The Stock Picker's Guide to Teck Resources for 2014

Description

Five years ago, the news could not be any worse for **Teck Resources Ltd** (TSX:TCK.B)(NYSE:TCK). The diversified miner was in financial trouble. It had just acquired the remaining stake in Fording Coal the previous summer, right before the world's financial system went into a tailspin.

Suddenly Teck was not only facing declining markets for its commodities, but was having difficulty refinancing a bridge loan used to acquire Fording. Many people thought the company would declare bankruptcy, and by early March 2009, the stock price was below $4.

Teck was able to save itself through a variety of means. The company suspended its dividend, sold assets, and raised equity. The markets for Teck's products recovered. By early 2011, the shares were trading above $60. CEO Don Lindsay, who deserved much of the blame for leading Teck into the precipice, also deserved much of the credit for the company's recovery.

Today the stock once again trades below $30. The price that Teck can fetch for its products is down significantly relative to three years ago. While the situation is not nearly as bad as it was in 2009, one cannot help but wonder if this market downturn has created another opportunity.

Teck is Canada's largest base-metals miner, focusing primarily on coking coal (47% of gross profit), copper (38%) and zinc (15%). The company also is a junior partner in the Fort Hills Oil Sands project, which is operated by **Suncor** (TSX:SU)(NYSE:SU). In all of Teck's areas of business, the largest risk by far is China.

While China's growth over the past 30 years has been nothing short of spectacular, it has slowed considerably in recent years, currently sitting between 7% and 8% per year. Many economists worry that the news could get much worse, since China's growth has been fueled mainly by capital investment. Credit has been cheap, which has prompted the construction of many buildings which today remain empty. This has prompted worries of a bubble.

If this is indeed the case, then it is the steel market that is most at risk. Teck, whose coking coalexports are used to make steel, would of course feel a lot of pain. Teck's other products, copper andzinc (and eventually oil), would also feel the brunt of worsening conditions in China.

These concerns about China are most likely the biggest reason that Teck's shares are down by over 50% over the past three years. Other miners' shares have been affected in a similar way. Copper miners **Hudbay Minerals** (TSX:HBM)(NYSE:HBM) and **Lundin Mining** (TSX:LUN) are down by 48% and 28%, respectively, over the past three years. The world's largest miner, **BHP Billiton** (NYSE:BHP), is down by 21%.

But Teck has proven to be especially unpopular in recent years, which may have created a buying opportunity. Perhaps many people still have nightmares about what the company did in 2008, and still do not trust Mr. Lindsay, who today remains the CEO. But he has been much more prudent recently. The company has gradually been improving its position on the cost curve, and as a sign of capital discipline, Teck's share count has actually decreased in the last three years. The company's balance sheet also remains relatively sturdy, with net debt of $9 per share.

Nevertheless, Teck's exposure to Chinese investment makes this a risky pick for any investor. Time will tell if those willing to take that risk get rewarded.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BHP (BHP Group)
2. NYSE:HBM (Hudbay Minerals Inc.)
3. NYSE:TECK (Teck Resources Limited)
4. TSX:HBM (Hudbay Minerals Inc.)
5. TSX:LUN (Lundin Mining Corporation)
6. TSX:TECK.B (Teck Resources Limited)

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Author
bensinclair