



Watch Out for the Rise of This Undervalued \$11 Billion Base Metals Giant

Description

While **Teck Resources** ([TSX:TECK.B](#))([NYSE:TECK](#)) is negatively affected by the uncertainty surrounding trade and trade rhetoric that is going strong, it is a stock that investors should keep on their radar as a [long-term growth](#) story.

Teck Resources currently derives 59% of its EBITDA from coal, 19% from copper, 19% from zinc, and 2.7% from energy.

I'm interested in Teck stock because its reliance on copper going forward will increase significantly and due to its strong cash flows and its [undervalued](#) valuation (0.7 times book value) coupled with its 13% return on equity.

Let's take a look in more detail.

Investment-grade ratings

Earlier this year, Teck's credit rating was upgraded by both **Moody's**, **Fitch**, and two other rating agencies.

With these upgrades, the company is now investment grade, which makes it easier and less expensive for the company to access debt markets as well as inspires investor confidence.

We can expect this upgrade to go a long way in improving investor sentiment on the company and the stock.

Fort Hills in the green

Teck's 21.3% interest in the Fort Hills project, which **Suncor Energy** owns a 54% majority stake in, has ramped up production in 2018 and produced 145,000 barrels a day (bpd) in the first quarter of 2019.

Although this was negatively affected by mandated production curtailments, the company reported operating costs of \$29.42 per barrel and reported that it sees opportunity to expand production by as much as 40,000 bpd with minimal capital spending.

If Canada's oil and gas industry is slowly getting its act together and increasing takeaway capacity, then Fort Hills can finally be a valuable asset for Teck.

Fort Hills achieved a netback of \$7 a barrel and was finally cash flow positive for Teck.

Quebrada Blanca Phase 2 (QB2) copper mine sanctioned

Teck's QB2 mine is its highest-priority growth project. It will elevate Teck to become one of the world's major copper producers once production starts.

And this is a very good thing, as copper is one of the most versatile and durable base metals around; it is used in many different industries, from the construction industry to the electrical and electronic industries to the renewable energy industry, which, as we know, is slated for major growth in the coming years.

Electric vehicles, for example, require much more copper than conventional vehicles (almost three times more).

As such, this base metal will stand the test of time, and copper producers like Teck will have a secular growth trend in their favour, which will serve as a tailwind, providing them with long-term demand growth.

Final thoughts

Undervalued Teck Resources stock is worth considering today, as the company is seeing solid cash flow generation today, which we can expect to continue and accelerate in the future.

Its stake in Fort Hills provides it with increasing cash flows from ramped up bitumen production, and its QB2 mine will provide it with ramped up copper production in the years ahead, just as copper prices should rise with the rise of renewable energy.

CATEGORY

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2. Metals and Mining Stocks

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