This Canadian Stock Just Fell 30%: Time to Buy?

Description

Westshore Terminals Investment Corp (TSX:WTE) was once one of Canada's top-performing stocks. From 2000 to 2014, shares rose by 1,000%.

That winning streak may have come to an end, however. Since 2015, Westshore stock is down by more than half, accelerated by a 30% over the last two months.

Some value investors are jumping in. If Westshore can stage a turnaround, it could end up when of 2020's top stocks.

Is now the time to buy Westshore stock?

Invested for the future

Westshore runs one of the largest coal export terminals in the world. Strategically located in the Port of Vancouver, its facility can ship millions of tonnes of coal every year.

While North American coal demand has been on the decline, a surge in coal plant construction across fast-growing Asia has offset much of the loss.

Last summer, shares traded at 11 times earnings with a 3.2% dividend yield. That valuation caused many value investors to take note, especially as new growth initiatives took hold.

For years, the company had invested heavily so that it could process and ship coal faster. The company built seven kilometres of high-speed conveyors, four kilometres of rail causeways, two deep sea berths, and four stacker reclaimers at a cost of $275 million.

With this infrastructure finally online, 2020 was supposed to be a pivotal year for the company — and then everything changed.

The weight of competition

While many pessimists pointed to a secular decline in coal demand, international projects have kept many coal-related businesses alive. In fact, some areas of the market are doing well enough to attract new competition.

In 2013, a project permit was issued to Neptune Terminals to expand their coal export capabilities. Capacity was expected to increase from 12.5 million metric tonnes per year to 18.5 million metric tonnes, a big step closer to Westshore's capabilities.

These upgrades are expected to come online shortly, meaning that coal companies will have several viable export partners to choose from.

Last March, Seaport Global wrote that **Teck Resources Ltd** could "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."

That was a major problem given that Teck is the world's second-largest metallurgical coal producer, accounting for more than half of Westshore's revenue.

This month, Teck executives released a statement indicating that they planned to move a sizable chunk of exports from Westshore to Neptune.

Losing your biggest customer is always a blow, but it's an even bigger loss when your business operates with large fixed costs. Terminals are historically fantastic businesses, but they're expensive to operate. A big part of that expense is that Westshore doesn't actually own the land its infrastructure is built on; it leases it from the Vancouver Port Authority.

If a terminal can't cover its fixed costs, losses will pile up quickly. Following the loss of its biggest customer, the company could lose more than $100 million the first full year without Teck.

Westshore shares have fallen 30% in 60 days, but if it can't replace Teck as a customer, the company's days could be numbered. It is still well financed with a differentiated asset, but a bet on Westshore stock today is a simple roll of the dice that it can find a major new customer quickly.

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