Teck Resources Ltd.: Is the Rally Just Beginning?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) has tripled off the January lows, and investors are wondering if the recent surge is the start of a much larger recovery.

Let's take a look at Canada's largest integrated miner to see if the rebound has legs.

Shades of 2009?

Investors are all excited because Teck went through a similar situation during the Great Recession.

What happened?

At the bottom of the meltdown in 2009, Teck dipped below $4 per share as plunging commodity prices and a mountain of debt threatened to crush the company.

Few pundits expected Teck to survive the rout, but management restructured the debt just as a wave of global stimulus activity lifted demand for the company's core products. As a result, the stock took off and kept going until it topped out above $60 per share at the end of 2010.

Unfortunately for the company's loyal shareholders, the party ended abruptly and the stock has since been on a five-year slide that wiped out all of the previous gains.

In mid-January 2016, the stock once again dropped below $4 per share, and everyone wants to know if the latest bounce is the start of another spectacular recovery.

Commodity markets

Teck produces metallurgical coal, copper, and zinc.

The coal market is in its worst slump in more than 65 years, and there is little evidence that a turnaround is in the cards in the near term. Prices remain under pressure as weak demand out of China continues to outweigh production cuts by North American producers.

Copper is finally showing signs of a recovery as stockpiles are hitting their lowest points in more than a year. This is attracting bullish bets on the base metal, but analysts are unsure if the 15% surge since January is sustainable.

Zinc is faring better. The metal is up about 20% in the past two months, and there is a general sense in the market that recent production cuts could lead to a tight supply situation by the end of 2016.

Teck's oil play

Teck is a 20% partner on the Fort Hills oil sands development. The project has been a huge drain on Teck's resources in recent years, and the company still has to invest another $1.2 billion before the facility begins production in late 2017.

The recent surge in oil prices has the market feeling better about the Fort Hills investment, and that is providing an additional boost to Teck's share price.

Fed effect

At the time of writing, Teck is surging 15% in the wake of the Fed's decision to hold interest rates steady.

Why?

The move is putting downward pressure on the U.S. dollar, and that tends to drive money back into the base metals. If the market starts to believe the Fed will remain on hold longer than expected, a continued pullback in the greenback could extend the rally in the mining sector.

Should you buy Teck?

Hoping for a repeat of the 2009-2011 rally is probably a stretch, but further upside from the current price is certainly possible, especially if the rebound in oil and the base metals continues through the year.

Teck is a low-cost producer, and the long-term outlook for the commodity space is positive. The company is still sitting on a mountain of debt, so I wouldn't back up the truck, but contrarian investors who believe the commodity cycle has bottomed might want to start a small position in the stock.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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