



Are Shares of Teck Resources Ltd Headed to \$35?

Description

The past few years have been a wild ride for **Teck Resources** (TSX: TCK.B)(NYSE: TCK) and its shareholders. After the mining boom came the financial crisis, which saw Teck nearly go bankrupt. Then came the company's recovery, and the shares peaked at \$60 in 2011. More recently, cracks have started to show in China's growth plans, and slumping commodity prices have depressed mining shares, including Teck's.

So with Teck trading at \$24, have we reached the bottom? Or is this only the beginning? Below we take a look at the arguments on both side, then finish with a verdict.

Why Teck shares could go to \$35

It's no secret that commodity prices are depressed, and Teck is suffering because of it. For example, the price of steelmaking coal, which accounts for roughly half of Teck's profits, fell from \$264 in 2011 to under \$120 this year.

But this price drop has affected the entire industry, and as a result many players are losing money. Meanwhile, Teck has made some tremendous strides and is one of the lower-cost producers. So eventually, production should at least slow down, allowing prices to climb back up.

There are also concerns about China. But as Teck CEO Don Lindsay loves to point out, China's economy is still growing faster in dollar terms than it was 10 years ago, even if the percentage growth is lower. So demand for commodities is still on the rise, and will be for a long time. If India gets its act together, that would lead to even more upside.

It's unlikely Teck's shares will return to \$60 any time soon. But the company has made some strides since 2011, such as cutting costs and reducing the share count. If the market turns, then a \$35 stock price is not out of the question.

Why Teck shares could go to \$15

There's one thing Mr. Lindsay does not mention as often: even though prices have come down, supply

has held up remarkably well. For example, the BHP Mitsubishi Alliance opened a \$1.4 billion coal mine in Queensland Australia, despite a depressed market.

Even more concerning, the worst may still be yet to come in China. Many observers are concerned about the country's real estate market, which seems to be very overheated. If this market crashes like many think, then that will spell big trouble for steel demand, as well as Teck Resources.

And worst of all, Teck has roughly \$5.6 billion in net debt, nearly \$10 per share. So there is plenty of room for the shares to fall.

The verdict

At this point, shares of Teck could perform remarkably well, but the risk is too great. You're better off going for something much more secure.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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Date

2025/07/24

Date Created

2014/09/08

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