# 3 Reasons to Stay Away From Teck Resources Ltd.

## Description

Last week shares of **Teck Resources Ltd.** (TSX: TCK.B)(NYSE: TCK) fell to a one-year low of $21.05, which is where they trade today. Less than a year ago, the shares traded above $30. And if you want to look back even further, the company's shares traded north of $60 back in early 2011.



It's no secret what hurt Teck: weak commodity prices, driven by slowing demand in China. For example, prices for metallurgical coal (a product which accounts for half of Teck's profits) has fallen from $279 in Q3 2011 to $122 in Q2 2014. Supply has also held up well, keeping prices depressed.

So is now the time to buy shares of the company? After all, you're usually supposed to buy when others are fearful. And there's a strong argument that the shares are a bargain at $21. But there are still reasons to avoid the company, and three are addressed below.

**1. More China concerns**

The news coming out of China has not been good in recent years – economic growth slowed to 7.7% last year, and is expected to slow to 7.5% by 2015, according to the World Bank. And the news could get a lot worse.

Many observers believe that China's property market is in dangerous bubble territory. And if they are right, that could have devastating consequences for the country's economy. In fact Jim Chanos, who gained fame for betting against Enron before its collapse, is also betting against China.

In a recent interview, Mr. Chanos was asked how he's betting against the country. As part of his response, he said he's betting against companies that sell products to China. Teck would be a perfect candidate – metallurgical coal is particularly dependent on Chinese steel demand. So if the news gets worse for China, Teck could suffer as much as any other company in Canada.

**2. Concerns about energy**

There have also been concerns in the energy sector. Prices for international crude have fallen by more than 15% since June, thanks to increases in supply from the United States, as well as sluggish demand from Europe and China.

Teck is in the oil business, owning a 20% interest in the Fort Hills oil sands project. This is not a very attractive project at all. Notably, a project with similar economics has just been canceled, and project operator **Suncor** could decide to do the same at any point.

**3. A poor track record**

Finally, you should be focusing on buying companies with a strong track record. Teck is not one of those companies.

Teck has a history of making poor investment choices, and shareholders have paid a serious price. The most notable was a decision in 2008 to buy out Fording Coal for $14.5 billion, a move that came right before the financial crisis, and nearly bankrupted the company.

And the same management team is still in charge. In fact CEO Don Lindsay has made shareholders nervous in recent years by saying that iron ore assets look tempting (recently iron ore prices have tanked, so shareholders can be glad that management hasn't pull the trigger).

So to sum up, Teck is a company with some serious question marks. You should look elsewhere.



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2. NYSE:TECK (Teck Resources Limited)
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bensinclair