



3 Reasons Teck Resources Ltd. Belongs In Your Portfolio

Description

The last five years have been nothing short of tumultuous for investors in **Teck Resources Ltd.** (TSX: TCK.B)(NYSE: TCK).

In 2009, there were serious issues about the company's ability to avoid bankruptcy. Debt was coming due, and the market's opinion seemed to be that there was no way it could be renewed. Shares sunk to under \$5 each on the possibility of bankruptcy protection.

The company managed to avoid that problem and refinance its debt. Then, as the world's economy recovered and China really stepped up its infrastructure stimulus program, the stock soared. The share price ended 2010 at nearly \$60. Those lucky few who bought when things looked bleakest were handsomely rewarded.

Since then, the company's shares haven't performed well. Metallurgical coal, which makes up about half of the company's revenue, has been weak, thanks to weak demand and increased production from other areas, notably Australia. The prices of copper and zinc have performed better, with zinc barely off a five-year high. Copper represents about a third of Teck's revenue, and more than half its profits. However, it hasn't been enough to stabilize shares.

Does this represent an good entry point for Teck Resources? I think so. Here are three reasons why.

1. Long-term coal price recovery

One of Teck's biggest problems is something it can't control. The price of metallurgical coal has been depressed for months now, recently falling to a new six-year low of less than \$100/tonne. Prices have recovered a bit, and Teck is currently selling its supply for a little higher, about \$120/tonne.

Why is coal such a poor performer? Essentially, it's because of China. Mines ramped up production significantly, hoping for increased Chinese demand that hasn't materialized. This has resulted in a glut of supply on the market and a series of weak results for miners. Also, Australian miners just keep on producing, actually increasing their exports during this time of weakness.

However, patient investors shouldn't be so quick to write off the coal market. North American producers are cutting capacity like crazy, and the glut of oversupply affecting the market will eventually sort itself out. Since Teck is still making money in its copper and zinc mining divisions, this lets investors make a long-term bet on coal while having a built-in safety net. When coal prices do recover, Teck will be one of the big winners.

2. Oil sands exposure

Along with **Suncor Energy Inc** ([TSX: SU](#))([NYSE: SU](#)) and **Total** (NYSE: TOT), Teck is one of the main partners in the Fort Hills oil sands project. The company has a 20% stake in the venture.

Fort Hills isn't slated to begin production until 2017, but it's still a massive undertaking. When completed, production is expected to be nearly 200,000 barrels of oil per day, with a reserve life of five decades. That will make it one of the largest fields in the region.

It will also add a bit of diversification to a company that is dependent on mining. Oil prices are projected to stay strong, and if a company is going to own oil assets, the oil sands is probably the best place to have them. This is a good long-term move for the company.

3. Taking care of shareholders

Teck has a solid balance sheet and is currently sitting on more than \$2 billion in excess cash. Some of that is obviously being kept aside to pay down upcoming debt, but such a large cash cushion gives investors confidence that the company's 3.5% dividend is sustainable.

The company is also looking to buy back shares. It recently announced a buyback program that could see it eliminate 20 million shares by July 2015. That represents a little more than 3% of shares outstanding.

If the company follows through on the buyback, investors can look forward to a true yield of nearly 7%. If you combine that with the company's long-term exposure to the oil sands and the eventual comeback of metallurgical coal prices, it's easy to see why Teck could end up being a winner.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:SU (Suncor Energy Inc.)
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