Is Teck Resources Ltd. the Best Contrarian Pick for 2015?

Description

Teck Resources Ltd. (TSX: TCK.B)(NYSE: TCK) is up nearly 20% in just the past week and new investors are wondering if now is the right time to take a position in the company.

Let's take a look at the current situation to see if Teck deserves to be in the portfolio in 2015.

Rebound in steelmaking coal

Teck is Canada's largest diversified miner with a focus on metallurgical (steelmaking) coal, copper, and zinc. While zinc prices have held up relatively well, met coal and copper prices are struggling.

The met coal division is Teck's largest operation. Back in 2011, met coal sold for about $330 per tonne. These days, producers are looking at a rate of about $110 per tonne due to lower Chinese demand and higher production by Australian suppliers.

At current prices, almost a third of all producers are losing money and North American miners have been cutting production and shelving expansion plans to preserve capital. The market is still oversupplied, but that situation should change in 2015.

In its Q3 2014 earnings statement, Teck said it expects the met coal market to rebalance in the second half of next year as production cuts bring supplies in line with demand. At the same time, China just cut its interest rates and is expected to fund massive new infrastructure projects in order to ramp up economic growth. This should be a positive for the metallurgical coal market in the next 12 to 18 months.

Low-cost production

Despite the challenging conditions, Teck is still profitable. The met coal operation had a Q3 2014 production cost of $84 per tonne. The company has contracts with customers to sell the coal for $119 per tonne.

Teck's copper unit still continues to deliver strong results. The company reported gross margins of 46%

from copper in the third quarter. Copper prices have continued to slide and are trading below $3 per pound, but the market should start to improve in the second half of next year.

Dividend stability

Teck's $0.90 per share dividend now yields about 5.8%. The company recently said the distribution is safe, and I think investors can count on that to be true. Teck is still profitable and the company would eliminate its share-buyback plan before touching the dividend.

Fort Hills

Much of the recent weakness in the stock is due to Teck's 20% ownership of the Fort Hills oil sands development. Teck's capital commitment is almost $3 billion and the project is making investors nervous as oil prices hover below $60 per barrel.

Fort Hills is expected to begin production in 2018. By that time, oil prices should be higher, and investors will benefit from the positive effect on cash flow.

Contrarian investors look for great companies that have fallen on tough times, but have excellent long-term growth prospects. Teck is one of those stocks. The following free report looks at two more companies that could be setting up for big moves in 2015.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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aswalker