

2 World-Class Miners I'd Buy With an Extra \$5,000

Description

Materials stocks are starting to show some life again as investors sift through the carnage of the past couple years and look for solid companies that could be big winners as the commodity cycles turn.

Here are the reasons why I think **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) and **Potash Corp./Saskatchewan Inc.** (TSX:POT)(NYSE:POT) are worth adding to the watchlist right now.

Teck Resources

Canada's largest diversified miner has been hit with a perfect storm in the past few years as the prices for its main products have plummeted to multi-year lows.

Teck's largest operation is the production of metallurgical coal. The met coal market remains oversupplied at the moment despite significant production cuts by North American miners. Prices are still hovering around \$120 per tonne, which puts about one third of global producers in the red. Back in 2011, producers were getting more than \$300 per tonne.

A slowdown in Chinese demand and increased production out of Australia have been blamed for the ongoing weakness in the market, but the situation could start to improve in the back half of 2015.

Teck's CEO, Don Lindsay, recently said that producers have already cut 25 million tonnes of production, and he expects another 10-15 million tonnes of cutbacks to hit the market this year.

This should bring conditions back into balance and provide support to met coal prices.

Teck is very good at controlling costs. The discipline has enabled the company to remain profitable despite the tough situation in its core markets.

The big thing for investors to consider right now is the strength of the U.S. dollar against its Canadian counterpart. Teck estimates that a \$0.01 change in the exchange rate can add as much as \$60 million in revenues on an annualized basis. The reason for this is that the company sells its products in U.S. dollars, while the majority of its costs are booked in Canadian dollars.

Teck pays a dividend of \$0.90 per share, which yields about 4.8%. The distribution should be safe.

Potash Corp

Potash Corp. is now trading at its highest levels in almost three years. The stock has been climbing steadily since the summer of 2013, and it looks like the trend is set to continue.

Global demand for potash hit a record in 2014, and the market is expected to improve modestly this year. Potash Corp is also completing a multi-year expansion project at its facilities, and the switch from development to production should have a significant impact on free cash flow moving forward.

Potash will likely to benefit from problems at Uralkali, its largest competitor. The Russia-based producer recently shut down one of its largest mines due to the inflow of salty water. The source of the problem is a large sinkhole. The mine represents about 20% of Uralkali's production, and the facility could be mothballed if the flooding can't be stopped.

Potash Corp. pays a dividend of US\$1.52, which yields about 4%. Investors should see consistent dividend increases as free cash flow continues to improve.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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