Could Teck Resources Ltd. Hit $20 in 2016?

Description

Teck Resources Ltd. (TSX:TCK:B)(NYSE:TCK) is on an impressive run, and investors are wondering if this is the right time to buy the stock.

Let's take a look at Canada's largest diversified mining firm see what is driving the big 2016 surge.

A case of déjà vu?

Teck's recent jump off the January lows has contrarian investors excited because the last time the stock bottomed out, it subsequently rallied more than 1,400%.

What's the story?

Back in March of 2009 Teck fell below $4 per share as weak commodity prices and a nasty debt load threatened to bury the company. A restructuring of the debt put Teck back on its feet, and a recovery in the prices for its core products sent the stock rocketing higher, hitting $60 per share by early 2011.

Long-term investors should have cashed out at that point because the stock suddenly went into a five-year free fall and recently landed right back where it started.

The shares have now risen nearly 150% in the past three months, and investors want to know if another epic run is in the cards.

Market conditions

Teck produces steel-making coal, copper, and zinc.

All three have been in a bear market for the better part of five years and, in the case of coal, things don't look like they will improve much this year. The coal market is actually in its worst slump since 1950 as weak Chinese demand and strong Australian production continue to offset output cuts by North American suppliers.

Copper has also taken a beating in recent years, but the market caught a nice tailwind in February and

March on dwindling stockpiles and shifting bets by investors that prices have bottomed. The price has since pulled back and pundits are debating the resiliency of the rebound; the bears are pointing to weak demand and slow supply cuts as a sign that the recent rally could be short-lived.

Zinc appears to be the strongest of the three. The metal is up nearly 20% in the past three months, and market observers generally expect further strength as production cuts could tip the situation to a shortage position by the end of the year.

Oil is the wildcard

Most of the Teck rally is connected to the rebound in oil prices.

Why?

Teck is not an oil producer, but it holds a 20% stake in the Fort Hills oil sands project that is scheduled to begin production in late 2017. The development has been a huge drain on Teck's cash flow over the past few years, and investors are wondering if Fort Hills will ever make money.

If oil is destined to remain below US$40 per barrel for an extended period of time, the concerns are certainly valid, but analyst predictions are all over the map.

Teck still has to fork out $1.2 billion to get Fort Hills completed. The company has the funds on hand, so there shouldn't be a need to tap the debt market any further, which is a relief to investors because Teck is sitting on $9 billion in long-term debt.

The weight of that load is part of the reason the stock fell back below $4 per share in January.

Could Teck double?

Teck is currently trading at $10 per share. If oil prices continue to recover, Teck is going to ride that wave higher. Whether or not it can hit $20 by the end of the year is anyone's guess, but the stock is acting like a tightly compressed spring, and an oil rebound combined with more strength in copper and zinc could push the shares much higher.

Having said that, Teck is still a risky bet. If oil reverses course, it will be bad news for investors, so buyers of the stock should probably wade in carefully.

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1. Investing
2. Metals and Mining Stocks

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Date
2025/07/29
Date Created
2016/04/12
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