Will Teck Resources Ltd. Ever Get Back to $60 Per Share?

Description

Back in February 2009, **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) was in big trouble. The company had just completed its massive $14.1 billion takeover of Fording Coal, and the acquisition was putting serious pressure on Teck's finances. The stock traded well below $5, a decline of more than 90% over the previous nine months.

But under the leadership of CEO Don Lindsay (who also got the company into that mess into the first place), Teck took decisive action: the dividend was suspended, assets were sold off, and equity was sold to the Chinese. These actions helped the company stave off bankruptcy.

Then as commodity markets recovered, Teck's stock price took off. In less than two years, the shares were trading for more than $60.

But since then, Teck's stock has been in steep decline, and the shares are once again trading for roughly $5. So that leaves the obvious question: Are the shares going to take off again, just like they did before?

That was then…

One of Teck's biggest problems in early 2009 was a lack of short-term liquidity. This occurred because the company had used short-term debt (a so-called bridge loan) to help finance its takeover of Fording. Then when the financial crisis came, Teck had trouble refinancing this loan. Meanwhile, commodity prices were weak; copper prices averaged US$1.56 per pound in the first quarter of that year.

But China had announced a massive four trillion yuan stimulus program the previous November, and this prompted a construction frenzy. The country's economy came roaring back to life and GDP growth eclipsed 10% per year in 2010. Meanwhile, Teck was able to survive its cash crunch.

Demand for commodities took off as a result and suppliers were not able to keep up, causing prices to skyrocket. By 2011, copper prices were well over US$4 per pound and coal prices were averaging over US$300 per tonne. Everything was going right for Teck.

…and this is now

Fast forward to today, and commodity prices have once again fallen. Also, just like in 2009, Teck is struggling with its balance sheet, and its stock price has been crushed. But there are also some big differences.

To start, Teck's problems are not due to a short-term cash crunch. They are due to a heavy debt load combined with low commodity prices. In fact, the price of its coal has dropped well below US$100 per tonne. By comparison, its coal fetched prices of US$200 per tonne in early 2009.

Secondly, we won't see China come to the rescue. The country is heavily indebted (partly thanks to that stimulus program), and investment in infrastructure is slowing considerably. Put frankly, there is no end in sight to low commodity prices.

So if Teck's shareholders are expecting the pendulum to swing the other way, they are likely to be disappointed.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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