Why Are Teck Resources Ltd. Shares Plummeting?

Description

As if **Teck Resources Ltd.** (TSX: TCK.B)(NYSE: TCK) and its shareholders haven't caught enough bad breaks. On Thursday, China announced it will reintroduce tariffs of up to 6% on coal imports in an effort to support local miners. Coking (steelmaking) coal, which last year accounted for 44% of Teck's revenue, will be taxed at 3%. As of this writing, Teck shares have sunk 7% on the day (part of this is due to a down day for the markets overall).

You can't fight politics

According to Bloomberg, more than 70% of Chinese coal miners are unprofitable, and they have been intensely lobbying the government for help. And this isn't the government's first response. A tax on brown (low-quality) coal was reintroduced in August of last year. Then, last month the government banned the
import of lower-quality coal.

But what about higher-quality coal?

Teck has long boasted, rightfully so, that it has some of the world's top-quality coal. And higher-quality coal is needed for modern steel mills, exactly the kind that China is building more of. These newer mills are not only more efficient, but are also more environmentally friendly. So you would think that China needs Teck's coal, especially since locally mined coal is of much lower quality. So why the 3% tax?

Well, China recognizes that there's plenty of coal to go around — even the higher-quality stuff. Despite massive price drops, companies like **BHP Billiton** have continued to post strong production numbers. At the same time, demand has been slumping due to lower economic growth in China. Demand could continue falling if building construction slows down, which many observers believe must happen.

So what should investors do?

If this were a normal market, then Teck wouldn't be affected too much. The tax would have an impact on its competitors, too, production would be cut, and prices would rise, nullifying the tax.

But this isn't a normal market. Rather, it's very oversupplied, and China seems to have recognized this. And it could get a lot worse.

So at this point, investors should not be pouring their money into Teck Resources. There are still too many risks, and too many good alternatives exist. Five of them are detailed in the free report below.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:TECK.B (Teck Resources Limited)

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