



Long-Term Investing: 1 Industrial Stock to Own in Your TFSA

Description

Westshore ([TSX:WTE](#)) operates a coal-handling facility which serves North American shippers of metallurgical and thermal coal. The terminal is located on land leased approximately 30 kilometres south of Vancouver and is the largest coal-loading facility on the west coast of the Americas. Westshore has constructed and owns all the facilities and equipment at the terminal.

Handling large volumes of bulk materials requires reliable equipment, which needs to be well maintained and, as it nears the end of its useful life, replaced, which requires expenditure of significant capital. Between 2007 and 2012, Westshore expended over \$110 million on additions and upgrading of major equipment components and the company's environmental systems.

Intelligent capital expenditures

The latest capital project, which commenced in 2014 and was completed in 2019, replaced four major pieces of equipment, which, together with related works, resulted in expenditures of \$240 million. This project was completed on time and under budget, with the result that Westshore now has an updated terminal facility with modernized equipment.

The terminal's unique location provides strategic advantages with rail access, storage capacity, and vessel handling. These advantages are capable of being utilized for handling other bulk commodities. Westshore continues to evaluate the [feasibility of proposals](#) to handle other commodities as opportunities arise.

Long-term contracts

In 2020, Westshore shipped product for eight customers that operate mines in British Columbia, Alberta, and the northwestern United States. Westshore has entered contracts with two other companies that are planning to develop metallurgical coal mines: one in Alberta and the other in British Columbia. Both contracts provide for the payment of reservation fees by the customer to secure future capacity.

Westshore's revenues depend upon the [volume of product](#) shipped through the terminal and the rates charged for handling such product. The rates per tonne charged by Westshore to the company's customers are established by contract and are unregulated. Westshore is profitable and is able to sustain a volume of throughput and charge rates for such volume, which in combination allows it to meet the company's operating and administrative costs — a significant portion of which is relatively fixed.

Profitable terminal operations

Westshore operates the terminal on a throughput basis and derives revenues primarily from rates charged to customers for loading their products onto vessels. The company typically hedges a portion of anticipated U.S. dollar revenue in any year. Westshore does not take title to the coal it handles and has no direct market or commercial risk with respect to the sale of coal. Hence, market conditions for coal affects the profitability and competitiveness of Westshore's customers.

Focused on the environment

A significant portion of Westshore's operating costs are relatively fixed, including a significant portion of employee costs. Employee costs represented approximately 51% of Westshore's operating and administrative expenses in 2020. Westshore's business is handling coal that is mined, transported and used by other entities, and are subject to various forms of regulation in relation to the environment. Westshore is a participant in Green Marine, a voluntary environmental certification program for the North American marine industry.

Overall, Westshore stock appears significantly underpriced at the current market price.

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1. TSX:WTE (Westshore Terminals Investment Corporation)

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