



What Makes First Quantum Minerals Ltd. So Much Better Than Teck Resources Inc.?

Description

Over the past three years, **First Quantum Minerals Ltd.** ([TSX: FM](#)) and **Teck Resources Ltd.** (TSX: TCK.B)(NYSE: TCK) have had very different experiences.

To illustrate, if you had invested \$10,000 in First Quantum three years ago, your stake would be worth roughly \$9,100. That may not sound great, but it's a lot better than the \$5,400 you'd have with Teck. Why have these two companies, both of which mine base metals, diverged so much? And with Teck's shares so much cheaper, is now the time to step in?

Below, we look at the three biggest differences between these companies. Then we finish by looking at which one you should buy.

1. Coal vs. copper

About half of Teck's business is in metallurgical coal, which is used to make steel. Unfortunately, the steel market has not done well. The problems mainly rest in China, where steel is used primarily in construction. And this market has slowed in recent years, as many observers have feared a bubble is popping.

As a result, the price of Teck's product has collapsed. Three years ago, the company was able to fetch close to \$300 per tonne of met coal. Last quarter, that number fell to \$119, nearly a 60% drop. On the other hand, while copper is still very dependent on China, the metal has far more uses than building construction. And its price has thus held up relatively well, dropping only 22% over the same time frame.

So First Quantum, which is 72% weighted towards copper (and 16% towards nickel, which has surged recently), has been able to hold up better than Teck. That should surprise no one.

2. Company-specific actions

To be fair to Teck, it is doing the best it can in these circumstances. The company has cut costs across

all of its business lines, and 2014 capital spending has been reduced by \$375 million. The Quebrada Blanca Phase 2 megaproject has been put on hold, another positive, since that project has marginal economics.

But First Quantum has done even better. The company has used the poor environment to scoop up two acquisitions at bargain prices. First came Inmet Mining, completed in early 2013 for \$5.1 billion. Then came Lumina Copper, acquired for not quite \$500 million. These acquisitions allow First Quantum to significantly increase production – the company hopes to produce 1.1 million tonnes of copper per year by 2017, up from ~425,000 tonnes in 2014.

3. Keeping faith

Finally, it is worth noting that these two companies have a very different track record, and that may be why First Quantum's shares have outperformed Teck's. First Quantum has an outstanding track record of buying assets cheaply and developing them within budget. As a result, its shares have returned 32% per year for the last 15 years.

Teck's record is spottier – most notable was the disastrous acquisition of Fording Coal in 2008, which nearly bankrupted the company. Its shares have returned only 9% per year over the last 15 years.

And for the same reason, First Quantum is still a better buy than Teck Resources. In your portfolio, it's better to have stocks with management teams you can trust, even if it means paying a little more.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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2. TSX:FM (First Quantum Minerals Ltd.)
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