



Teck Resources Ltd.: Should You Add This Value Stock to Your Portfolio?

Description

Mostly thanks to the decline in price for metallurgical coal, the last few years haven't been good for shareholders in **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK).

After hitting a peak of more than \$60 per share back in early 2011—on the back of the general commodities boom, not just coal—shares have given back more than 75% of their value, recently closing below \$15 each. The weakness also caused the company to recently slash its dividend, dropping the payout from \$0.90 per share annually to just \$0.30, for a current yield of just over 2%.

But it's not all bad news. Teck is rapidly expanding into the oil sands, and there's potential for zinc and copper prices to head higher, two commodities that make up about 50% of Teck's production. There's also the ability to cut costs, helped by the recent decline in oil.

But is that enough to buy this stock? Let's take a closer look.

The coal market

The market for metallurgical coal isn't looking so hot. Coal demand had been stoked by China's rapid building boom over the last few years, as Beijing borrowed heavily to create construction demand. But now, as reports of empty buildings and speculation in the real estate market are commonplace, it's obvious that China isn't about to embark on any additional building booms for a long time.

Without China's demand, the world of steel is struggling. Over the last 52 weeks, shares of **ArcelorMittal**, the world's largest steel maker, are down nearly 30%, with revenue declining year over year during the most recent quarter. Most other steel companies are experiencing similar weakness.

Additionally, there's the issue of coal sources from other countries. Australia is flooding the market with both thermal and metallurgical coal, taking advantage of the decline in the Australian dollar to get higher prices in local currency. Russia is also selling coal for about 10-20% less than the spot price.

Teck has responded to these issues by pulling some high-cost production offline, but analysts don't believe it'll be enough to stabilize prices. There's just too much supply out there.

Put all these factors together, and I don't see how the metallurgical coal market can recover anytime soon.

The other stuff

Fortunately, the rest of Teck's business looks a little better.

Let's start in the oil sands, where the company owns 20% of the Fort Hills project, along with **Suncor** and **Total**, the French energy giant. Production is expected to begin in late 2017.

Although the decline in crude doesn't bode well for the success of the development, it is presenting some opportunities to cut costs. Combined with the decline in the Canadian dollar, this has made the project profitable even at \$70 crude prices, according to a company presentation.

The copper business is also projected to do well. Production in 2015 is expected to rise to between 340-360 kilotons, an increase of up to 10%. Combine that with the favourable currency move and lower mine costs, and the copper business is looking relatively attractive, even without the benefit of rising prices.

The same factors are also helping to decrease the cost of mining coal. Total costs are expected to be in the range of \$69-84 per ton in 2015, a decrease of potentially 20% compared with last year.

Management is doing all the right things to cut costs, including slashing the dividend. But ultimately, the price of Teck Resources' shares depends on the health of the metallurgical coal market, at least until production at Fort Hills comes online. And right now, there just isn't much positive you can say about coal. For that reason, I'd avoid the stock, at least for the time being.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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