

1 Surging Stock I'd Buy With an Extra \$5,000

Description

Catching a great stock as it turns the corner after a difficult time is one way that investors can quickly boost returns in their portfolios. This is much easier said than done, but the market often gives us a heads up when money starts to move back into these companies.

The ideal stocks are companies that hold leadership positions in their industries and have a competitive advantage that is not easily duplicated. In the perfect world, we want to catch these stocks as the market begins to realize that they have been severely oversold.

Buying these stocks can be risky because they are often volatile at this point in the cycle and the share price can reverse course very quickly.

Having said that, if you have some extra cash sitting on the sidelines right now, I think **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) is worth a look.

Here's why.

Teck's stock has been absolutely obliterated in the past four years, falling from \$60 per share to the December low of about \$12.50. The stock has moved higher over the past two months, and it looks like that trend could continue.

Metallurgical coal prices are still hovering below US\$120 per tonne and copper prices are now trading at an abysmal US\$2.60 per pound, but the bottom is likely in sight for both commodities.

Teck is a low-cost producer in both markets and continues to be profitable. This is not the case for many of its competitors. Heavy production cuts should bring the met coal market back into balance by the end of 2015 and copper prices are expected to strengthen next year.

The drop in oil prices has also weighed heavily on Teck's stock. The company has a 20% ownership in the massive Fort Hills oil sands development. With oil sitting at \$50 per barrel, many pundits worry that the project will not be economically feasible. Fort Hills will be completed by 2018 and Teck has to pony up \$3 billion to get the facility built.

There is a growing sense in the market that oil prices will gradually move back toward \$80 per barrel. There might be more weakness along the way, but Teck and its partners are committed to finishing the project, and the market is not pricing in the potential cash flow that will result once Fort Hills goes into production.

Long-term investors who believe oil prices will eventually improve should support the company's commitment to the project. The current oil rout will help Teck and its partners negotiate lower costs from suppliers and contractors and the potential returns over the 50-year life of the project are significant.

Teck is also a huge beneficiary from a weak Canadian dollar. In its Q4 2014 earnings report, Teck said it picks up an extra \$52 million in earnings for every penny the Canadian dollar drops against its American counterpart.

In the past six weeks alone, the Canadian dollar has fallen more than 6 cents.

Teck is a very disciplined company and management is doing a great job of reducing operating costs while it waits for the commodity markets to move higher. As prices improve, margins and earnings should expand rapidly. The company has \$1.7 billion in cash and a credit facility of US\$3.0 billion. The \$0.90 per share dividend should be safe and investors can collect a nice 4.7% yield while they wait for better times.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/08/02

Date Created

2015/02/16

Author

aswalker

default watermark