5 Years After the Crash: Teck Resources is Back on the Offensive

Description

Outside of the U.S. financial industry, few companies were as hard hit by the financial crisis as **Teck Resources** (TSX: TCK.B, NYSE: TCK). But five years later, the mining giant has completed one of the greatest turnarounds in corporate Canadian history. As we approach the fifth anniversary of the collapse of Lehman Brothers, it's a good time to reflect on how Teck survived the Great Recession, where it stands today, and some of the lessons learned.

Bringing up some bad memories

It seems like only yesterday that Teck Resources was on the brink. The company's problems started in July, 2008 with the ill-timed acquisition of Fording Canadian Coal Trust which was financed by a $9.8 billion debt issue. Soon after the deal was announced, commodity prices collapsed and the company was saddled with a debt load it couldn't handle. By December, Teck needed to raise $7.8 billion just to make it through the next year.

To engineer the turnaround, President and Chief Executive Don Lindsay undertook drastic actions. First, he suspended the company's dividend, slashed capital expenditures, and sold off assets to raise cash. Second, Mr. Lindsay convinced lenders to sign a new credit agreement that reduced the company's debt load and deferred payments by two and a half years. The move bought Teck some much needed room to maneuver.

With the extra time, Teck benefited from the recovering economy. Credit markets thawed and the company was able to raise $4 billion in structured notes to shore up its liquidity. Teck continued to sell off assets to pare down debt but at reasonable prices. And as the economy began to recover, commodity prices rose which helped improve cash flow.

Where Teck stands today

Fast forward to 2011 and the company's fortunes had completely changed. Teck reported record revenues and operating profits in 2011 and with easy credit, the firm was able to refinance outstanding debt at incredibly low interest rates whiling restoring its investment grade credit rating. Investors who stuck with the company through the dark days of 2009 saw the price of their shares soar from $2.60 to

$63.00.

Today, Teck is once again on the offensive as it looks to continue the diversification strategy it started before 2008. With commodity prices weak once again, other mining giants are under pressure. Rivals are writing down assets, firing senior management, and trying to shore up their balance sheets. Teck, with $2.7 billion in cash on its balance sheet, is well positioned to scoop up some assets on the cheap.

Teck has two expansion options. First, the company has long been looking to crack the iron-ore market. This has become an attractive proposition in recent months as the price-tag on these types of projects have come down significantly. Second, Teck also needs to bulk up its copper operations. The company is trying to stave off falling copper production after its key project in Chile was delayed due to permitting issues. Something to fill the gap would be of interest.

Of course with bankruptcy memories still fresh in investors' minds, management understands that they can't risk repeating the 2008 fiasco again. Mr. Lindsay has ruled out any takeover that would threaten the company's investment grade credit rating.

Foolish bottom line

The story of Teck Resources illustrates the real dangers of debt. There's a reason why great investors like Warren Buffett shy away from over-leveraged companies; it leaves them over exposed to unpredictable risks. Avoiding excessive debt is good advice, not just for global mining companies, but for individual investors as well.

Five years after the fall of Lehman Brothers, Teck may have learned this lesson. But will others repeat the same mistake again? History says they will.

Too much debt is not even close to being an issue for the three companies profiled in our special **FREE** report "**3 U.S. Companies That Every Canadian Should Own**". **Click here now** to learn more about these global dynamos.

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