Teck Resources Ltd: Is It Finally Time to Buy?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) is up more than 100% in 2016, and investors are wondering if the rally is just beginning.

Let's take a look at the current situation to see if Canada's largest integrated mining company is setting up for a repeat of its spectacular post-financial crisis performance.

Is a surge from $4 to $60 in the cards?

It's beginning to look like déjà vu for Teck investors.

During the financial crisis the stock tanked from $50 per share down to less than $4 as falling commodity prices and a heavy debt load threatened to bury the company.

Management pulled off a timely restructuring just as a global wave of stimulus spending sent commodity prices soaring. As a result, Teck's stock took off, rocketing back to $60 per share in less than two years.

As we all know, the party didn't last long, and the hangover has been a long and brutal one. The stock has fallen for five straight years, bottoming out once again below $4 per share. Today Teck trades for $11, and everyone wants know if the recent rally has legs.

Commodity cycles

Teck produces metallurgical coal, copper, and zinc.

The coal market remains oversupplied and prices are not expected to recover much in 2016. North American producers have cut output, but the market remains under pressure due to weak Chinese demand and higher production in Australia.

The copper market is looking better, although there is some debate as to whether or not the recent price surge can be maintained. Copper has rallied more than 15% off the January lows on bets that production cuts and new spending in China will reverse the oversupplied situation of the market.

According to a recent *Bloomberg* report, copper stockpiles are at their lowest levels in more than a year, and investors have recently taken a net-long position in the base metal.

Zinc has risen 20% off the January lows, and many analysts are saying the bottom is in for the commodity as production cuts are expected to create a tight supply situation by the end of the year.

The oil factor

Teck doesn't produce oil, but it has a 20% stake in the Fort Hills oil sands development. The project has been a big drag on Teck's resources, and investors have exited the stock on the belief that Teck is throwing billions of dollars into a facility that is destined to lose money.

If oil remains below US$40 per barrel, the concerns are valid, but the latest upswing in crude prices has investors feeling a bit better about the plant's prospects.

Fort Hills is expected to begin production in late 2017. Until then, Teck has to cough up an additional $1.2 billion to complete the project. Teck has $1.8 billion in cash and cash equivalents, so it can meet its Fort Hills obligations over the next two years.

Debt situation

Teck is sitting on $9.6 billion in debt, which is a lot for a company with a market capitalization of $6.6 billion, but the company has a strong liquidity position and none of the debt is due this year. Only US$600 million has to be paid back in 2017, so there isn't a near-term cash issue.

Is it time to buy?

Teck has done a good job of managing costs through the downturn and is in a strong position to benefit when commodity prices recover.

Markets tend to be forward-looking, which is why Teck is starting to catch a tailwind. Coal is still under pressure, but the market will eventually rebalance. Copper and zinc might have already turned the corner.

A surge back above $60 in the next two years would require a strong rally in coal and oil, and that doesn't look like it is in the cards for the moment. However, investors with a contrarian investing style who believe oil will rebound in time for the start up of Fort Hills might want to consider taking a small position in Teck.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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