Teck Resources Ltd.: Is it Time to Cut and Run?

Description

The 2016 rally in **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) is starting to fizzle out, and investors are wondering if they should buy the pullback or get out while the stock is still up 80% for the year.

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Let's take a look at the big picture to see if Teck deserves to hold a spot in your portfolio.

The long road down

Teck's stock dropped below $4 per share in January of this year, a far cry from the $60 mark it started at five years earlier. Things certainly weren't looking very good in the wake of the New Year, and investors had pretty much written the stock off as a mountain of debt and falling commodity prices appeared to be too much for Teck to handle.

Since then, the stock has more than doubled, and investors are looking at the pattern and wondering if this is the beginning of another spectacular recovery.

What happened last time?

Long-term observers of the stock have seen this story play out once before, and the recent rebound is eerily reminiscent of the miraculous comeback Teck staged after the financial crisis.

Back in March of 2009 Teck traded below $4 per share, weighed down by the same issues that recently hammered the stock. At that time, management restructured the debt just as global commodity prices began to recover on the back of a wave of global stimulus measures.

By early 2011, Teck was back up to $60 per share.

The good times didn't last long, as we now know, and the subsequent meltdown has been brutal.

So, is this the beginning of another major rally?

Commodity situation

Teck produces metallurgical coal, copper, and zinc.

The coal market is mired in its worst slump in more than 65 years, and there isn’t much hope of a recovery in 2016 despite production cuts by North American producers. Weak demand in China is the main culprit, but strong output from Australia is also keeping prices under pressure.

Copper prices have really taken it on the chin too, but a rebound in recent months has market observers debating whether or not the bottom has been reached. The bulls point to lower stockpiles as a sign the pain could be over. Pundits on the other side of the trade say the market is still weak and the recent bounce is simply a head fake.

Zinc is probably the closest to a longer-term uptrend. The metal has rallied 20% since the middle of January and production cuts throughout the industry are expected to rebalance the market in 2016.

The oil factor

Teck does not produce oil, but it has a 20% stake in the Fort Hills oil sands project.

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As oil plunged over the past two years, Teck continued to plough billions into the development and investors started to get nervous, thinking the investment was going to be a total write off. The worst selling occurred as WTI oil fell below US$30 per barrel, but the recent rally in crude prices has attracted buyers back to the name.

Fort Hills is expected to begin production in late 2017, but Teck still has to fork out another $1.2 billion to get the project completed. The company has enough cash on hand to meet the obligation, so there shouldn’t be any problem with the funding.

Is it time to buy?

Teck remains a risky stock, and a strong pullback in oil and base metal prices will take the knees out of the recent rally.

However, the company has significantly reduced costs through the downturn and expects to deliver positive cash flow from the core business in 2016. Debt remains high at more than $9 billion, but Teck says it should end the year with a cash balance of at least $500 million without borrowing any new money.

If you believe oil has bottomed and are willing to bet the base metals have started their recovery, Teck looks like a strong long-term play. I wouldn’t go all-in right now, but contrarian investors might want to take a small position on further weakness in the stock.

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2. Metals and Mining Stocks

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