3 Reasons to Stay Away From Barrick Gold Corp. and Teck Resources Ltd.

Description

Barrick Gold Corp. (TSX: ABX)(NYSE: ABX) and **Teck Resources Ltd.** (TSX: TCK.B)(NYSE: TCK) are two of Canada's most beaten-down stocks. Over the past three years, Barrick and Teck shares have fallen by 66% and 39%, respectively.

Granted, these two companies are in different industries: Teck does not own any gold mines. But there are plenty of similarities between the two. And on that note, below are three reasons why you shouldn't buy either of their shares.

1. A poor track record

Among gold miners, few have as bad a track record as Barrick. To illustrate, if you had bought Barrick shares 10 years ago, you would have lost 1.3% of your investment each year, on average. Conversely, if you had decided to buy gold itself at that time, you would have tripled your money by now. Barrick's mistakes are well known, and include an ill-fated hedging strategy, poor acquisitions, and operational mishaps. Even with new management, the company has yet to prove it can create lasting shareholder value.

Likewise, Teck has also made mistakes, most notably its 2008 acquisition of Fording Coal. The move came right before the financial crisis, plunging the company into financial trouble. Although Teck has since recovered, the acquisition is still widely regarded as a mistake. And unlike at Barrick, the CEO who made that acquisition, Don Lindsay, is still in charge.

2. Too dispersed

As for Barrick, this should come as no surprise. The company has grown very quickly by acquisition, especially in the past decade, and as a result has 16 gold and three copper properties. More importantly, it has resulted in an overstretched balance sheet, which has forced the company to scale itself down. And despite the company's best efforts recently, net debt is still above $10 billion, about two-thirds of equity. That debt load will continue to be a major hindrance.

Teck's balance sheet is more under control than Barrick's, with only $5.6 billion of net debt, less than a third of equity. But Teck is still overly dispersed, with coal, copper, zinc, and oil properties. The company has made no secret about why it is involved in so many commodities — it wants to be a diversified mining powerhouse. But this kind of strategy is rarely good for shareholders; it's usually better to see each company specialize in what it does best. Investors can then get diversification from buying different stocks.

3. Governance issues

This should also be a concern at both companies. Over at Barrick, Chairman John Thornton now has CEO duties as well. This dual role can often be dicey, because so much power is in the hands of one individual. Shareholders better hope he does a good job and doesn't overpay himself.

At Teck, there are concerns as well, primarily because of the company's dual-class share structure (hence the ".B" in the ticker symbol). As it stands, the Class A shares come with 100 votes each, while the Class B shares (which the rest of us must buy) carry only one vote. So what does this mean? Well, it means that Class A shareholders, who hold only 1.6% of the economic interest, are able to control the entire company. This hardly seems fair, or democratic — especially for an underperforming company. Your best bet is to not get involved.

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1. Investing
2. Metals and Mining Stocks
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TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:ABX (Barrick Mining)
4. TSX:TECK.B (Teck Resources Limited)

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