# Contrarian Investors: Should Teck Resources Ltd. Be in Your Portfolio?

## Description

**Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) has staged an impressive rally in 2016, and investors are wondering if they should use the recent pullback as an opportunity to buy the stock.



Let's take a look at the current situation to see if more upside could be on the way.

**Commodity outlook**

Teck's core products are metallurgical coal, copper, and zinc.

The coal market is stuck in its worst slump since the 1950s, and 2016 isn't likely to be the year it turns the corner, despite heavy production cuts by the large North American producers.

What's up?

Chinese demand remains weak and strong output from Australia is keeping the market oversupplied. Teck had hoped the situation would rebalance this year, but a recovery isn't expected until at least 2017.

Copper is starting to show signs of life again, having rallied 15% off the January lows. Some analysts see the move as a head fake before another plunge to the downside, but others think the copper market could be finding a bottom.

A recent *Bloomberg* report shows stockpiles are at 12-month lows, and copper investors have recently moved to a net-long position.

Followers of the zinc market are more positive. The price has surged 20% in the past two months as investors bet that sharp production cuts will tip the market into a shortage position by the end of 2016.

**Oil's roll in the Teck rout**

Teck does not produce oil, but the company owns 20% of the Fort Hills oil sands development.

The project has absorbed much of Teck's cash flow over the past few years, and investors are looking at current oil prices and wondering if the project will ever be profitable.

If WTI oil prices are destined to remain below US$40 per barrel, Teck and its Fort Hills partners could be sitting on a lame duck, but oil might also recover just in time for Fort Hills to start production in late 2017.

Teck can afford to meet its remaining obligations on the project. The company has about $1.8 billion in cash on the balance sheet and only has to invest an additional $1.2 billion in Fort Hills over the next two years.

That's important for investors because it means the company won't have to unload its stake in the project just before production begins.

**Debt load**

Teck is sitting on $9.6 billion in long-term debt, which is a bit scary for a company with a market capitalization of $5.4 billion. Only US$600 million of the debt is due before the end of 2017, and the company has significant access to capital through its credit lines.



Investors should keep an eye on the debt situation, especially if the commodity recovery peters out by the end of this year, but there is not imminent risk of a cash crunch.

**Should you buy Teck?**

The stock still carries substantial risk, and a strong reversal in oil, copper, and zinc would cut the knees out of the recent rally.

Having said that, history suggests the commodity rout is long in the tooth, and Teck has some significant upside potential when better days return. Contrarian investors might want to start nibbling on further weakness.

**CATEGORY**

1. Investing
2. Metals and Mining Stocks

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