China’s Woes Could Send These 3 Stocks Tumbling

Description

China is sending jitters across the global stock markets, wiping out billions of dollars of investors’ money in a couple of trading sessions. While the economy’s problems are getting more and more complicated to understand, investors have been left watching in horror as stocks tumble. As I write this the S&P/TSX Composite is down triple-digits, touching levels last seen in 2013.

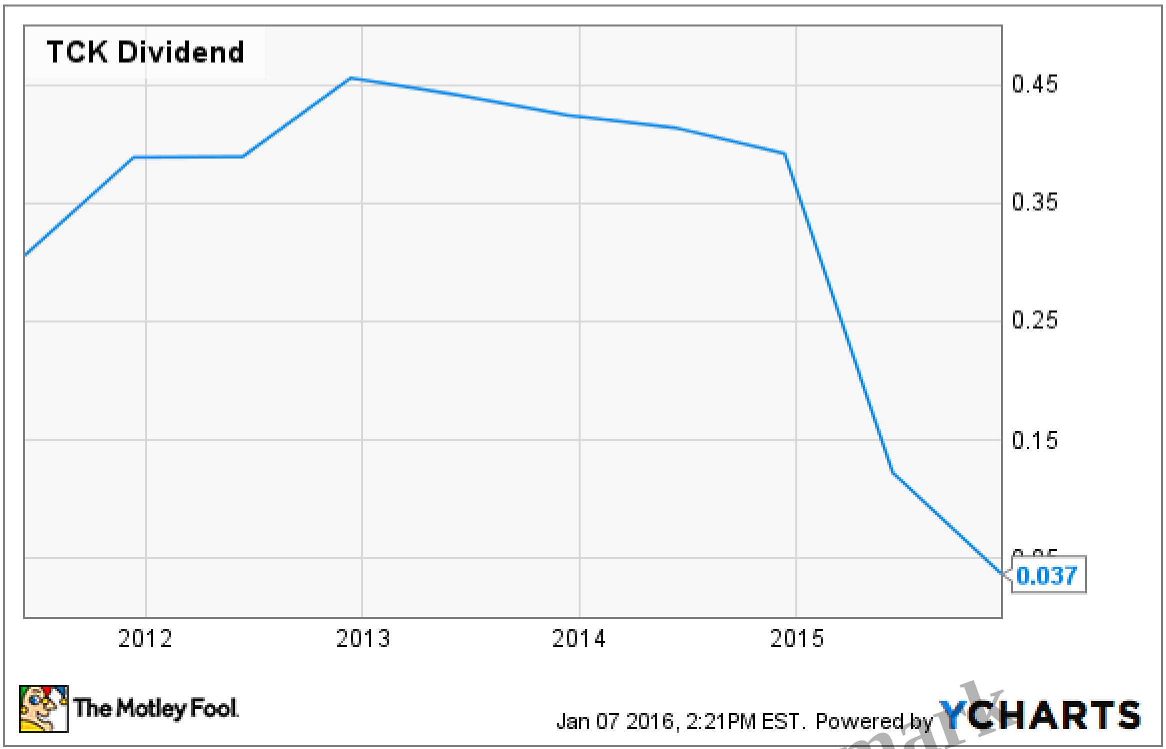
Unfortunately, things could get a lot worse in the near future for companies that have significant exposure to China. Here are three such stocks that prudent investors need to be wary of.

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK)

China is a key consumer of steel, and Teck Resources is the world’s second-largest exporter of metallurgical coal–a key raw material for steel. Needless to say, the company’s fortunes depend a great deal on the health of the Chinese economy.

The latest industry reports present a gloomy picture. The supply glut in China’s steel industry could force some mills to shut down even as further devaluation of the yuan makes coal imports expensive for the local steel producers. Meanwhile, manufacturing activity is hitting a speed bump, as evidenced by the Caixin factory index that contracted for the 10th straight month in December.

All this spells trouble for a company that derives more than 25% of its revenue from China. In fact, investors in Teck Resources could be hit two ways–while a declining stock erodes capital, the company’s dividend isn’t reliable either as the chart below shows.



TCK Dividend data by YCharts

The verdict: Avoid Teck until China recovers.

Westport Innovations Inc. (TSX:WPT)(NASDAQ:WPRT)

After a disastrous 2015, the chances of recovery in Westport Innovations stock look just as dim for 2016. Westport's joint venture with China-based Weichai Power is a key source of revenue. But multi-year-low truck production in China and plunging oil prices sent Weichai-Westport's revenue down a staggering 88% and 76% year over year during the third quarter and nine months ended September, respectively. Westport's venture with **Cummins** is also at risk, with the latter projecting truck sales in China to decline 30% for full year 2015.

Given that China is a key growth market–Westport has plans to start consumer testing of its new generation, high-pressure, direct-injection technology in the nation this year–a recovery in the economy is critical for the company to break even. Unfortunately, that could now take longer than expected.

First Quantum Minerals Limited (TSX:FM)

From layoffs to reducing its dividend payout ratio, First Quantum tackled the piling challenges head on by curtailing costs last year. But its ordeal is far from over.

As a mining company that focuses primarily on copper and nickel, First Quantum is bound to feel the pinch of the malaise in China. The nation, after all, is the world's largest consumer of both metals, which are key raw materials for the manufacturing sector. Needless to say, the latest weak manufacturing data from China has triggered fresh fears about a deepening imbalance in demand and supply, which bodes ill for First Quantum.

While nickel smelters in China plan to cut production by 20% this year to boost metal prices, miners such as First Quantum will not benefit until consumption picks up. And that's unlikely until there's an uptick in manufacturing activity. Long story short, it'll be a bumpy ride for First Quantum going forward.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:WPRT (Westport Fuel Systems Inc.)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:FM (First Quantum Minerals Ltd.)
4. TSX:TECK.B (Teck Resources Limited)

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