Teck Resources Has a Rough Road Ahead

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) has a major challenge right now, and that is the coal market. Lower coal prices have been underpinning Teck Resources' results, and unfortunately for the company, it looks like prices for metallurgical coal, its main commodity will stay weak for many years.

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Tough times for coal

The metallurgical coal market is undergoing some tough times right now as Chinese demand wanes while Australian production is on the upswing. This trend has already caused some very tough times for many coal producers, and Teck Resources has been hanging on because it has some lower cost operations, but its recent results have definitely reflected the challenges the market faces.

Even worse, the overall weakness in the coal market will likely persist for years and with 47% of Teck Resources' business being coal, we have more years of challenging times ahead.

The company also has thermal coal assets, and the thermal coal market is undergoing its own challenge as many countries are scaling back their thermal coal use and are instead turning toward more environmentally friendly ways to generate power.

There is the argument that India and China will continue to demand thermal coal, but China is also trying to get away from coal use and for the coal it does use it has been getting more of that coal from Australia and the expense of North American producers. As for India, its government is pushing legislation that will decrease coal imports so that the country can support its domestic producers.

Other assets

Teck Resources other major assets are zinc and copper. The zinc market is doing alright right now, and while the longer-term outlook for copper is bullish, current, lower copper market performance has contributed to Teck's recent string of weaker earnings. The company also has oil and gas assets, another sector experiencing a cyclical downturn.

Coal dependency a challenge

With almost half of the company’s asset base being coal, Teck Resources going to go through some tough times. While the company could see improving results through operational efficiencies and improvement in the demand and price for its other assets, the fact that the company has such a large exposure to coal is a definite negative. So, for right now its probably best to avoid Teck Resources and buy **Goldcorp Inc.** (TSX:G)(NYSE:GG) instead.

Goldcorp Inc.

If you want to invest in a miner, right now Goldcorp is pretty much the safest bet. Although gold has definitely been a participant in the recent slide in commodities prices, the near term outlook for the commodity is much better than coal.

Goldcorp is clearly a favourite among analysts as its low cost operating model means that it can survive some tough times, but even with all the buzz around the stock, its value is underpinned by weak gold prices and therefore there is still time to buy in before the next gold rally pushes higher.

With gold prices currently sitting very near the cost of production, many higher cost suppliers will likely idle production, giving Goldcorp an edge in a struggling space. While a turn in prices for either market is tough to guarantee, the pressure on coal use moving forward is tough to deny.

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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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