Teck Resources Ltd.: Can the Rally Continue?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) is up more than 50% in recent weeks, and contrarian investors are wondering if this is the start of a much larger move or simply another head fake before a run to new lows.

Let's take a look at the current situation to see if this is the right time to put Teck in your portfolio.

default watermark

Commodities rebound?

Teck has been hammered by an unprecedented losing streak in all three of its core products: steel-making coal, copper, and zinc.

Metallurgical or steel-making coal is Teck's largest division. Prices rocketed higher after the Great Recession as countries around the world launched a wave of spending to restart the global economy. China in particular drove up demand for coal as well as base metals as it embarked on an infrastructure and housing boom.

Producers reacted by ramping up output just about the time demand started to fall off a cliff. As a result, coal prices have been on a nasty five-year slide.

North American miners have since curtailed production in an effort to balance the market, but stronger output from Australia combined with even weaker demand in China is keeping prices low.

How low?

Back in Q1 2011, Teck's average realized coal price was US$207 per tonne. In Q3 2015 it was US$88 per tonne. Coal is in its worst slump since 1950 with a record peak-to-trough price drop of 73%. The weak conditions are expected to persist in the metallurgical coal market through 2016, but history suggests the bottom should be near.

Copper prices have also taken a big hit, falling roughly 50% from their high in the cycle. A recent rebound has pundits wondering if a turnaround is in the works, but the general consensus among analysts seems to be that copper will remain weak in the near term.

Zinc is looking like the bright spot in the portfolio. The metal's fallout has lasted just as long as coal and copper, but the price drop has not been as significant, and recent strength suggests zinc could be in the early innings of a recovery.

Oil factor

Teck is a 20% partner in the Fort Hills oil sands development. The facility is expected to begin production in late 2017, and Teck is still on the hook for $1.5 billion to get the project completed. In a December presentation Teck said it would finish 2015 with $1.8 billion in cash and cash equivalents, so it should be able to cover the remaining Fort Hills investment. The company also has access to about $6 billion in credit lines.

Debt concerns

Teck is sitting on $9 billion in long-term debt. None of the notes are due before 2017, so there isn't a concern in the near term, but investors should keep the situation in mind when evaluating the stock.

Is it time to buy Teck?

The market remains volatile and the stock could easily pull back again. Having said that, Teck has some huge upside potential if the stars align in the next couple of years.

default watermark

Coal, copper, and zinc should be at or near their cyclical bottoms, and there is a chance that oil prices could rebound just in time for the start up of Fort Hills. If you have a contrarian investing style, it might be time to start a small position in the stock.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/07/30
Date Created
2016/02/09
Author
aswalker

default watermark