4 Reasons to Consider Teck Resources Ltd. Right Now

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) is up more than 30% since mid-December and investors are wondering if the tide has finally turned for Canada's largest diversified mining company.

Here are the reasons why I think investors should consider adding the company to their portfolios.

1. Coal and copper

Teck's largest operation is the production of metallurgical coal (also known as steelmaking or coking coal). Back in 2011, met coal producers were getting more than US$300 per tonne for the stuff. More recently, Teck has been selling it for $120 per tonne. Lower demand in China and higher output from Australian suppliers have driven prices down so much the roughly one third of the world's producers are not profitable at current rates.

The result has been a cut of more than 25 million tonnes of production. These reductions are still working their way through the system, and Teck's CEO, Don Lindsay, recently said he expects another 10 million to 15 million tonnes of cutbacks to hit the market this year.

The result should mean a balanced market by the second half of 2015. At the same time, China is expected to launch a new wave of infrastructure spending in an effort to jumpstart growth again. This should bode well for the met coal market in 2016.

Teck's coal division is still profitable at current levels. The company has a very disciplined capital program and has managed to drive enough efficiency into its operations to maintain positive margins in the current environment.

On the copper front, the plunge in prices has also been ugly. The metal has fallen from $4.50 per pound in 2011 to the current price of $2.50.

The copper market is likely to see tough times through the rest of 2015, but the situation is expected to improve in 2016. Teck's production costs are less than $2.00 per pound so the company is still making money on copper sales.

2. Oil prices

Teck isn't an oil producer, but it has a 20% stake in the massive Fort Hills oil sands development that is scheduled to begin operation in 2018. The plunge in oil prices has put the economics of the project in question and Teck is committed to spending $3 billion to get it completed.

If oil prices settle at $50, Fort Hills is in trouble, but many industry leaders expect crude prices to head back to $80 in the next three or four years.

3. Currency exchange

Teck books most of its operational and capital costs in Canadian dollars but the sales of its products are denominated in U.S. dollars. Teck says that every $0.01 change in the exchange rate has an annualized EBITDA effect of about $60 million. The U.S. dollar has gained more than 13 cents on the Canadian dollar in the last three months. That's a huge boost to earnings.

4. Dividends and share buybacks

Despite the brutal market conditions, Teck is still profitable. There is a lot of chatter in the market that Teck will cut its dividend. At the moment, the payout looks safe. Teck has a substantial share-buyback program that it would probably trim before touching the dividend. The company has a strong cash position and margins are still positive in all of its operations.

Should you buy?

The coal and copper markets are probably near the bottom of their cycles. If you are a contrarian investor, Teck is probably a good long-term pick at current levels and you get a nice 5.2% yield while you wait.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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