Cameco Corporation vs. Teck Resources Ltd.: Which Is the Best Value Investment?

Description

Cameco Corporation (TSX: CCO)(NYSE: CCJ) and **Teck Resources Ltd.** (TSX: TCK.B)(NYSE: TCK) look like they have finally bottomed out. Let's take a look at both companies to see if one is a better value pick at current levels.

Cameco Corporation

The past three years have been tough for Cameco's shareholders but uranium prices are drifting higher and the market is beginning to realize the long-term fundamentals for both the industry and the company are looking good.

Cameco operates the world's largest uranium mine. Its McArthur River facility is not only the industry's biggest, it also boasts the highest-grade deposit on the planet.

Uranium prices have been rising since hitting a low of about $28 per pound in the summer. In fact, the spot price has jumped 25% in the past three months and is hovering around $35 per pound as sanctions against Russia restrict the secondary supplies available to the spot market.

Analysts expect as many as 30 of Japan's reactors will be restarted by 2019, and Cameco is forecasting the arrival of more than 90 net new reactors in the next 10 years.

The resulting effect on global uranium demand should be an increase from the current level of 170 million pounds per year to more than 240 million pounds by 2023.

At the same time, uranium miners are mothballing plans for new mines and delaying expansion projects until uranium prices reach levels that make the new developments economically feasible.

Cameco just reported a Q3 2014 loss of $146 million, but the negative number was caused by writedowns on two investments. On the mining operations, the company actually earned $93 million once the charges and foreign exchange factors are stripped out of the numbers.

The important thing for investors to note is that the company is still able to profitably operate its mines in the current environment. Once prices start to improve, margins will increase significantly and the stock should follow.

Teck Resources Ltd.

Teck Resources is Canada's largest diversified miner. The biggest part of its business is the production of metallurgical (steelmaking) coal. The met coal market is in the dumps due to reduced demand from China and increased output from producers in Australia.

North American producers have cut production but Teck stated on its Q3 2014 conference call that it doesn't expect the reductions to balance out the market until the second half of 2015.

About 30% of the world's producers are unprofitable at the current price of about $110 per tonne. Teck isn't one of them. In fact, the company's production cost for the third quarter came in at about $84 per tonnne. The company has agreements in place to sell its Q4 supplies at $119 per tonne.

The company earned $0.28 per share in the quarter, beating the consensus estimate of 25 cents.

Teck is also a low-cost producer of copper and zinc. In the third quarter, Teck had gross margins of 23% in its coal division, 46% in copper, and 33% in zinc.

The company has a 20% interest in the Fort Hills oil sands project. Production is set to begin in later 2017 and hit 160,000 barrels per day by the end of 2018.

Teck pays a dividend of $0.90 per share that yields about 5%.

Should you buy?

Right now, Teck's dividend and solid margins at low commodity prices make it very attractive. Cameco has the potential to rise rapidly if news of a restart comes out of Japan. One concern about Cameco is a tax battle it is fighting with the Canada Revenue Agency.

If you only choose one, I'd probably go with Teck right now. If you think Cameco and Teck are still too risky, you might want to check out the following report.

CATEGORY

1. Investing
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TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:CCO (Cameco Corporation)
4. TSX:TECK.B (Teck Resources Limited)

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