Why Did Teck Resources Ltd. Fall as Much as 10% on Tuesday?

Description

Shares of **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) went into free fall on Tuesday, dropping by as much as 10%. This is certainly something that Teck's shareholders have gotten used to; over the past four years, the company's share price has fallen by more than 80%.

So, what caused the latest fall?

It's all about China

The fate of practically every miner across the globe is largely determined by China. The world's most populous country has grown at a very rapid clip over the past 30 years, and this has fueled rising demand for raw materials. Mining companies struggled to keep up, resulting in record-high prices for most commodities. This is all very well known by now.

But in recent years, China's economic growth rate has slowed, as has its demand for commodities. Meanwhile, supply has continued to grow, causing prices to drop.

Teck has been particularly hard-hit. The company is the world's second-largest exporter of metallurgical coal, a product used to make steel. And steel is primarily used in the construction of buildings, which is very worrying considering the numerous reports of Chinese overbuilding. Teck is also a big producer of copper, a metal whose price has dropped for the same reasons.

The latest news out of China

The Asian Development Bank has just cut its forecast for Chinese economic growth to 6.8% in 2015 and 6.7% in 2016. Commodity prices have fallen as a result. Copper hit a three-week low, and zinc (another of Teck's products) hit a five-year low.

This could not have come at a worse time for Teck. The company is hampered by over $9 billion in debt, as well as big spending commitments on the Fort Hills oil sands project. The company has had to slash its dividend, and its debt rating has fallen into “junk” status. If the news from China worsens, then bankruptcy starts to become a serious possibility.

Are the shares cheap enough yet?

Teck’s stock price is down by two-thirds over the past 12 months, and has reached a new 52-week low. That being the case, I still wouldn’t buy Teck shares.

Once again, this is mainly because of concerns about China. Many believe the country is being dishonest about its economic growth rate, and there are other signs the country’s demand for raw materials will fall even further. Teck will likely be more affected than any other company in Canada, and there’s a legitimate chance its stock price will go to zero.

Is that really the kind of gamble you want to take with your hard-earned money?

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Date
2025/09/27
Date Created
2015/09/23
Author
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