Last Time Teck Resources Ltd. Hit $5, Shares Rose 568%: Is That Possible Again?

Description

In the past 12 months shares of **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) have fallen from nearly $20 to just $5.60, a decline of about 70%. While most multi-billion dollar companies never experience that kind of collapse, this isn't Teck's first rodeo. In 2008 shares fell 80%, bottoming roughly at where shares trade at today. In 2009, however, the stock went on to return 568%.

Is a snap-back rebound in store yet again?

Coal isn't the answer this time

Headquartered in Vancouver, Teck is exposed to a variety of commodities–a tough business to be in when investors are worried about a slowing China. The company is a significant copper producer in the Americas, the third-largest producer of zinc concentrate in the world, and also the second-largest exporter of metallurgical coal. Since 2010 its production of every one of those commodities has risen. Still, growing volumes haven't been able to stem the tide of collapsing prices.

One of the most important drivers of Teck's rebound potential is coal, which represent roughly 35% of last year's profits. In 2008 coal prices fell by 31%, mainly due to pervasive global fears. From 2009-2011, however, coal prices were up by 68%, buoyed by continued global demand, especially from China.

Since that price spike, things have been nothing but downhill. From 2011 to today, coal prices have fallen by 72%, representing five straight years of decline. This time around, China doesn't look like it will save the day.

Coal consumption across many developed nations has been in secular decline, specifically in Europe and North America. That leaves developing nations to pick up the slack. This year rising imports from places like India, Latin America, and many Asian countries should add about 20 million tonnes in demand. However, falling imports in China (down a similar 20 million tonnes) will eliminate nearly all of the demand gains.

With headwinds in Europe and North America, it’s hard to see the coal market rebalancing any time soon. Without that happening, coal prices simply don’t have much rebound potential, eliminating a major cause of optimism for Teck’s share price.

But wait … there’s copper

If Teck stages a turnaround, it will likely be off the back of higher copper prices. The metal is in its fifth year of decline with prices down nearly 50% since 2011. According to Bernstein Research, around half of the industry is currently losing money at current prices.

If demand growth remains weak, supply cuts could balance the market on its own. Even if prices were to improve by 20%, a quarter of the industry would still be losing money, implying that a significant portion of suppliers may continue to exit the market.

While most investors are paying attention to coal prices, 55% of Teck’s business is actually copper. For every $0.01 change in copper prices, its profit jumps by $8 million. If copper rose to $3.50 a pound (the average price from 2010 to 2014), Teck would realize $1.2 billion in additional profits. With the company losing $1.6 billion last quarter, this could be a game changer for its depressed stock price.

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