



Why Did Shares of Teck Resources Ltd. Rise 11% on Monday?

Description

In mining, stock prices can rise and fall dramatically, often in a very short time frame. That said, we rarely see such price movements during a *two-day* period.

On Monday, *Bloomberg News* reported that **Teck Resources Inc.** (TSX:TCK.B)(NYSE:TCK) and Chilean copper miner **Antofagasta** were in merger talks, citing anonymous sources. In response, Teck shares rose by more than 11%.

Later in the day, Teck denied that any merger talks were taking place, calling the report “rumours.” As a result, the company’s shares declined by about 9% on Tuesday as of this writing.

On the surface, a merger would make sense. Teck has a big copper mining presence in Chile, so a merger with Antofagasta could potentially reduce costs. And a merger would help Teck diversify away from coking coal, which has plummeted in price in recent years.

That said, Teck investors shouldn’t get too excited about a merger.

Teck would never get acquired

The *Bloomberg* report left one very obvious question unanswered: Which company would be buying, and which company would be bought? The two firms have fairly similar market values (Antofagasta is worth slightly more), which makes that question a lot harder to answer.

Making matters even more complicated, both companies are family-controlled. So, for a deal to take place, one family would have to give up control. Conceivably, whoever gives up control would receive a premium.

Teck is very unlikely to accept such a fate. To understand why, just look at the tenure of CEO Don Lindsay, which is now at about 10 years. During this time, the company has bought up numerous companies, determined not to get acquired itself. It even tried to buy Inco and Falconbridge (two nickel mining giants that eventually fell into foreign hands) to create a Canadian mining champion. There's no way Mr. Lindsay would let Teck get bought out by a Chilean company.

A merger the other way wouldn't help

So, it's unlikely that Teck will let itself get acquired. That said, is it possible that Teck will acquire Antofagasta? After all, this would still allow a combined company to benefit from cost savings.

That said, such a merger would be extremely difficult. As mentioned, Antofagasta is also family-controlled, so if Teck wants control it will need to pay a sharp premium. This would likely make Antofagasta unaffordable. Even if Teck did secure a deal, the combined company would be loaded with debt.

This scenario should make Teck investors very nervous. Back in 2008 the company paid over \$14 billion for a big coal acquisition that nearly bankrupted the company. The jury is also still out on Fort Hills, an oil sands project in which Teck has acquired a 20% stake.

I know it can be tempting to pursue quick profits, but this is a very dangerous strategy, especially in the mining sector. You should wait for better opportunities.

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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