Could Teck Resources Ltd. Rally Another 100%?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) has more than doubled off its recent lows, and investors are wondering if this is just the beginning of a much bigger rally.

Let's take a look at the current situation to see if Teck belongs in your portfolio right now.

Earnings

Teck just reported surprisingly resilient results for 2015. The company delivered adjusted annual profit of $188 million, or $0.33 per share, and even managed to squeeze out a profit of $16 million, or $0.03 per share, in the fourth quarter.

The Q4 numbers beat market expectations, and the strong results show that management has a good handle on the cost side of the business.

Commodities outlook

The bloodbath in the commodities space has been tough on Teck. The company produces metallurgical coal, copper, and zinc, and all three have been in a severe slump for the better part of five years.

Coal remains under pressure as weak demand from China and higher output in Australia continue to offset production cuts by North American miners. Metallurgical coal prices remain at a level where many of the industry's producers are losing money.

The oversupplied situation is expected to persist through 2016, but the market might start to balance out next year as production cuts take effect.

When compared with previous cycles, the length of the current coal downtrend is the worst since 1950, so the bottom is likely in sight.

Copper is also in a bear market with prices falling more than 50% from the high point in the cycle.

Recent strength is bringing contrarian investors back into the market, and Teck says the copper fundamentals over the medium to long term are positive as reduced investments in the space are set to impact global supply.

Zinc looks like it might have already bottomed, and some analysts believe the recent rally is the early stage of a recovery. They could be right as mine closures and production cuts are forecasted to put pressure on stockpiles through the rest of 2016.

Oil

Teck doesn’t produce oil, but it is a 20% partner in the Fort Hills oil sands development.

Even though the facility is on schedule to begin production in late 2017, Teck still has to cough up $960 million in 2016 to honour its part of development costs. The company has the cash set aside for this year’s requirements as well as the 2017 investment, so there isn’t a concern that Teck will have to sell its stake just before Fort Hills is about to be completed.

Low oil prices have weighed heavily on the stock as investors worry that Teck has dumped billions into a project that will never make money. If WTI oil is destined to remain at US$30 per barrel, there is reason to be concerned, but most analysts expect the market to recover.

Balance sheet

Teck finished Q4 2015 with $9.6 billion in debt, which is an item investors should watch carefully.

However, none of the long-term debt is due before 2017, and the company started 2016 with $1.9 billion in cash and cash equivalents, so the funding requirements for Fort Hills and other outlays should be adequately covered.

Should you buy now?

Teck’s stock price surged from $6 to $60 after the financial crisis. Whether or not the same performance is in the cards this time is anyone’s guess, but the recent surge shows how much potential upside lies in this name.

If you have a bit of spare cash on the sidelines, it might be worthwhile to take a small position in Teck.

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1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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