Teck Resources Ltd.: Is it Time to Back Up the Truck?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) continues to take a pounding as the markets for its core products remain under extreme pressure.

Most investors want nothing to do with the stock, but some pundits believe the spectacular turnaround seen in 2009-2010 could materialize once again.

Let's take a look at Teck to see if this is the right time to bet on a recovery.

A wild ride

Teck's shares are down more than 90% in the past five years.

Investors who have owned the stock for much longer are still looking at the slide and asking themselves why they didn't sell when the stock rallied from $4 per share in early 2009 to more than $60 per share at the end of 2010.

New investors are looking at that great recovery and wondering if a repeat is in the cards.

After the financial crisis China launched a building boom that drove up global demand for metallurgical coal and copper. These are Teck's top two products, and the surge in prices sent the stock soaring.

Unfortunately, the massive spending spree on infrastructure couldn't continue forever, and new coal and copper supply hit the market just as demand peaked.

Now that the Chinese economy is slowing down, pundits are hoping the government will ramp up the cash machine again, but the situation is much more complicated this time around.

The country is already sitting on a massive inventory of empty buildings, and efforts to curb corruption could slow down the process of handing out contracts for new projects. As a result, a rescue for the steel-making coal and copper markets might be elusive.

Oil woes

Teck doesn’t produce oil, but its fate is highly tied to the crude prices because the company is a 20% partner in the Fort Hills oil sands development.

Fort Hills is scheduled for completion by 2018 and Teck’s share of the production will be 36,000 barrels per day.

At current oil prices those barrels are going to generate less money than it will cost to produce them, and Teck still has to spend another $1.5 billion to get the project built.

Balance sheet issues

Teck has more than $8 billion in long-term debt sitting on its balance sheet. None of the notes are due before 2017, and the weighted average maturity of the portfolio is 14.5 years, so Teck has some flexibility.

The company finished Q3 2015 with $1.8 billion in cash and cash equivalents, so that should be adequate to cover the obligations to get Fort Hills completed. Teck also has $5.8 billion available credit, so access to cash is not an issue for the near term.

Earnings

Teck is a very efficient producer and managed to earn $29 million in Q3 2015, despite the horrendous market conditions for coal and copper.

The Q4 numbers are likely to be worse as copper prices fell off a cliff in November and coal remains under severe pressure. The falling Canadian dollar has helped offset the rout in recent quarters, but it might not be enough in the current market conditions.

Outlook

Metallurgical coal, copper, and oil will eventually turn the corner and recover. Whether or not that moment occurs in 2016 is anyone’s guess, but Teck is going to benefit when it happens.

Having said that, the stock remains very risky and investors should be careful wading in right now, even at the current price of just $5 per share. I certainly wouldn’t back up the truck, but it might be worthwhile for contrarian investors to start nibbling on further weakness.

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1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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