



A Private Equity Firm Is Pushing to Transform This Company in 2019

Description

Hudbay Minerals Inc ([TSX:HBM](#))([NYSE:HBM](#)) has a penchant for destroying shareholder value—or at least not creating it. Since the start of 2004, shares have returned roughly 0%, heavily underperforming the TSX.

That's a shame too, as the company has a huge asset base with significant value — as long as it's managed correctly. Previously, the company focused exclusively on high-quality copper mines, and also recently expanded into lower quality open pit operations. The company has also made a slew of acquisitions, including the Constancia and Rosemont facilities.

While this has given the company a growing asset base, it clearly hasn't resulted in growing shareholder wealth. That's where private equity firm Waterton Global Resource comes in with major plans to shake up Hudbay Minerals in 2019.

Get ready for a transformational new CEO

In October, Hudbay Minerals stock fell nearly 7% after it was revealed that the company sought to buy out Mantos Copper, a Chilean miner. Previously, Mantos had been searching for ways to finance its expansion plans, which required as much as \$1 billion.

If the transaction consummated, not only would Hudbay Minerals need to expand its focus and finance the acquisition, but it would also be on the hook for massive, multi-year capital expenditure needs.

In response, Hudbay Minerals reiterated that it remains committed to its “strategy of optimizing the value of its current operations and evaluating growth opportunities that are complementary to its current business.” That rationale apparently wasn't satisfying to one influential shareholder.

The very next day, Waterton Global Resources, which owned roughly 5% of the company, released a statement urging Hudbay Minerals management to “immediately terminate any discussions or plans to execute the Mantos transaction and any other material acquisitions in the near future.”

Later, Waterton Global Resources continued its chastising of the company. “Under no circumstances

should Hudbay be engaging in any material acquisitions at this time,” it added. “Based on the company’s current underperformance and discounted valuation, the company would be forced to transact from a position of weakness.”

Less than two weeks later, the private equity firm upped its stake to 7% and took an activist approach, suggesting that Hudbay Minerals boot nearly its entire board, replacing the current CEO with a “transformational potential CEO.”

Change is already on the way

Most important, Waterton Global Resources believes that current management has squandered shareholder value by pursuing acquisitions in the name of growth rather than shareholder returns. By nominating its own directors and calling for the replacement of the CEO, the private equity firm seeks to guarantee that acquisitions or joint ventures won’t occur without consulting shareholders.

In January, it boosted its position in Hudbay Minerals yet again — this time to 11.9%. It appears that they’re serious about change, and will put down millions to achieve it.

On January 16, the company nominated former **Nevsun Resources** CEO Peter Kukielski to head Hudbay Resources. Recently, Nevsun was acquired by Zijin Mining for nearly \$2 billion. Over the past 12 months, Nevsun stock has risen by roughly 100% versus a near 50% loss for Hudbay Minerals.

Proxy fights are always difficult, but Waterton Global Resources has the cash, expertise, and patience necessary to pull one off. If they’re successful, expect the stock to pop. By buying shares before the dust settles, you have an opportunity for both near-term profit and a long-term transformation story.

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