100% Upside From This Hated Commodity

## Description

Right now, you can purchase world-class assets for pennies on the dollar in one of the most despised commodity sectors in the world: coal.

Over the next couple of years, investors could lock in triple-digit returns by buying these properties at huge discounts to their historical prices. And while it won't happen overnight, a big run is almost inevitable.



Let me explain…

Coal is probably the most hated fuel in North America today. It's dirty and old fashioned. Combined with the incredible abundance of shale gas, it's no wonder coal prices have plunged in recent years.

Here's the problem: At $110 per tonne for coking coal, producers are bleeding money. According to a report from BMO Research, more than half of the world's coal production is unprofitable at today's prices. If rates don't head higher soon, most producers are on a one-way trip to Chapter 11 bankruptcy.

And that's exactly why this situation won't last. Nobody is investing in future production. Larger firms are cutting output. And small producers are going bust.

This is a classic example of cyclically in the resource market. When the price of a commodity soars, companies flood the market with supplies. After prices collapse, suppliers cut back production and prices soar once again. For savvy investors who have seen this cycle a few times, they know that the best time to invest in a natural resource is when everyone else hates it.

That's what happened in the last coal bear market. Coal production bottomed back in 2002, right around the same time prices began to rise. That bull market saw coking coal prices go up to $300 per tonne by 2008.

We could be at the beginning of a similar move right now. Supplies are tightening and prices should rise to meet the cost of production. That's more than 50% over today's levels.

When that happens, coal stocks could see their profits double or triple from today's levels. Because their costs are mostly fixed, these companies serve as leveraged bets on the underlying commodity.

One of my favourite coal names is **Teck Resources** (TSX: TCK.B)(NYSE: TCK). As my colleague Andrew Walker pointed out last week, almost half of the company's profit is derived from coal. However, Teck still has the size, scale, and diversification to survive the industry's current doldrums.

But here's the thing: the window on the once-in-a-decade buying opportunity may be closing fast. Some of the industry's smartest investors are starting to snap up these remarkable deals.

Just last week **Sprott Resources** (TSX: SCP), a commodity royalty company that funds new mining projects, announced that it had invested US$33.1 million into **Corsa Coal Corp.** And last quarter, SEC filings revealed that a number of respected hedge fund managers — including Steven Cohen, Ken Griffin, and Jeffrey Gendell — have initiated or increased the size of their positions in industry stalwart **Arch Coal** (NYSE: ACI).

Why are all of these Wall Street titans buying as many coal properties as they can? I'd say it could mean only one thing: they see an epic rally ahead.



**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. NYSE:ACI (Albertsons Companies, Inc.)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:TECK.B (Teck Resources Limited)

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