



Growing Headwinds Make Teck Resources Ltd. a Stock to Avoid

Description

Metallurgical coal and base metals miner **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) remains under considerable pressure from falling commodities prices. However, in recent days there have been signs the company is gaining favour with analysts, and management has stated that they are considering making a copper acquisition to boost declining copper production. This illustrates that there is growing confidence in Teck's outlook, but I still believe investors will find better value by looking elsewhere.

Now what?

A major headwind Teck is facing is the sharply declining demand for the commodities it mines: metallurgical coal, copper, and zinc. Metallurgical coal, which generates over a third of Teck's revenue, is now trading at its lowest price in over six years. Base metals zinc and copper, which collectively contribute 63% of Teck's revenue, have also fared poorly. Copper is hovering at a four-year lows, while zinc prices remain depressed.

What this means is that part of what is a resounding correction in commodities across the board has emerged from a significant slowdown in economic growth in the world's second-largest economy, China. For an economy that saw GDP growing at double-digit figures last decade, growth is now expected to slow to 7% annually or more.

This means less construction and manufacturing activity, thus leading to sharply lower demand for steel, along with its key inputs, metallurgical coal and iron ore. It also means that base metals are suffering because they are key inputs in a range of manufacturing processes and high-rise construction.

I don't expect the economic slump that is now affecting China to go away any time soon.

China's property boom created the problem of overbuilding, leaving property inventories at all-time highs and a large number of residential properties vacant. As a result, investment in real estate development in February 2015 fell for its twelfth straight month. Investments are now half of what they were for the same period in 2014.

I also doubt there will be any significant uptick in manufacturing activity. Not only is domestic consumption waning, but key export markets for manufactured goods, including the European Union, are battling their own economic problems.

This doesn't bode well for any bump in demand for metallurgical coal, copper, or zinc.

So what?

The end result is that we will see a contracted slump in prices for those commodities, placing further pressure on Teck and its profitability. This, in conjunction with its heavily levered balance sheet and the financial obligations associated with its participation in the Fort Hills oil sands project, will have a significant impact on the company.

I see little upside for investors, with commodity prices set to remain under pressure for the foreseeable future. If they remain low for a sustained period, Teck's dividend of 5%, which costs \$518 million annually, could also come under threat. For all of these reasons, I believe investors would do better investing in companies with better growth potential.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Investing
2. Metals and Mining Stocks

Tags

1. Editor's Choice

Date

2025/08/02

Date Created

2015/04/06

Author

mattdsmith

default watermark