



2 Mining Stocks in the Activists' Crosshairs

Description

There's an ominous rumble in the mining industry.

Sagging metal prices have erased billions of dollars in investor capital and firms are diluting shareholders just to keep the lights on. It should be no surprise that years of disappointing returns have led to growing ranks of disgruntled investors. Now shareholder activists are starting to shake up Canadian boardrooms.

Investing alongside activists can be lucrative. Often, these investors can wake up complacent management teams and unlock shareholder value through operational improvements, buybacks, and asset spin-offs.

So what companies are facing a shareholder revolt. Here're two mining names activists have in their crosshairs.

Barrick Gold

It's been a raw deal for **Barrick Gold** (TSX:ABX, NYSE:ABX) shareholders.

Today, Barrick's share price sits at \$20 and change – roughly where it was in the early 1990's. Between 2003 and 2012, the mining giant's gold production per share has fallen 28%. And over the past two years the company's book value has fallen from \$23.35 per share to \$13.51 per share today.

This would be okay if management had shared in the pain. But that's hardly the case. Barrick's top 13 executives own only about 0.29% of outstanding shares. And from 2007 through 2012, Barrick board of directors and key executives received \$292 million in compensation whereas shareholders have paid \$2.3 billion into the company.

This has led to growing ranks of dissatisfied shareholders.

First, investors rejected incoming chairman's John Thornton's \$17 million signing bonus in a non-binding vote last spring.

Then last fall Two Fish Asset Management, a small U.S. hedge fund, publically called for management to sell off high-cost mines, refocus operations on a few high-quality properties, and return more capital to shareholders. [According to estimates from Barrons](#), Barrick could be worth up to \$35 per share if such actions were taken.

And evidence suggests that shareholders have been successful in pushing for change at Barrick. In December, founder and chairman Peter Munk announced that he would resigned at Barrick's upcoming shareholder meeting. The company has replaced several board members with new independent directors. And Barrick has promised to review its compensation practices to better align them with the interests of shareholders.

However, there's still lots of work left to be done at Barrick. But the mining giant is starting to make some of the overhauls needed to win back investors' trust. And that could unlock a lot of value for shareholders in the New Year.

Sheritt International

Mining giant **Sheritt International** ([TSX:S](#)) has also come under attack.

Halifax- based activists George Armoyan blasted the company's board of directors in a [recent interview](#) with the *Financial Post* criticizing their small ownership stakes and high salaries. He also highlighted the board's lavish spending practices including the purchase of a private jet and board meetings in London.

But Armoyan's real concern is how the company is allocating shareholders' capital. On Christmas Eve, Sheritt announced the sale of its coal business for \$946 million with plans to use the proceeds to fund new base metals acquisitions.

Armoyan thinks that's a bad idea given today's low commodity price environment. He argues that shareholders would be better off if Sheritt used it proceeds to pare down debt or buy back stock.

Clarke, Armoyan's firm, owns about 5% of Sheritt's outstanding shares and has requested several seats of the board. Shareholders will get a chance to vote on Armoyan's proposal at the company's annual meeting in May.

Foolish bottom line

Activists shake things up. But rank-and-file shareholders need to make sure they do it in the right way. Are these proposals in the long-term interest of the company? Or are these activists just trying to make a quick buck? Investors will need to evaluate these ideas closely in the upcoming proxy season.

But with that caveat in mind, activists tend to be a catalysts for positive changes at public companies. That tends to be a driver for outsized shareholders returns.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)

2. TSX:ABX (Barrick Mining)
3. TSX:S (Sherritt International Corporation)

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Date

2025/07/06

Date Created

2014/02/03

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