



Can Tahoe Resources Inc. (TSX:THO) Ever Recover From its Guatemalan Nightmare?

Description

At the end of August, embattled precious metals miner **Tahoe Resources Inc.** (TSX:THO)(NYSE:TAHO) saw its stock fall off a cliff, losing almost 24% in a month to see the miner's stock down by 43% since the start of 2018. This significant decline occurred because Guatemala's Constitutional Court confirmed the suspension of operations at Tahoe's flagship Escobal mine.

In [January 2018](#), I explained that there was a long and difficult road ahead for Tahoe to be able to recommence operations at the mine despite optimistic statements from the miner's management since the licence was originally suspended by Guatemala's Supreme Court in July 2017.

Management has even issued an encouraging statement about the latest development, but there is every sign that it will be a lengthy and onerous process to have Escobal's licence reinstated so that operations can recommence.

Now what?

Guatemala's Constitutional Court has put a four-point plan in place that must be successfully completed before the licence can be restored. The plan essentially requires that the scope of the area of influence associated with the Escobal mine must be confirmed and then a lengthy consultation process must be undertaken.

The likelihood of a successful conclusion to this process is low. Community and indigenous leaders who are opposed to the mine have made it clear that they will no longer negotiate with Tahoe and that they want the mine to cease operations, a sentiment that stems from their treatment since development of the mine commenced.

The allegations against Tahoe include the failure to consult with local communities and attempts to suppress local dissent against the mine.

As a result, many of those leaders claim that Tahoe lacks the necessary social licence to operate the mine and that they will never grant that licence.

The final step in the process is particularly daunting. Guatemala's Supreme Court must essentially ratify that the process outlined by the Constitutional Court has been followed to the satisfaction of all parties. Given the resistance to the mine from local communities and the Xinca indigenous people, it is unlikely that Tahoe can obtain a satisfactory outcome from that hearing.

Until the process set out by the Constitutional Court is completed, Escobal's licence will remain suspended.

This is a tremendous blow for Tahoe, as the mine holds most of its silver reserves and is responsible for much of its production and hence revenue. Even if the suspension is eventually lifted, local communities have made it clear that they will continue to protest the mine and attempt to have it closed, making Escobal's future unclear.

Tahoe has reported for every quarter since the licence was suspended. For the second quarter 2018, that loss came to US\$15.6 million compared to a profit of US\$33.5 million a year earlier. It was also more than double the previous quarter's loss of US\$7.2 million, highlighting the considerable financial strain that the suspension of operations at Escobal has created for Tahoe.

The miner has also attempted to pivot its operations to gold mining, but that has failed to provide any material relief. During the second quarter, it produced almost 98,000 gold ounces, which was 7% lower than the previous quarter and 12% less year over year.

Disappointingly, Tahoe reported all-in sustaining costs (AISCs) of US\$1,060 per gold ounce produced, only 19% lower than the average realized sale price received by Tahoe for each ounce of gold sold.

So what?

Tahoe's future appears [particularly bleak](#), and it is difficult to see the issues surrounding the Escobal mine resolved anytime soon. There is considerable and growing resource nationalism in Guatemala. Communities are increasingly determined to prevent foreign miners from exploiting and profiting from domestic resources at the expense of the local environment.

Without the Escobal mine, it is difficult to see how Tahoe can create value for investors and recover from the marked decline in its fortunes, making it an extremely risky investment.

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