Why Teck Resources Inc. Could Be a Big Winner as Oil Prices Fall

Description

As oil prices continue to plummet, there may be one surprising beneficiary: **Teck Resources Inc.** (TSX: TCK.B)(NYSE: TCK). This would be welcome relief for Teck and its shareholders, who have had a rough time in recent years.

So how exactly would Teck benefit from lower oil prices? Well, there are three things worth focusing on.

1. Lower oil prices help China.

This is a very important point, because Teck's fortunes are very closely tied to the Chinese economy, probably more so than any other **S&P/TSX 60** company.

This is because about half of Teck's business is in steelmaking coal, and 60% of the world's steel is consumed by China. In fact, China's slowdown is the main reason why Teck's shares have sunk from $60+ in 2011 to below $20 today. And many observers think the news in China will get a lot worse.

So the collapse in oil prices should provide some welcome relief, especially since China is set to become the world's largest oil importer this year. China also consumed more oil than any other country in October.

So if this helps China's economy reaccelerate (or at least prevent a further slowdown), then that could lead to a real boost in worldwide steel demand. And that would increase demand (and pricing) for Teck's product.

2. Lower oil prices help lower fuel costs.

This is also a big deal, because fuel prices can consume a big portion of a miner's costs. Think about it – mining involves hauling ore over ever-increasing distances. And miners aren't using Priuses to do the job; a typical haul truck runs at 0.3 miles per gallon of diesel fuel.

Teck doesn't break out its fuel costs, but an old report from *The Globe and Mail* said that energy costs make up roughly 25% of production costs. Remember, **Barrick Gold Corp.** even created its own energy unit to help deal with rising fuel costs (although this didn't turn out well).

So with international oil prices having declined by 40% since June, expect Teck's margins to get a nice boost.

3. Fort Hills

Fort Hills is an oil sands project led by **Suncor Energy Inc.** in which Teck has a 20% stake. Of course oil's decline hurts the economics of this project. This is bad news for Teck, right?

Not necessarily, because this is a project that probably shouldn't be built anyways. It's incredibly expensive, with an estimated price tag of $13.5 billion – and that assumes the budget gets met. This amounts to over $80,000 per flowing barrel, at the high end of Canadian oil projects. Making matters worse, Teck had to commit to an outsized share of the cost, just for the privilege of being a partner.

After the third quarter of this year, Teck is still on the hook for over $2.5 billion. This is a project the company's executives still want built. But shareholders will probably say good riddance if Suncor cancels it.

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