



Teck Resources Ltd. Is Up 20% This Year. Is it Too Late to Jump in?

Description

The year 2015 has been a great one for shareholders of **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK), with the shares up nearly 20%. So, is this the start of a great comeback, or is it a head fake? We take a look below.

What's gone right this year

The rally in Teck's stock price is a welcome relief for the company's shareholders, who have had to endure some steep losses in recent years. To put this in proper perspective, Teck still trades below \$20 per share. Back in 2011, its stock price exceeded \$60.

So, what's gone right? First of all, the Canadian dollar has weakened significantly, which makes Teck more competitive. This is because the bulk of its costs are incurred in Canadian dollars, but it sells its product in U.S. dollars. Second, there has been a slight recovery in the oil price, which makes the Fort Hills oil sands project more promising. Finally, the company has performed very well operationally—production numbers and cost cutting efforts have both exceeded expectations.

Some major concerns

It's still not all rosy for Teck. On Thursday, credit rating agency Moody's Investors Service downgraded Teck's \$7 billion in debt. The move shouldn't be too shocking; Moody's has previously had a "negative" outlook on Teck's rating, meaning a downgrade was likely. However, the news does remind us all what an awkward spot Teck is in.

Moody's expects Teck to generate about \$2 billion in funds from operations, but spend about half on the Fort Hills project. What makes this awkward is that Teck only owns 20% of Fort Hills, and thus doesn't have control over the fate of the project. For the time being, project operator **Suncor Energy Inc.** has given the green light to Fort Hills, so Teck is forced to play along.

There are plenty of other risks, the biggest one being China. The country is easily the biggest factor in the commodity prices that matter to Teck. If the Chinese economy falters, that's really bad news for Teck's shareholders. A lot of very smart people think China's economy is due for a big crash—if they

are right, I wouldn't want to own any Teck stock.

What should investors do?

For now, I would stay on the sidelines. This is a very risky stock, something we knew even before Moody's downgrade. To make matters worse, there's a lot more optimism built into the stock price than there was at the beginning of the year.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

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