



Will First Quantum Minerals Limited (TSX:FM) Go Bankrupt in 2019?

Description

Talking about a potential bankruptcy for **First Quantum Minerals** ([TSX:FM](#)) isn't new. In early 2016, the company itself admitted that its days were likely numbered. After issuing a going-concern notice to investors, the company said there was "significant doubt" it would be able to continue operating.

While commodity prices were struggling, the specter of bankruptcy was entirely due to First Quantum's inept management team, which forced untimely acquisitions, loading the firm with copious amounts of debt at the height of the market.

When it issued its going-concern notice, First Quantum had more than \$4 billion in debt and less than \$400 million in cash. The heavy debt load was a result of management's poor decision to acquire Inmet Mining in 2013 — a purchase that demanded heavy ongoing expenses to finish building and improve Inmet's mining operations.

But after bottoming out at roughly \$2.50 in January 2016, First Quantum's stock has been on a tear, hitting a high of \$22 per share in 2018. Since August, however, shares have dipped by more than 50% and now stand at just \$10 a share.

Is the market signaling another bankruptcy scenario or have shares simply been dragged down by a jittery market?

A triple whammy

While previous routs were a result of First Quantum's heavy debt load and investors' fears that it would force the company into insolvency, recent concerns stem from multiple factors, many outside the company's control.

In January 2018, the EPA surprised the market by maintaining restrictions on the Pebble Mine in Alaska, which sought to produce copper and gold in the Bristol Bay area. "It is my judgment at this time that any mining projects in the region likely pose a risk to the abundant natural resources that exist there," said Scott Pruitt — then head of the EPA. "Until we know the full extent of that risk, those

natural resources and world-class fisheries deserve the utmost protection.”

First Quantum, which was a partner on the project, may now never receive its share of production, which included 287 million pounds of copper per year and 321,000 ounces of gold per year. Ouch.

Then in March, Zambia’s government charged First Quantum \$8 billion for unpaid import duties. According to Jefferies analyst Christopher LaFemina, this charge equates to “nearly half of First Quantum’s estimated value and 80% of its estimated 2018 pre-tax earnings coming from its Zambian copper assets.”

First Quantum is Zambia’s largest individual tax payer and is fighting the ruling. But the government isn’t backing down. “We are confident that mining companies will be able to meet their operational costs,” Finance Minister Margaret Mwanakatwe told parliament, meaning the government’s opinion isn’t likely to change.

Finally, in September, First Quantum ran into problems at its Panama copper project after its mining concession was ruled unconstitutional. The project is expected to move forward, but the ruling has caused major uncertainties regarding timing and execution.

No bankruptcy ... yet

As mentioned, previous bankruptcy fears stemmed from balance sheet problems. Today’s crisis revolves around a smattering of exogenous shocks. Any one of these shocks could put First Quantum on the road to bankruptcy. With \$10 billion in debt, the company is still in fragile shape. For example, Zambia alone (perhaps its riskiest area) contributes 84% of First Quantum’s revenues.

While forecasting bankruptcy for the company in 2019 is more difficult than simple math, it’s clear that there are several pathways to insolvency. If these issues clear up quickly, there should be plenty of upside, but understand that a bet on First Quantum in 2019 could lose everything.

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Author

rvanzo

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