



Why Teck Resources Ltd. Will Never Be a Turnaround Story

Description

Troubled coal and base metals miner **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) continues to attract the attention of bargain hunters who are convinced that even the slightest uptick in commodity prices will drive a monster rally. This is because Teck's share price has dropped off a cliff, losing 61% of its value over the last year alone.

However, I believe this couldn't be further from the truth. The market is an efficient pricing mechanism that has baked in the risks associated with Teck's fundamental outlook.

Now what?

The key driver of Teck's fall from grace has been the sustained weakness in the price of metallurgical or coking coal coupled with sharply weaker copper and zinc prices. The demand for coking coal has plunged because of China's massive construction boom winding down.

Demand for steel, in which coking coal is a critical ingredient, continues to fall. As a result, metallurgical coal prices have slipped under US\$100 per metric tonne, and I believe will head further south because the demand for steel continues to soften in its key market, China.

While there are those that believe demand for steel will increase in 2015, this is appearing less and less likely, particularly with China's soft economic landing now looking like it will morph into a hard one.

You see, China's construction industry remains trapped in a prolonged slump because the country massively overbuilt over the last decade, leaving tremendous property inventories that will take years to be exhausted. Then there is Beijing's focus on transitioning China from being an export-oriented economy to one focused on domestic consumption. This is set to drive industrial demand for steel lower, with export-oriented manufacturing set to decline over the long term.

Each of these factors also weigh heavily on demand and prices of copper and zinc, which provide the remaining 57% of Teck's revenue. This highlights just how Teck's fortunes are inextricably linked to those of China, and with China's stock market falling off a cliff in recent days, those fortunes only appear to be steadily growing worse.

The final nail in the coffin for Teck is the sharp collapse in oil prices, which has brought the viability of the Fort Hill's oil sands project into question. Teck's management trumpeted the potential held by this project, with the company's 20% interest set to diversify its revenues away from coking coal and base metals, but with stubbornly low oil prices here to stay, the project appears more like a costly red herring.

Teck is on the hook for a further investment of \$1.6 billion in a project, and needs WTI to be at US\$96 per barrel just to break even. This is a far cry from the US\$53 per barrel that WTI trades at today.

So what?

It is extremely difficult to see any future upside in Teck's share price, with changing global macroeconomic themes altering its underlying fundamentals for the worse and weak commodity prices the new norm. For these reasons it is an extremely unappealing investment that investors should avoid, especially when its indebtedness and financial commitments are considered.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Investing
2. Metals and Mining Stocks

Tags

1. Editor's Choice

Date

2025/08/01

Date Created

2015/07/10

Author

mattdsmith

default watermark