



Beaten-Up Teck Resources Ltd. Has Reached a New Low. Is This a Golden Opportunity?

Description

Shareholders of **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) have endured a lot of punishment in recent years. The stock, which once traded above \$60, now trades just above \$12. On Tuesday it reached a new 52-week low. And in the last three months, the stock has gone down by more than a third.

So, what's caused this collapse, and will it turn around?

All about China

Teck is quite possibly the one Canadian stock that is most dependent on China. In recent years, that's been more of a curse than a blessing. The country's economic growth rate has slowed to 7%, and steel consumption has likely flat-lined.

As a result, steel production in the country is also slowing down, hurting the demand—and prices—for coking coal. To put this in perspective, coking coal sold for more than US\$300 per ton back in 2011. Today that price has fallen to under US\$100.

The news may have gotten even worse recently. Chinese stocks, which had been flying high, have fallen off a cliff. In fact, since mid-June they've fallen by about 20%, which includes a drop of more than 7% on Friday. Many Chinese citizens had borrowed heavily to buy stocks, and have now been caught red-handed.

Teck may have gotten caught up in the mix. As of this writing, the stock fell by roughly 3% on Tuesday. The problems in Greece may have played a part, but let's make one point very clear: Teck's fortunes and China's fortunes are linked.

This couldn't have come at a worse time. Teck is struggling with its massive debt load, which prompted a ratings cut in early March. The company has committed to \$2 billion of spending on the Fort Hills oil sands mega-project, the future of which is clouded by low oil prices. It's no surprise the company's dividend was cut by two-thirds earlier this year.

Any signs of a turnaround?

There's not a lot going for Teck right now. But this stock could easily turn around, and if it does, there could be big gains in store. After all, sentiment hasn't been this low for the company in years. In many cases, this kind of situation is the perfect time to buy.

Teck's turnaround mainly hinges on coking coal supply, which is due for some sharp cuts. Over half of seaborne coking coal is produced at a loss thanks to low prices. This can't go on forever. And when supply does come off the market, prices should recover, which is exactly what Teck needs most right now.

What should investors do?

At this point, Teck is still too risky for my taste. But if you're willing to take a chance—and are not betting too much money—this stock has a ton of upside.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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

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Author

bensinclair

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