4 Reasons to Buy Teck Resources Ltd. Right Now

Description

Teck Resources Ltd. (TSX: TCK.B)(NYSE: TCK) has been a big disappointment for investors this year, but there might be some holiday cheer on the way.

Let's take a look at four reasons why I think new investors should consider adding Teck to their portfolios right now.

1. Metallurgical coal rebound

The largest part of Teck's business is the production of metallurgical (steelmaking) coal. In 2011, met coal sold for $330 per tonne. The price has been hovering around the $110 mark for much of 2014. At this level, roughly 30% of the world's producers are unprofitable. North American miners have been cutting output but the market is still oversupplied due to reduced demand from China and higher production in Australia.

That's about to change. Teck stated in its Q3 2014 earnings statement that the met coal market should come back into balance during the second half of 2015. China's decision last week to cut interest rates sends the message that the country is ready to stoke the furnace of economic growth. This should bode well for met coal demand and the move could tip the supply balance sooner than expected.

Teck is still profitable at current prices. The company's Q3 met coal production cost came in at $84 per tonne and agreements are in place for the fourth quarter to sell the company's supplies at $119 per tonne.

2. Low-cost copper producer

Despite the tough market conditions for copper miners, Teck's copper unit is still delivering solid cash flow. In the third quarter, Teck reported gross margins of 46% in its copper operations. This is great news for investors, because copper prices have probably hit bottom around $3.00 per pound.

3. Fort Hills oil production

Teck has a 20% stake in the Fort Hills oil sands project. Investors should pay close attention to this because the facility is set to switch from development to production in late 2017. By the end of 2018, Fort Hills should be pumping out nearly 160,000 barrels of oil per day.

The reduction in capital outlays combined with the increased revenue should have a huge impact on Teck's free cash flow in next few years.

4. Stable dividend

Teck's $0.90 per share dividend should be safe. The company reported earnings of $0.28 per share for Q3 2014 in a very tough environment. As a low-cost producer with a very disciplined approach to capital deployment, Teck should be able to maintain the distribution even if commodity prices remain low.

Should you buy?

As met coal and copper prices rebound and capital outlays for the Fort Hills project wind-down, free cash flow should increase sharply. The best time to pick up Teck is during a slow point in the commodity cycle, but you need to be comfortable with periods of volatility.

Right now, the 4.5% yield is a nice benefit while you wait for better times. If you prefer stocks that are less volatile, but pay growing dividends an deliver consistent capital appreciation, you might be interested in the following free report.

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2. TSX:TECK.B (Teck Resources Limited)

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Author
aswalker