



Why Are Teck Resources Ltd. and First Quantum Minerals Ltd. Surging by Double Digits?

Description

The markets have not been kind to **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) nor **First Quantum Minerals Limited** ([TSX:FM](#)) over the past year. Before markets opened on Wednesday, the two miners' stocks were both down roughly 60% over the previous 12 months.

But on Wednesday, both stocks jumped by double digits, and for fairly similar reasons. We take a look at why below.

Why Teck Resources jumped

It's no secret that Teck Resources is short of cash. The company has over \$9 billion of debt on its balance sheet, as well as billions of dollars of spending commitments at the Fort Hills energy mega-project. Its debt rating entered junk territory last month.

So, Teck's management clearly had to respond. And that's exactly what happened on Wednesday, when the company announced a silver streaming deal with **Franco-Nevada Corporation** ([TSX:FNV](#))([NYSE:FNV](#)). Under this agreement, Franco-Nevada will pay Teck US\$610 million in exchange for a future share of silver production at the Antamina mine in Peru.

This is very encouraging, since streaming deals are probably the best way for Teck to raise money. After all, Teck can't really handle any more debt, and its stock price is too low to raise equity. Selling mines may seem attractive, but, unfortunately, this is a buyer's market.

Yet investors still love streaming deals, which allow companies like Franco-Nevada to pay big bucks to miners. Low interest rates don't hurt either.

Teck isn't the only company to sign a big streaming deal recently. Two months ago, **Barrick Gold Corp.** also raised US\$610 million from a streaming deal with **Royal Gold Inc.** Teck's management was probably paying close attention.

Why First Quantum jumped

First Quantum is in better shape than Teck, but the company has a big problem of its own. It is developing a massive copper mine in Panama (Cobre Panama) right as copper prices are slumping, which is starting to put pressure on its balance sheet.

Like Teck, First Quantum's management team is not standing still. The company has cut its cost estimate at Cobre Panama by 7%. It reworked a streaming deal with Franco-Nevada. And it is open to selling mines as well.

There also may be takeover rumours swirling. The company's copper focus could help a bigger miner like **BHP Billiton** diversify away from iron ore. First Quantum also has very strong project management capabilities that an acquirer could learn from.

Are either worth buying?

Not yet. Part of the big stock price movements is likely due to a short squeeze, which tends to send share prices higher than where they should be. Besides, both of these companies are heavily dependent on China, which is probably a country worth avoiding as an investor. There are certainly better options for your portfolio.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:FNV (Franco-Nevada)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:FM (First Quantum Minerals Ltd.)
4. TSX:FNV (Franco-Nevada)
5. TSX:TECK.B (Teck Resources Limited)

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Author

bensinclair

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