



## Teck Resources Ltd.: Has it Really Bottomed?

### Description

Shares of **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) are catching a nice tailwind lately, and investors are wondering if this is the right time to start a new position in the stock.

Let's take a look at the current situation to see if the rally could continue.

### Huge sell-off

In early January 2011, Teck traded for \$60 per share. Last week, you could have picked up the stock for \$6. That's a brutal destruction of wealth, and investors can be forgiven for wanting to give the company a wide berth.

Long-term Teck observers have seen this happen before. In fact, the company's shares did exactly the same thing during the financial crisis, falling from \$50 down to \$4. Teck managed to rebound strongly the last time, and investors are wondering if the 25% surge in the stock in recent days is the start of another major rally.

### Commodity slump

Teck is a producer of steel-making coal, copper, and zinc. It also has a 20% stake in the Fort Hills oil sands development.

The economic slowdown in China has curbed demand for base metal products and the oil rout has investors worried that Fort Hills could be a write-off.

At the moment, there doesn't seem to be a lot of good news in the commodity space, but these markets are cyclical and prices will eventually recover. High-cost producers are going to get squeezed out, and new projects are being delayed or abandoned.

### Still profitable

Teck is a low-cost producer and is still making money despite the brutal market conditions.

In Q2 2015, Teck's unit cost per tonne for coal was \$83 and the company had an average realized sale price of \$116. Copper costs came in at US\$1.49 per pound, and the company sold the product for an average price of US\$2.76. The zinc operations also did well.

In fact, all three segments delivered higher gross profit numbers in Q2 2015 than in the same period last year. Adjusted earnings for the quarter were \$63 million, or \$0.14 per share.

### **Fort Hills**

Teck is on the hook to invest \$1.8 billion over the next two years to get the Fort Hills oil sands project up and running. Production is expected to begin by 2018. Planned production capacity is 180,000 barrels per day.

The market is worried that Teck won't have the cash to meet its Fort Hills obligations, but the company's liquidity position looks adequate.

Teck finished Q2 2015 with \$6.8 billion in total available funds. The cash balance was \$1.5 billion, and total undrawn credit facilities were \$5.3 billion. That should be good enough to get the company through the current tough times.

Teck expects to exit 2015 with at least \$1 billion in cash.

### **Should you buy?**

Teck has about \$8.6 billion in long-term debt sitting on the balance sheet, and that has the market worried. With the stock being so badly beaten up, an equity issue would be extremely dilutive, so it's understandable why investors are sitting on the sidelines right now.

Nonetheless, the stock looks heavily oversold and any hint of a recovery in oil or base metal prices will send the shares soaring. I wouldn't back up the truck just yet, but investors might want to wade in slowly to get ahead of the curve.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **POST TAG**

1. Editor's Choice

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

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