



Is it Time to Buy Teck Resources?

Description

As one of the most diversified Canadian mining companies, **Teck Resources** (TSX: TCK) (NYSE: TCK) has drawn the interest of investors looking for broad based exposure to the mining sector. It also doesn't hurt that the company pays a solid dividend and currently yields just under 3.5%. This solid foundation has some investors wondering if now is the time to buy this diversified dividend dynamo. Let's take a look.

Overview of Teck

Teck's diversity spans four commodities: Steelmaking coal, copper, zinc and energy. It's the top producer of steelmaking coal in North America, while being second only to **BHP Billiton** ([NYSE: BHP](#)) in the world export market. Unfortunately, a 23% decline in the price of steelmaking coal over last year has hurt its profits and helped to send Teck's stock down by nearly 30% over the past year. That has the company taking a very cautious near term outlook, as evidenced by its plan to cut \$150 million from its original \$2 billion 2013 capital spending plan.

A key to being a successful investor is to look past what's going on right now, and peer into what the future may hold. In the case of Teck, the three areas to look most closely at are its coal, copper and energy businesses, which are the three keys to its future. So, what might the future hold for these three divisions?

Coal

Last year Teck produced 24.7 million tonnes of steelmaking coal. With more than a billion tonnes of proven and probable reserves Teck has more than enough coal to meet global demand for a long time. The only problem is that demand isn't at capacity yet. Currently the company has the capacity to produce about 27 million tonnes of coal each year, and it's planning to add another million tonnes to its capacity. However, its plan is to produce only enough coal to meet current demand. What that means is that there is future upside as the price of coal rises in the future.

The key here is emerging market growth from places like China. According to **Alpha Natural Resources** (NYSE: ANR), the number three global exporter of metallurgical coal, since 2007 steel use

in the developing world has fallen 15%, however, it has grown by 44% in the developing world. This is why the long-term fundamentals still look solid. In fact, the overall total seaborne demand for metallurgical coal is expected to double from about 250 million tonnes today to about 500 million tonnes by 2030. This is why companies like Teck and BHP are still expanding capacity, even though Alpha Natural and the industry as a whole have slashed 30 million tonnes of production this year.

Copper

Like coal, the copper market has seen better days. The world's number two copper producer **Freeport-McMoRan** ([NYSE: FCX](#)), for example, saw its average realized price for copper drop to \$3.17 per ounce from \$3.53 the prior year. That being said, like metallurgical coal, the long-term fundamentals of copper are positive, which is why both companies are investing to grow future production.

One example of future demand is hybrid vehicles, which require twice as much copper as traditional vehicles. With automakers driven to increase fuel efficiency, especially in the U.S. where CAFÉ standards are set to double by 2025, this speaks to a sustainable future for copper. Overall, demand for copper is expected to grow by 38% by 2025 even as supplies from existing mines fall by 25%. This is one reason why Freeport is investing to grow its copper production by 37% by 2015. Teck really is in a good place these days as it has the capacity to grow its copper production, which is something not all of its competitors have.

Energy

Teck's energy business at this point is not really much more than a speculative hope right now as it's a business Teck is building from the ground up. The most promising building block is the first phase of the Fort Hill oil sands project, which Teck holds a 20% interest. Teck is partnering with some of the world's top energy companies on the project including **Total** and **Suncor** ([TSX: SU](#)) ([NYSE: SU](#)). The partnership with Suncor in particular is key as it's one of the leaders in Canada's oil sands region.

The mining project, which is currently awaiting final authorization, would, according to Suncor, have 164,000 barrels per day of planned bitumen capacity. By the time phase one is fully operational in 2018 Teck's 20% stake in the project could produce 10% of the company's total cash flow. That would be more than twice what its Zinc business is projected to produce at that time. Fort Hill is just one of Teck's future mining projects in the oil sands region, giving it the potential to be a major long-term growth driver for the company.

Final Foolish thoughts

Teck Resources is really well positioned to benefit from the global growth of copper, steelmaking coal and oil. The company also has a solid balance sheet to get it past any near-term rough spots, while still paying a solid dividend. For investors with a long-term time horizon, it's a solid holding to serve as a portfolio anchor.

Teck is one of the many great Canadian resource companies that supply what the world needs in order to grow. However, one commodity that it's currently lacking is uranium – the key ingredient for nuclear power. It is a commodity that is poised to benefit from the global nuclear market ramping up in places like China. That is why The Motley Fool has prepared a Special **FREE** Report that will clue you into the

two of the most promising uranium companies in Canada. It's called "[Fuel Your Portfolio With This Energetic Commodity](#)," and you can receive a copy by simply [clicking here now](#)!

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Fool contributor Matt DiLallo owns shares of BHP Billiton. The Motley Fool doesn't own shares in any of the companies mentioned.

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1. Investing

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
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