



Sherritt International: The Good, the Bad, and the Ugly

Description

Rising energy and basic material prices make this Canadian resource conglomerate a contender for your portfolio. Let's take a look at what it has to offer, and where it faces challenges.

The good

Sherritt International ([TSX: S](#)) hinted in 2013 that it would address the problems of its struggling coal division. Management did not waste any time and decided to sell it, instead focusing its attention on more promising sectors like energy and basic materials (specifically nickel). This is good news considering that both of those sectors have promising futures. So far this year nickel prices are up nearly 30%, according to the London Metal Exchange.

Even better is the low cost of production of the company's basic materials — \$6.84 per pound for nickel and \$12.35 per pound for cobalt. Management is ambitious in trying to get costs down to below US\$6.00 per pound for nickel at its main project in Madagascar and hopes to attain those numbers by 2015.

The bad

The Oil and Gas division is not as promising when compared to the material section. The main problem is the location of the power plants. The operations are in Cuba, and while not problematic for us Canadians, the embargo by the U.S. is still present and greatly restricts the opportunity for prospective clients. The company sells nearly all its production to Cuba, limiting the upside potential it could gather from exports. Add to that the recent developments with Russia and Cuba tightening ties and Sherritt International is subject to certain political risk that must be taken into consideration.

The ugly

Sherritt's board of directors has come under attack from an activist investor by the name of George Armoyan, who accused the board of awarding themselves extravagant salaries while failing to generate shareholder value. So far Sherritt's board has managed to take the upper hand in the proxy battle, but the war is not over.

In my opinion, it is often dangerous for retail investors to be caught in the middle of a proxy fight since we do not have all the information that the warring factions possess. We might be collateral victims of asset liquidation for short-term profits, or just time management spends on defending itself from activism rather than running the business.

Conclusion

Sherritt is a company that is trading at very cheap valuations, but some of that discount is warranted considering the risk involved with the operations. Nevertheless, it managed to stay free cash flow positive throughout the downturn in metal prices, and the sale of the coal division helped increase its cash to over \$500 million. Sherritt has some risk that must be taken into consideration before investing, but the sectors it is exposed to are very promising for the future.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:S (Sherritt International Corporation)

Category

1. Investing

Date

2025/08/22

Date Created

2014/07/24

Author

fdenault

default watermark