5 Reasons to Buy Teck Resources

Description

If spot met coal prices drop, **Teck Resources Ltd.** (TSX: TCK.B)(NYSE: TCK) will be in for a rough ride. Teck is a Canadian mining giant that has a healthy diversification in copper and zinc mining along with oil sands but lower coal prices will be bad news for investors.

The sell-off in Teck Resources' shares accelerated in recent weeks after China reported lower exports. Should investors buy this stock as the global economic outlook worsens?

1. Lowering costs

Teck is reducing costs by slowing development for Quebrada Blanca Phase 2, a mine in northern Chile. It also delayed the restart of its Quintette mine due to the low coal prices. Teck reduced costs related to this mine despite selling a record 26.9 million tons of coal last year.

Teck is not the only miner reducing costs. **Cliffs Natural Resources Inc.** (NYSE: CLF), which makes iron ore pellets and concentrate used in the steelmaking process, delayed expansion of Bloom Lake Mine in 2012. This year, spending at this mine will be just $200 million. Cliffs is one of the worst-performing companies on the S&P 500. It is also one of the most heavily shorted companies on the index.

2. Energy spending could buck the trend

Suncor Energy Inc. (TSX: SU)(NYSE: SU) and Teck partnered to develop the Fort Hills oil sands. Suncor, which has a 40.8% interest in the project, expects its capital expenditure will reach $3.16 billion. Teck's portion of spend (it has a 20% interest in project) is $850 million.

3. Lower pricing ahead

Teck expected steelmaking coal prices to stay low. The firm wrote down thermal coal inventories last year. Excluding this write-down, site costs were $52 per ton.

Copper also trended lower in recent days. Copper pricing dropped for two straight weeks, and is now at lows not seen since June 2010. In Q4, Teck Resources produced a record 105,000 tons. The healthy production level was driven by operational improvements and an expansion of Teck's Antamina copper mine.

Zinc is in short supply globally, and may buck the trend of lower pricing. In Q4, zinc profits dropped to $138 million due to lower sales volumes from Red Dog mine in Alaska.

4. No upcoming debt obligations

Teck has only small debt obligations due for the next three years to the end of 2016. There are only $300 million in notes due in that time. This is important, because investors could expect Teck's debt to continue to have a mid-BBB credit rating and a stable outlook.

5. Weak Canadian dollar beneficial

Teck benefited from a $0.08 decline in the Canadian dollar in 2013. Every $0.01 change in the Canadian dollar will add $62 million in EBITDA. Since some Economists forecast the Canadian dollar dropping to the $0.80 level, Teck could gain over $500 million on the exchange rate change in 2014.

Risks

Inflation and fuel costs could drive up operating costs. Last year, labor inflation and fuel prices increased maintenance costs. The cost pressure could persist in 2014.

Foolish bottom line

Buying Teck Resources is not without macroeconomic risks, but the company is a diverse company that will be shielded if one of the metals it mines drops more adversely than expected. Teck may also adjust its operational costs if conditions worsen. As world economies recover, Teck offers potentially good returns while paying a dividend to patient shareholders.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CLF (Cliffs Natural Resources Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:TECK (Teck Resources Limited)
4. TSX:SU (Suncor Energy Inc.)
5. TSX:TECK.B (Teck Resources Limited)

Category

1. Investing

Date
2025/08/27
Date Created
2014/03/31

Author
chrislau