



A Lower Loonie Is Very Good News for Teck Resources Ltd.

Description

As our dollar continues to slide against the U.S. dollar, Canadians are feeling it in all sorts of ways.

The grocery store is one place. Since most vegetables and meats are priced in U.S. dollars, Canada's grocers are forced to pass on their increased costs to customers.

Travel is another. Just a few years ago, Canadians flocked across the border to the U.S., ready and willing to spend currency that went a long way. These days border states hardly see any Canadian traffic.

Other imported goods are becoming more expensive, too. The Chinese yuan is pegged to the U.S. dollar, which means consumers are stuck paying more for items like furniture, appliances, and cars. These changes are taking a little more time because suppliers have enough excess inventory on hand to not have to immediately pass higher costs onto consumers. But be warned; higher prices are coming.

The exchange rate is also a dominant story in the investing world. Many of Canada's largest companies are struggling to deal with higher input costs caused by having to buy U.S.-based products. Manufacturers were supposed to be reveling on the other side of this scenario, but even many of them are struggling as better exports don't look to be enough to make up for lacklustre domestic sales.

There are a few companies who should very much enjoy a lower Canadian dollar. One is **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK), the beleaguered producer of coal, copper, and zinc. Here's why.

A nice equation

Most of Teck's costs are in Canadian dollars, while it gets U.S. dollars for the commodities it sells. In today's world, this is a nice position to be in.

According to the company's latest investor presentation on December 2, for every penny the Canadian dollar weakens against the greenback, Teck gains an additional \$52 million in EBITDA and \$32 million

in additional profit.

These are not insignificant numbers. Over the last year, excluding one-time write-offs, Teck generated approximately \$500 million in earnings before tax. Even a drop of a few cents in the exchange rate will have a real impact to the bottom line.

Since Teck made that presentation, the Canadian dollar has dropped more than six cents against the U.S. dollar. This move alone could boost before-tax income by nearly \$200 million in 2016, assuming everything else stays the same.

The weak currency also helps insulate Teck from further drops in commodity prices. A further drop in coal, copper, or zinc isn't so bad if the Canadian dollar continues to drop along with it.

An added bonus

A strong U.S. dollar could also potentially help Teck in one other area as well.

One of the things really hurting the company is exports from U.S. producers. Current metallurgical coal exports from our southern neighbor are approximately 50-55 million tonnes per year compared to less than half that in the decade from 2000-2009.

U.S. coal producers aren't getting the benefit of having their input costs in a local currency that's depreciating. This makes many U.S. mines some of the highest-cost producers in the world. It's just the latest thing to hit an industry decimated by lower prices and demand from China falling off a cliff.

Many sector observers think it's only a matter of time until some of the largest U.S. producers go bankrupt, removing their supply from a market that desperately needs it. It might take a couple more years, but as long as Teck can survive, the supply and demand imbalance could sort itself out.

Teck's balance sheet isn't spectacular, but it does look to be strong enough to make it that long. The company projects it'll have \$1.8 billion in cash when it reports its fourth-quarter earnings in February. That should be enough to cover the \$1.5 billion it still has to contribute to the Fort Hills oil sands project, and if it isn't the company can tap its nearly \$6 billion in available credit facilities.

At worst, the weak Canadian dollar helps Teck bide some time while it waits for commodities to recover. This is good news for a company that desperately needs something.

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

2025/07/08

Date Created

2016/01/20

Author

nelsonpsmith

default watermark

default watermark