This Mining Stock Is a Bargain After a Steep Sell-Off

Description

Hudbay Minerals (TSX:HBM)(NYSE:HBM) stock had been on a tear. From November to April, shares doubled in value.

After reporting earnings on May 6, however, the stock plunged around 30%.

What happened to the market's optimism for Hudbay stock? Did the dip lead to a great buying opportunity? Let's find out.

Understand the rise

Before we pivot to the latest quarterly results that tanked the stock, it's important to know why Hudbay stock rose 100% in the first place.

The first catalyst was the confirmation of a Section 404 water permit for its $2 billion Rosemont project, which is set to produce low-cost copper in Arizona via an open-pit mine. The next catalyst came a few days later, when the company revealed that it was buying out its minority partner.

Following these two revelations, investors scrambled to re-rate the stock given that it now controlled 100% of valuable mine with few hurdles remaining.

After the meteoric rise, I suggested that readers sell the news. "Time and time again, mining companies have proven terrible stewards of capital," I wrote. "Hudbay is a perfect example of this value destruction."

And now … the fall

Since that post, shares have fallen by more than 30%. Is now the time to jump back in?

In the first quarter, Hudbay recorded a net loss of $13 million. In the same quarter of last year, itbooked a $41 million profit.

Meanwhile, operating cash flows fell to $90 million, a near 50% reduction from last year. Lower selling prices and sales volumes were to blame.

Take a look around the mining sector and you'll realize every company has been hit hard by lower metals prices. **Lundin Mining Corporation**, **First Quantum Minerals Limited**, and **Teck Resources Ltd** are all down 20% or more over the last 30 days.

Hudbay, however, has fallen by more over the same period — a drop compounded by its inability to grow production. Last quarter, copper output fell 6% year over year.

It seems that despite the great news about the Rosemont project, Hudbay's multi-decade struggle of profitably allocating shareholder capital continues.

What now?

Following the drop stemming from Hudbay's first-quarter results, the stock looks like a bargain again. Today, it looks like investors are pricing in too much short-term headwinds, thereby discounting the value of the Rosemont mine.

Discounting at 8%, the value of the Rosemont mine is around US$770 million. At a 10% discount rate, the value is closer to US$500 million.

Given that the project could double Hudbay's EBITDA once it enters production, the current market cap of US$1.3 billion doesn't seem to be properly pricing Rosemont's upside.

For example, if copper prices grow from US$3.00 per pound to US$3.50 per pound, the after-tax value of Rosemont would be more than Hudbay's entire market cap!

If you're looking for under-priced mining stocks, Hudbay certainly qualifies following its recent drop.

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