China Could Be the Next Greece; Avoid Teck Resources Inc. and Suncor Energy Inc.

Description

In a guest op-ed for *The Globe and Mail*, finance professor George Athanassakos predicts that China will become the next Greece. He makes some very good points.

China's rise has been fueled by private debt, which has grown by over 80% per year from 2007 to 2013. Debts from banks and governments have grown by 18% and 12% respectively over the same period. Debt also fueled Greece's rapid growth from 2000 to 2008.

And if China suffers a similar collapse, that will have a major impact on the world economy. Feeling the most pain will be commodity producers. On that note, below are two companies you should certainly avoid.

1. Teck Resources

The last three years have not been good ones for diversified miner **Teck Resources** (TSX: TCK.B). Over this time, its share price has fallen by more than half. How has this happened?

Well, about half of Teck's gross profit last year came from metallurgical coal, which is used to make steel – as a result, the met coal market is very dependent on China, which accounts for half of global steel production. And in China, most steel is used in the construction of buildings – unfortunately, this is a market that has been slowing down considerably. Consequently, Teck's sales price for met coal has dropped from nearly $300/tonne in 2011 to $120/tonne today.

If Mr. Athanassakos is right, and China does become the next Greece, then the news will get a lot worse for Teck. Granted, the company has made a lot of very prudent moves – for example, costs have been cut and capital budgets slashed. The balance sheet isn't overly stretched either.

But this is still a stock you'll want to avoid. The risks are just too great.

2. Suncor

Energy companies are also very vulnerable to the Chinese economy. According to the U.S. Energy Information Agency (EIA), China is set to become the world's largest net importer of oil this year, surpassing the United States.

Like the metallurgical coal market, we've already started to see the effects of China's slowdown. International oil prices have dropped by close to 30% since June, partly due to worries about slowing Chinese economic growth. In the most recent quarter, China grew by only 7.3%, the slowest rate since 2009.

As Canada's largest energy producer, **Suncor Energy Inc.** (TSX: SU)(NYSE: SU) has not been able to escape this reality. The shares have dropped by nearly 20% since June (despite having recovered recently), and of course the news could get worse. Canadian oil production is known to be particularly high-cost, and could suffer greatly if China declines further.

Like Teck, Suncor has slashed costs and capital budgets. But the company is still too big a risk for your portfolio.

CATEGORY

1. Investing

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2. NYSE:TECK (Teck Resources Limited)
3. TSX:SU (Suncor Energy Inc.)
4. TSX:TECK.B (Teck Resources Limited)

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