at below 50% of their value two years earlier.

As a result, Tahoe is trading well below its book value per share, even after accounting for the loss of silver reserves and production from Escobal. This has led to considerable speculation by some investors that it is a bargain investment that can only soar in value once the mine recommences operations.

Now what?

The problems Tahoe is facing regarding the Escobal mine are deep-seated and unlikely to be resolved amiably or in a speedy manner. The crux of the issue centres on claims by the local Xinka indigenous people as well as local non-indigenous communities that Tahoe, in concert with Guatemala's government, ran roughshod over them. This includes allegations of [human rights violations](#), including extra-judicial violence and a failure to consult with them over the mine.

It is the allegation that there was inadequate consultation prior to developing the mine, which is the most critical aspect of the complaint. That failure to adequately consult with community and indigenous groups by either Tahoe or the Guatemalan government means that they didn't consent to the development of the mine.

Opposition groups are also alleging that the mine has upset the local ecology, threatens existing sustainable agriculture in the region, and is damaging local communities while failing to deliver any tangible benefits. These groups have declared that Tahoe can't rely on excuses that it was the Guatemalan government's fault that the appropriate level of community consultation was not undertaken.

This has led groups opposing the mine to assert that Tahoe lacks the necessary social licence to operate in the region.

Furthermore, some experts have voiced concern that Tahoe has failed to respect indigenous people's rights, which is contrary to international standards for mining developments, meaning the mine is operating in breach of those standards.

It is for these reasons that Guatemala's Constitutional Court upheld an earlier decision by a lower court to suspend Escobal's licence until it had an opportunity to review the appropriate documentation and related claims. The court has since delayed issuing its decision and made a request for additional documentation.

As a result, the mine has been closed for a year, and there is every indication that it won't be recommencing operations any time soon.

Not only is it a complex multi-faceted matter, but the involvement of the U.S. government has aroused nationalist sentiment, further complicating the decision-making process. The U.S. Embassy, in May 2018, issued a statement calling for the court to make a timely decision, while stressing the importance of Guatemala's judiciary in creating a stable investment climate for the exploitation of the nation's abundant natural resources.

There are also other distractions, including a brewing political crisis that is centred on allegations of corruption, which have sparked calls for Guatemalan president Jimmy Morales to resign. This — along with Morales's ham-fisted presidency — has been fueling considerable social discord.

In such difficult and antagonistic circumstances, it is often viewed in Latin America that making no decision until absolutely required to do so is better than quickly committing to a verdict that could create further conflict.

For these reasons, it is highly unlikely that there will be any speedy resolution of the matter and that the Constitutional Court will issue a timely decision. That means Escobal could remain closed for some time to come. Even if it does eventually reopen, opposition groups and local community leaders have indicated that they will continue to protest against the mine and operate roadblocks to block access to the mine.

So what?

Tahoe finds itself in a [delicate situation](#) regarding the Escobal mine, which holds 91% of its silver reserves and was responsible for a considerable proportion of its revenue. If it continues to lobby the U.S. government for assistance, it could very well alienate Guatemala's Constitutional Court, further delaying a decision over whether Escobal can recommence operations.

Nonetheless, restarting the mine is a very important near-term catalyst for Tahoe because of its significant contribution to its precious metal reserves, production, and ultimately to earnings. The impact of the loss of Escobal is being mitigated by Tahoe's attempts to pivot itself into a gold miner, with it targeting gold production growth of 23% between the end of 2017 and 2019.

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