Now Is the Time to Buy Teck Resources (TSX:TECK.B)

Description

Diversified Canadian miner **Teck Resources** (TSX:TECK.B)(NYSE:TECK) is one Canadian stock that is vulnerable to a full-blown trade war between the U.S. and China. Recent trade tensions, because of Trump's decision to ratchet up tariffs on US$200 billion of goods from China, have hit the miner's stock hard. It's down by 25% over the last year.

default watermark

Fears of a trade war reignite

China, and, more specifically, its industrial sector, is the world's single largest consumer of metals, coal, and other commodities except crude. Economists fear that if a full-blown trade war erupts, it will shave up to 1.5% off China's GDP growth, and its manufacturing sector would be among the worst parts of the economy affected. That certainly doesn't bode well for the consumption of coking coal nor base metals like copper and zinc, which generated 50%, 20%, and 23%, respectively, of Teck's first-quarter 2019 revenue.

The impact that a sharp decline in demand from China for those commodities has sparked consternation among investors, causing some to claim that now is the time to sell Teck. While there is certainly further pain ahead for the miner and its shareholders, it is unlikely there will be any sustained downturn in global growth.

You see, some analysts speculate that Trump's latest trade rhetoric is aimed at destabilizing China to obtain a more favourable agreement for the U.S. This includes emphasizing Beijing's economic dependence on U.S. technology exports. The potential damage faced by China is far greater than the fallout for the U.S., meaning that there is an increased likelihood of Beijing seeking to negotiate an end to the current trade conflict.

Commodities are cyclical by nature

Investors should also remember that commodities are highly cyclical, and it was only four years ago when analysts were predicting that the prolonged slump of coal and base metals would force Teck to seek bankruptcy protection. Since then, the miner has bounced back strongly, and management has taken measures to boost profitability by reducing costs as well as diversifying operations, sold non-core assets, and significantly strengthened Teck's balance sheet.

This includes reducing debt to US$4.3 billion by the end of the first quarter 2019 compared to US$7 billion at the end of 2015. Teck has a well-laddered debt profile with no material maturities until 2024. For these reasons, Teck is better equipped to weather a downturn in commodity prices caused by a trade war than it was in 2015, when coking coal and base metals hit their lowest prices since the global commodities boom of over a decade ago.

The diversification into energy, through Teck's 26% stake in **Suncor's** Fort Hills oil sands operation, will help to offset any sharp decline in coking coal and base metal prices.

Teck finished the first quarter with considerable liquidity of $8.7 billion, including $2.5 billion in cash, further enhancing its ability to endure a commodities downturn. This also ensures that the development of the Quebrada Blanca phase two project in Chile is not threatened and can be completed even if cash flow declines because coking coal, copper, and zinc prices collapse.

This bodes well for Teck's future because it is a low-cost operation in a mining-friendly jurisdiction, which will substantially boost the miner's copper output and ultimately earnings when production commences in 2021. On commencing commercial operations that would not only see a significant decrease in capital expenditures but also considerably boost Teck's cash flow.

default watermark

Pulling it together for investors

Teck's strong financial position and considerable cash on hand, along with CEO Don Lindsay alluding to a cash return to shareholders, have sparked speculation that a special dividend may be on the way. While this would certainly give Teck's stock a boost, it makes better sense for the miner to expand its share buyback given that it is now trading at depressed levels because of trade war fears.

The latest dip in Teck's market value has created an opportunity for investors to acquire a high-quality miner at a discount to its true indicative fair value. While investors wait for the miner's stock to appreciate, they will be rewarded by its regular quarterly dividend yielding almost 1% annually.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise

4. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/09/09
Date Created
2019/05/25
Author
mattdsmith

default watermark

default watermark