Teck Resources Ltd (TSX:TECK.B) Might Kill This Canadian Stock

Description

Coal is dead. Or at least that's what bears have been saying for years, even decades.

If you invested in a major coal producer like **Teck Resources Ltd** (TSX:TECK.B)(USA) in 2016, just as bearish sentiment was hitting a fever pitch, you would have ended up incredibly happy.

In 2016, Teck Resources stock ended the year around $5 per share. Less than 12 months later, the stock surpassed $30 per share.

Now, bears seem to be calling for the head of another coal-related company: **Westshore Terminals Investment Corp** (TSX:WTE). Westshore doesn't mine or sell coal. Rather, it ships it through its 133 acre facility located in the Port of Vancouver.

Renewed fears surrounding the death of coal have pushed Westshore shares down by more than 30% over the past six months.

Are these fears well-placed, or is this another opportunity to profit from coal doom-sayers?

Trouble is brewing

By all accounts, Westshore Terminals should be doing really well given that its customer base is growing surprisingly quickly.

Teck Resources, for examples, is now the world's second-largest metallurgical coal producer. As Westshore's largest customer, Teck Resources contributed more than half of Westshore's export base last year.

Westshore has invested billions of dollars over recent years to upgrade its facilities to handle higher volumes. As I highlighted in February, the company has added “seven kilometres of high-speed conveyors, four kilometres of rail causeways, two deep sea berths, and four stacker reclaimers.” In 2018, the company finished a five-year, $275 million upgrade cycle.

Upgraded facilities, however, won’t matter if the company loses even one major customer.

On March 25, research firm Seaport Global revealed that it expects Teck Resources to “move much of its volume to Vancouver-based Neptune Terminals once its contract with Westshore, also in Vancouver, ends in the first quarter of 2021.”

Over the past 12 months, Westshore stock is down only 10%. If Seaport Global’s prediction comes true, considerably more downside exists.

Don’t believe the rumours

I doubt that Teck Resources is ready to upend its logistics network in order to shift its exports down the street to another Vancouver-based terminal. Instead, this is likely a ploy to accrue bargaining power once the contract is ready to be renewed, which could happen at any point in 2019.

Notably, Neptune can only export seven million metric tons of coal annually. Last year, Teck Resources relied on Westshore Terminals to ship more than 15 million metric tonnes of output. Neptune wants to increase capacity to 16 million metric tonnes by the end of 2020, but it’s unlikely that Teck Resources is willing to gamble on its export needs until it is completely clear that Neptune can handle the volumes.

The longer Teck Resources waits, the more leverage Westshore has over pricing. Most likely, Teck Resources wants to renew the contract over the next few months. Feigning an ability to shift exports to Neptune is likely an effort to improve its bargaining position.

Is Westshore stock a value?

At this point, Westshore seems to be fairly valued. Clearly, the market doesn’t believe that it’s about to lose a customer that represents more than half of its revenues. Still, how much pricing power it will need to cede isn’t yet clear.

Long-term, Neptune will be a viable competitor, and it’s unlikely that Westshore can force its customers to agree to decade-long contracts. I’d expect contract lengths to shorten as more export capacity comes online across the Vancouver area.

Shares trade at just 11 times earnings with a 3.2% dividend, but this stock isn’t a screaming buy yet.

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