Teck Resources Ltd.: Does the Rally Have Legs?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) has tripled since the middle of January, and investors are wondering if the surge is the early sign of another epic recovery.

Let's take a look at what happened the last time Teck bounced back from the dead and see if the same performance could be in the cards.

A massive rally

During the dark days of the financial crisis, Teck looked like it was down for the count. Commodity prices were in the tank, and a mountain of debt threatened to crush the company. Sound like a familiar theme?

That's why contrarian types are so excited right now.

In 2009 Teck managed to restructure its debt and then rode a wave of surging commodity prices to a 1,400% gain in less than two years. Yes, that's right, the stock ran from below $4 per share to $60 from March 2009 to early 2011.

Unfortunately, the wheels completely fell off afterwards, and investors watched in horror as the subsequent meltdown brought the stock right back to the brink in January of this year.

Now, with another big move underway and the rally looking like it could have legs, investors are trying to decide if they should buy the stock.

Commodity prices

Teck is Canada's largest diversified mining company with a focus on metallurgical coal, copper, and zinc.

All three products have been in a nasty five-year funk, and while zinc and copper have staged a bit of a recovery in recent months, the coal situation remains ugly.

Metallurgical coal is used to make steel, and demand for the commodity is partly driven by strong infrastructure spending. After the financial crisis, countries like China went on a stimulus rampage, and that drove up prices in the met coal market. Producers responded by increasing output, but the stimulus money started to run out just as supply started to peak.

As a result, metallurgical coal has fallen into its worst slump since 1950. North American producers have cut back on output but weak global demand continues to put pressure on prices.

Copper is in better shape with stockpiles falling in recent months, but opinions are still divided as to whether or not the market has bottomed out.

Zinc is the bright spot of the three commodities. The price has rallied more than 20% since early January, and market observers say the move could continue as production cuts work their way through the system. Some pundits are even suggesting the market could face a shortage by the end of 2016.

Oil's role in the recent surge

The modest moves by copper and zinc aren't enough to justify a 200% jump in Teck's stock price, but there is one component to the story this time around that wasn't present after the Great Recession.

Teck is a 20% partner on the Fort Hills oil sands project. When WTI oil crashed below US$30 per barrel, investors figured the billions Teck has poured into Fort Hills would be a total write off. In fact, Teck is still on the hook for about $1.2 billion to get Fort Hills to the point of production, which is expected in late 2017.

The rebound in oil has the market believing, once again, that the project could survive, and that is why Teck's shares have come back to life.

Should you buy?

At the time of writing, Teck is surging another 15% and has topped the $12.50 mark. The rally over the past few months shows how much upside potential there is on strong pricing in the commodity space, but investors shouldn't bet on another move like the one that occurred after 2009. For the moment, the signs just aren't there to suggest coal and copper are ready to break out.

Nonetheless, Teck looks like a good long-term bet, especially if oil continues to recover and coal starts to find a bottom. I wouldn't back up the truck because the market still looks volatile, but contrarian investors with a long-term outlook might want to consider a small position in the stock.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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aswalker