



Did Warren Buffett Just Sound the Death Knell for Coal Stocks?

Description

“If you’re tied to coal, you’ve got problems.” – Warren Buffett.

The Oracle of Omaha is known for his straightforward approach to investing, and it was evident, yet again, at the much awaited 52nd Annual Meeting of **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) held this past weekend.

When asked about what role coal will play in Berkshire’s railroad — **Burlington Northern Santa Fe Corp.** (BNSF) — going forward, Buffett didn’t mince words and echoed what many have feared for some years now: coal will decline over time and being tied to coal now is a problem.

With this latest warning coming the legendary investor himself, investors might want to do a reality check on their portfolios.

Warren Buffett’s take on coal

BNSF Railway — one of Berkshire’s key businesses — is among the largest freight railroads in North America. It hauls a large chunk of commodities, like any other railroad. The secular decline in coal has been a major dampener for railroads in recent years, including **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP).

Coal mining stocks, however, have bounced back remarkably in the past year or so as prices of commodities, especially coking coal, exploded after Beijing restricted operating days for local miners and industry statistics from China fueled hopes of greater consumption. **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK), for instance, is still up about 87% in one year, despite shedding 20% value in just the past three months.

Most railroads, including BNSF, recently reported an uptick in coal shipments; Canadian National reported a solid 39% jump in revenues from coal in Q1 — the highest growth across all its segments. This has further fueled investors' optimism, but as Buffett put it in BNSF's context: "The answer is, coal is going to go down over time. I don't think there's any question about that."

Stocks to avoid, and stocks to buy

I believe Buffett's bearish views about coal should be a warning signal for investors in coal-heavy companies such as Teck Resources. There's no denying that coal's share in the power industry is declining, what with most utilities switching to cleaner energy sources for sustainable revenues going forward. **Altagas Ltd.** ([TSX:ALA](#)) is a fine example; its impending \$8.4 billion acquisition of U.S.-based **WGL Holdings Inc.** will give it a huge headway in natural gas and the broader renewable energy space.

That Teck itself got involved in the Fort Hills oil sands to deviate from coal is perhaps the biggest evidence of the threat looming for coal.

Supply-side companies like mining equipment manufacturers and railroads could also take a hit, though investors in Canadian National may be better off than those in Canadian Pacific. The reason is simple: Canadian National derives just about 4% of its freight revenues from coal. Comparatively, Canadian Pacific gets almost 10% of its revenues from coal and may have to find ways to replace those revenues in coming years.

While expressing caution about coal, Buffett also hinted at what he might be interested in instead: renewable energy. That means having stocks like [Altagas on your radar could prove more fruitful](#) in the long run than betting on the likes of Teck Resources.

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