Tired Of Commodity Prices Wreaking Havoc With Your Portfolio?

Description

Investors in **Teck Resources (TSX:TCK.B,NYSE:TCK)** have had a rough couple of days as the stock declined by 7% on Thursday and is off to another "red" start today. The tumble was triggered by a disappointing Q4 release. The company struggled through much of 2012 primarily due to lower commodity prices, particularly for coal.

Double exposure

Investors in Teck, which is primarily a producer of coal, copper, and zinc face two significant risks – price risk and volume risk. The price Teck can sell its commodities for and the amount it can produce have a large influence over the company's results. This formula works well in the good times, and not so well in the bad.

While prices, especially for coal, were not friendly to Teck in 2012, the company actually grew the amount of copper and coal that it produced. Volumes were up. Volume is a much more stable variable as once a mine goes into production, seldom will it stop. If you're tired of the price risk involved with an investment in Teck, yet want to remain exposed to volume, invest in the companies that transport Teck's commodities.

Other ways to play

There are three main groups associated with moving Teck's product. Rail, ports, and ocean freight. In Canada, we don't really have any publicly traded ocean freight options so we'll stick with the other two. **CP Rail (TSX:CP,NYSE:CP)** is the primary carrier of Teck's coal from its five southeast B.C. mines to the coast. Even though commodity prices were down, Teck's transport costs were actually 24% higher in the fourth quarter compared to a year ago. Without CP, Teck's coal goes nowhere, a dynamic not lost on CP's management.

Before it heads out to sea, CP rail deposits much of Teck's coal at **Westshore Terminals (TSX:WTE)**. Teck is Westshore's #1 customer. Although this port is at capacity and unable to expand due to geographic constraints, as long as there are commodities being shipped out of Canada, Westshore will be printing cash. Limited downside and the stock pays a reasonable 3.8% yield.

The Foolish Bottom Line

Taking another angle can occasionally offer up a hidden gem that the market has not yet considered. The next time you are researching a company, try to figure out its ecosystem (suppliers, customers, affiliates, etc.). Chances are there are ways to gain a similar exposure to that company through its ecosystem that the rest of the market has yet to catch on to. CP Rail and Westshore are, in my opinion, two well-known, fairly valued names, however, if you get into the habit of approaching a theme from several directions, you're very likely to have some huge wins over time.

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Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:TECK.B (Teck Resources Limited)

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Date
2025/08/03
Date Created
2013/02/08
Author
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