



1 Big Reason Why Teck Resources Ltd. Is Ready to Rise

Description

The last few years have been unusually painful for **Teck Resources Ltd.** (TSX: TCK.B)(NYSE: TCK) due to the consistent drop in the price of coal. This has resulted in the price of Teck dropping considerably, to the current \$17.50 range. If coal prices were to drop more, Teck would likely follow because the majority of its profit is derived from coal.

According to an interview with Bloomberg, **Peabody Energy Corporation** CEO Greg Boyce said, "We've had essentially flat pricing now for about nine months."

That flat pricing, some argue, could mean that the worst is over for the coal market. But that puts Teck Resources in an interesting position. Many mines around the world have had to slow down on production because it's too expensive to mine at a loss. Therefore, the supply that is currently available is going to become rather strained over the next few quarters. When the supply of a resource is less than the demand, the price of that resource rises.

And the amount of capacity that is being removed is quite significant. It's estimated that there could be up to 23 million tonnes of capacity removed from the market over in the future. This will result in a dramatic change when demand picks up and there is not enough to support that demand.

In 2008, the price of coal saw a significant increase followed by an even greater increase in 2011. In 2011, the company was trading at around four times its current price. If the price of coal can get back to similar levels, this company is poised to generate considerable revenue. And it's at a beautiful low right now.

A few weeks back, reports came out that said China would be initiating a tariff on all foreign coal. This was in an attempt to boost its own domestic production. The stock got hammered because of this. But analysis on the tariff revealed that it would only result in about US83¢ a tonne based on the price of coal of \$111. That's not so bad. Effectively, it could cut EPS by 2.4%.

What all this means is that we are at the bottom of coal's decline. If demand in the United States and China starts to increase, Teck Resources could be in a highly lucrative position to reap the benefits of that demand.

Buy and wait

Because of all this, I believe it's time to buy Teck Resources and wait. This will not be an overnight success. It will take time for the value of coal to start rising to the point that Teck Resources starts to generate significant income from it. But the reason I say buy and wait is because of its dividend. It pays a nearly 6% yield. By purchasing the stock now, you are in a position to get in at a great price, get paid while the company suffers, and then reap the benefits once the stock rises.

But Teck Resources isn't the only company you should be thinking about adding to your portfolio.

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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