# Should Investors Avoid Teck Resources Ltd. Altogether?

## Description

*The New York Times* had a dramatic headline in Tuesday's paper: "If it Owns a Well or a Mine, it's Probably in Trouble." And we know this to be the case, with commodity and oil prices plummeting. The reality is simple: resources once generated incredible returns, but now there's oversupply and tepid demand.



The primary driver of the *Times's* headline was the news that **Anglo American plc**, one of the largest miners in the world, was looking to cut 85,000 employees, had suspended its dividend, and was looking to divest some of its mines.

A big cause of plummeting commodity prices has to do with China. When its economy was raging, it was buying up commodities left and right, and that pushed prices higher. China's incredible stimulus program pushed the price of coal up to US$300 per tonne. However, things have changed in China. Due to a drop in infrastructure investments, the same companies that were making incredible money a few years ago are now suffering.

All of this leads me to ask one question: Should investors actively avoid **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK)?

It depends on your risk tolerance. According to some analysts, weak demand, oversupply, and overcapacity for commodities is the reality that could last for quite some time.

On the other hand, there are some analysts who can see future growth in prices. For example, **TD Bank** forecasts that metallurgical coal prices will reach US$85 per tonne in 2016, US$90 in 2017, and US$105 in 2018. The present day price is US$73 per tonne. Unfortunately, it is very difficult to project where coal prices will go because of the current market of oversupply and weak demand.

All of this being said, the stock trades at $5 a share. Teck has been making some very smart cuts with the goal of increasing its efficiency and cost of operations. For example, in 2013 Teck had operating costs of $88 per tonne of coal. It has reduced that to $81 per tonne.

**Should you buy?**

If you are confident that commodity prices are going to rise again and believe that TD Bank's forecasts are right, buying Teck Resources when there is blood in the water is a very smart move. Many have gotten rich making contrarian investments in stocks that others would have said were no good and doomed to fail.

On the other hand, I haven't seen enough research that would suggest that demand is going to increase or supply is going to decrease sufficiently to have a positive impact on the price. Rather, demand could drop even further, which could send the price of commodities lower.

My advice is to wait until we actually see some good news coming from commodities. Unless the prices of coal, copper, and other commodities start rising, these companies are going to continue suffering. Therefore, I would avoid Teck Resources for some time, unless you've got a high risk tolerance and can wait three to five years.

**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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