Teck Resources Ltd. Explodes Over 50%: Is it Time to Buy or Sell?

Description

After a five-year free fall from $62 to under $6, shares of **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) are finally showing some life. Over the past five days, the stock has shot higher by nearly 50%. While investors are clearly showing a newfound confidence in the company, it puts many in a tough position. If you currently own the stock, do you sell on an uncharacteristic and rapid uptrend? And if you were looking to buy, is it best to wait, or is this a sign of a long-term revival?

As we'll see, Teck Resources still has plenty of struggles ahead. However, there is reason to believe the company can weather the storm.

Whatever happens to commodities will happen to Teck Resources

Teck Resources is overwhelmingly focused on natural resources, including steel, coal, copper, zinc, and energy. Lower commodity prices costs have done more than just pressure revenues. In September, the company lost its investment-grade credit rating after being downgraded to junk status by **Moody's Corporation**. Of equal concern, the credit outlook remains negative, meaning that further cuts could be just around the corner.

With the downgrade, Teck Resources will have a more difficult time accessing the credit markets just when it needs it the most. If it can get more financing, it will surely come at a higher cost.

As you can guess, lower commodity prices were the chief reason for the credit-rating downgrade. The company was already burning cash this year, and this will likely continue as zinc, copper, and met coal prices remain under pressure. Indeed, Moody's said that it expects prolonged commodity price weakness and sizable investment spending to cause Teck Resources's financial leverage to remain well in excess of typical investment-grade thresholds through at least 2017.

What's with all the optimism then?

With over $9 billion in debt and billions in spending commitments at its costly Fort Hills energy mega-project, Teck Resources has been struggling to come up with ample cash to support the rest of its businesses. Last week, **Franco-Nevada Corporation** came to the rescue.

On October 7, the two companies announced a long-term streaming agreement linked to production at Teck Resources's Antamina mine in Peru. Crucially, Franco-Nevada agreed to pitch in $610 million to help fund operations at the mine in exchange for a share of silver production. This cash infusion could be the lifeline Teck Resources needs to survive the current commodity bear market.

Still, nothing can save Teck Resources except higher commodity prices

Continued downward pressure on commodity prices, particularly coal, will keep investors focused on the company's liquidity levels and debt metrics. Not much else will matter until the market believes commodity prices have rebounded to a sustainable level. Cash burn is expected to be negative $1.5 billion in 2016 and negative $1.0 billion in 2017. Unless selling prices improve, no short-term cash infusion lifelines can save Teck Resources.

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