Teck Resources Ltd.: The Most China-Dependent Company in Canada

Description

The big investing theme so far this year is bearish news coming out of China. Growing worries about the country's economy have caused share prices to plunge, and many people are convinced that more bad news will come in 2016.

For example, Jim Chanos–who gained fame for betting against Enron before its collapse–thinks that China is running out of room to borrow. He says this will eventually lead to a "credit event." And George Athanassakos, a professor at Ivey Business School, thinks China could become the next Greece.

If you're looking to avoid China exposure, it's not enough to shun Chinese stocks; many companies here in Canada are heavily exposed to the world's most populous country. And there's one company in particular that tops the list: **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK).

A commodity producer

Teck's top two products are copper and steel-making coal, and China is by far the world's largest consumer of each commodity.

Of course, this means their prices are mainly determined by the health of the Chinese economy. And this is especially the case for steel-making coal. While copper has many uses, steel is used primarily in construction, thus making it heavily dependent on China's construction boom.

Just to illustrate what effect this has on Teck, steel-making coal prices have fallen from well over US$300 five years ago to well under US$100. Copper's decline has been rough as well, although the drop hasn't been quite so severe.

Fort Hills

Teck's exposure to China doesn't stop with coal and copper. The company owns a 20% stake in Fort Hills, a massive oil sands mining project located north of Fort McMurray. The project will deliver 13 million barrels of bitumen per year (Teck's share), but comes with an additional $1.5 billion in capital commitments for the company.

Since China is also a major determinant of oil prices, this makes Teck even more exposed to the country.

An unstable balance sheet

Adding to Teck's China exposure is the company's over-levered balance sheet. As of September 30th, the company had nearly $10 billion in debt. That number has come down slightly thanks to a US$610 silver stream agreement with **Franco-Nevada**, but it is still way too high for a $2.4 billion company.

So if the Chinese economy recovers, Teck's profits will grow, its finances will become safe once again, and its shares will soar. But if China continues to struggle, then Teck could fall in to serious financial trouble.

Therefore, if you're looking to avoid China, then this is one stock you want to stay far away from.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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