



Sell Alert: 1 Stock I'd Ditch ... Immediately

Description

Buying stocks is exciting, but like in a lot of sports, playing good defence is paramount. When it comes to investing, defence is exemplified by Warren Buffett's number one investing tip. Rule number one, according to the Oracle of Omaha, is this: never lose money.

Rule number two is, if you're ever in doubt, refer back to rule number one.

To properly implement Buffett's all-important rule, investors must be constantly aware of the dreaded value trap: the kind of stock that looks attractive on the outside — primarily because of past glory — but is hiding some nasty secrets once you dig a little deeper.

I believe I've found such a stock — a company investors [should avoid at all costs](#). Let's take a closer look.

A dying business

For years, **Westshore Terminals** ([TSX:WTE](#)) was a growing business that was a major beneficiary of Chinese prosperity. It generated gobs of free cash flow and paid that back to investors in the form of a generous dividend.

The company's major asset, located in Vancouver Bay, is a shipping terminal that transfers coal from rail cars onto ships bound for Asia. China is the main destination, but there's also consistent volume going to places like Japan and South Korea.

There's just one big problem: the coal export business is weakening, and the future doesn't look bright either.

Two types of coal end up moving through Westshore's terminal. Metallurgical coal, which is used in making steel, consists of approximately 60% of volumes. Thermal coal, the type power plants use, consists of 40% of total volume.

Metallurgical coal's future looks relatively good. As long as China's economy keeps expanding, the nation will need steel. Growth might slow, but construction will still continue. The future is not nearly as rosy for thermal coal. And it's likely to get even worse when China embraces a more environmental-friendly approach to power generation.

This trend isn't the only thing impacting Westshore Terminals. The company is about to lose a major customer.

The kicker

About a week ago, **Teck Resources** came out with a major announcement. Canada's largest coal producer told investors it would start shipping coal through Ridley Terminals's Neptune Terminal starting in 2021, with some six million metric tonnes going through the terminal annually. There's an option to increase volume to up to nine million tonnes, which Neptune should be able to accommodate as it upgrades capacity.

Even though this deal expires in 2027, it looks to be a long-term shift in Teck's shipping strategy. The company also worked with **CN Rail** to secure a big investment in rail infrastructure to the port.

Westshore Terminals isn't just about to lose Teck's business. Another major customer, Cloud Peak Energy, just emerged from bankruptcy protection, and there are rumblings it may close at least one of its three major coal mines in Wyoming and Montana. That would further impact Westshore's volumes.

Another kicker is Westshore Terminals has high fixed costs, and cutting huge amounts of fat from the business might prove challenging. The company's operating expenses have been consistently a little over \$40 million each quarter, fluctuating just slightly as volumes go up and down. Today, revenue averages just under \$100 million per quarter, so the operating costs are manageable. But remember, some 60% of Westshore's volume comes from Teck Resources.

The bottom line

Although not all of Teck's volume will go through Neptune, the loss in business will hit Westshore Terminals hard. Combine that with the company's big fixed costs and general downturn in the coal export market, and it doesn't look good for Westshore Terminals. I would avoid the stock at all costs.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:WTE (Westshore Terminals Investment Corporation)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/14

Date Created

2020/01/16

Author

nelsonpsmith

default watermark

default watermark