Why Is Teck Resources Ltd. up Nearly 100% in 30 Days?

Description

Since the start of February, **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) has been on a tear. It's a fairly welcome change given that shares were down as much as 90% earlier in the year. As we'll see, there are numerous factors driving the company's revival, including shifts in the coal, copper, and zinc markets.

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Rebound with the resources

Teck explores, develops, and produces natural resources in the Americas, Asia Pacific, Europe, and Africa. Its primary exposure stems from copper, metallurgical coal, and zinc. At current production, the company still has 100 years of coal reserves, 30 years of copper, and 15 years of zinc. Most of Teck's mines are located in Canada, the U.S, and Chile.

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Image Source: Teck Resources
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As a miner, profits are extremely volatile because they move alongside commodity prices. This explains why a good month for raw materials prices was a good month for Teck shareholders.

In the last 30 days, copper prices are up $0.20 (resulting in $120 million more in profit), zinc prices are up $0.04 ($36 million), and coal prices are up $0.50 ($12 million). Collectively, Teck may have boosted profits by as much as $168 million. The market pushed shares up nearly 100% because the profit boost was sorely needed; last quarter, the company lost $460 million.

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Not so fast

Despite the recent rebound, Teck is still mired in the worst macroeconomic conditions in decades. Coal is in its fifth straight price decline, and the world's biggest consumer (China) isn't ready to pick up the slack anytime soon. From 2015 to 2019, the company anticipates the country to slash imports by 20 million tonnes. While Teck has positioned its business to withstand a multi-year decline, it’s hard to argue that coal isn’t a commodity in secular decline.

The International Energy Agency believes that “global overcapacity and weaker-than-expected demand look set to put further downward pressure on coal prices through to 2020.” It also stresses that there is “no second China waiting to drive global coal use.” It still believes that coal will remain an important part of the global energy mix through 2020, but it faces some serious structural challenges that hinder any long-term price rebounds.

Image Source: International Energy Agency

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Meanwhile, industry-wide copper production has proven stubbornly consistent. On the plus side, nearly 50% of companies are producing at a loss at current prices. Production forecasts have also come down nearly every month over the past year. Still, supply is expected to continue rising from 15,250 thousand tonnes today to 17,250 thousand tonnes by 2017.

In addition to driving coal prices, China was also expected to drive the majority of long-term copper demand. Through 2035, demand was expected to grow by about 2.5% annually. Nearly every other major country will experience nearly zero demand growth. With questions swirling regarding China’s future raw material consumption, copper may have lost its biggest buyer.

Conclusion

There is no doubt that the current commodity rebound will help Teck limit losses this quarter, but there is a strong argument that prices will eventually move downward again. Slowing Chinese demand simply has too much sway for coal and copper. Besides the occasional short-term volatility, there likely isn't much money to be made in Teck Resources stock for long-term investors.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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