



## Teck Resources Ltd. vs. Barrick Gold Corporation: Which Is a Better Turnaround Bet?

### Description

**Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) and **Barrick Gold Corporation** ([TSX:ABX](#))(NYSE:ABX) are two of Canada's mining titans, but the companies have fallen on hard times in the past three years and most investors have given up on the stocks.

Sometimes, the best time to invest is when everyone else is running for the exits. Let's take a look at Teck and Barrick to see if one deserves to be in your portfolio.

### Teck Resources

Teck continues to battle with low prices for its main product, metallurgical coal, as Chinese demand remains weak and Australian producers continue to dump more product on the market.

At the current price of US\$117 per tonne, Teck believes roughly 33% of global producers are unprofitable. The company also thinks significant production cuts are needed to bring the market back into balance by the end of 2015.

Teck's other products are copper and zinc. The copper market has fallen off a cliff in recent months, with prices plunging from US\$3 per pound to below \$2.60. Zinc is also trading near its six-month lows.

The other big boogeyman for Teck is its 20% ownership in the Fort Hills oil sands development. Teck has to cough up roughly \$3 billion to get the project completed, and some pundits are questioning the wisdom of completing Fort Hills, given the current oil price environment.

Why would you buy Teck if everything looks so bad?

The crash in oil prices is actually helping Teck reduce production costs. Every US\$1 drop in the price of oil reduces operating costs by about \$5 million.

At the same time, the falling Canadian dollar is a huge benefit for Teck's earnings. The company says every one-cent drop in the loonie against the U.S. dollar translates into \$52 million in extra profits. To

put this into perspective, the Canadian dollar has dropped about six cents in the past two months. On an annualized basis, that would add more than \$300 million to Teck's bottom line.

Teck is still profitable in all of its business operations and has ample cash to pay the 4.6% dividend.

## **Barrick Gold**

Barrick's stock has been decimated in the past three years, dropping from \$50 per share to the current value near \$16. Bad acquisitions, cost overruns, a huge debt load, and falling gold prices have all been responsible for the pain, but the company finally looks like it is turning the corner.

In the latest earnings announcement, Barrick said it will sell non-core mines to start paying down debt. In fact, the company plans to reduce net debt by at least US\$3 billion in 2015.

Barrick is already doing a decent job of reducing expenses. The company cut head office staff by nearly 50%, and all-in sustaining costs for 2014 came in at a reasonable US\$864 per ounce.

A renewed focus on shareholders also looks encouraging, as the company will pit every new investment opportunity against the option of returning cash flow as dividends or share buybacks. New projects will be expected to deliver a 15% return on invested capital.

Barrick finished 2014 with US\$2.7 billion in cash and an untapped credit line of US\$4 billion. The company also had total debt of US\$13 billion at the end of Q4 2014, but less than US\$1 billion is due in the next three years.

## **Which should you buy?**

Teck is already a low-cost producer in all of its business lines, so the company is well poised to reap the benefits when commodity prices improve. Fort Hills is expected begin production in 2018. Oil prices should be higher by then, and the start-up will add a new source of revenue, while reducing capital outlays.

Barrick still has a lot of work to do. If management can drive the cost structure down and reduce debt without penalizing shareholders, the stock could rebound nicely. To buy Barrick, you have to believe gold prices will eventually move higher.

At current prices, I like both stocks as contrarian plays, but would tip my hat toward Teck.

## **CATEGORY**

1. Investing
2. Metals and Mining Stocks

## **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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