# Should You Buy Shares of Teck Resources Ltd?

## Description

The past three years have not been kind to miner **Teck Resources Ltd** (TSX: TCK.B)(NYSE: TCK) nor its shareholders — over the last 36 months, the stock has fallen by nearly 40%. So has that created an opportunity, or is there room for the shares to fall further?



To help answer this question, below we look at two reasons to buy Teck, and two reasons to just say no.

**Buy: high quality, low cost**

Teck makes about half of its gross profit from steelmaking coal, a commodity that has not done well in recent years. To illustrate, in the second quarter of 2011 Teck was able to sell its coal for $264 per tonne. Three years later, the price has dropped to $119. Slowing growth in China has been the main culprit.

But Teck has a couple of strengths that people forget about. First of all, its coal is of very high quality, which makes it more useful in modern steel mills. Secondly, Teck has made great strides in reducing costs; going back to Q2 2011, site costs came in at $73 per tonne. Three years later, site costs have plummeted to $53 per tonne. These advantages should help Teck outlast many of its competitors, who of course are also struggling.

**Buy: a depressed stock price**

As mentioned, Teck shares have fallen by nearly 40% over the last three years. In fact, they have actually fallen by more than 50% since peaking above $60 earlier in 2011. So if the cycle ever turns back Teck's way, you can see there is plenty of upside.

**Stay away: the China risk**

As mentioned, China has been the main culprit in dragging down Teck's stock price. More specifically, China's need for steel is not keeping up with growth in supply.

And it could easily get worse. The reason is simple: steel is primarily used in the construction of buildings, which China has been doing at a breakneck pace for years. Now there are plenty of stories of empty buildings, leading many observers to believe that the country's property market is in bubble territory. If this bubble were to pop, then there could be a massive drop in steel demand. This would not only cripple steel prices, but also cause steel inputs to plummet in price — including Teck's coal.

**Stay away: a poor track record**

To be fair, mining companies in general are not known as great capital allocators. But that's still not a good enough excuse for Teck's management team, which has made some blunders over the years. The big one was its purchase of Fording Coal in 2008 for $14.1 billion, right before the bottom fell out of the world economy. The move nearly bankrupted Teck at the time.

So if you're thinking of committing some of your savings to this company, be careful. There may be some great assets, and the shares may look cheap. But there are still some big risks ahead, and management does not have the best track record. So tread lightly.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

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



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bensinclair