# Teck Resources Ltd.: Is The Rally Just Beginning for This Stock?

## Description

**Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) has more than tripled off the January lows, and investors who missed the big run are wondering if the rally has legs.

Let's take a quick look at Canada's largest diversified mining company to see where things stand.



**Earnings**

Teck just reported better-than-expected Q1 2016 adjusted profit of $18 million or $0.03 per share. That doesn't sound like much, but the performance is better than the loss analysts had expected and is a tribute to the company's cost-cutting abilities in the current commodity slump.

With the exception of the Pend Oreille zinc mine, Teck was cash flow positive at all of its operations in the first quarter.

**Commodity outlook**

Teck produces metallurgical coal, copper, and zinc. All three have been in a bear market for the better part of five years, but signs are finally emerging that a bottom might have finally been reached.

Coal is in its worst slump since 1950 as weak global demand, especially in China, has offset production cuts by North American producers. Teck managed to lower its coal cost to $78 per tonne in the last quarter, which was enough to squeeze out decent margins. The realized sale price for Q1 was $102 per tonne.

The positive margins are a good sign, but the best information coming out of the Q1 report is the fact that coal prices are finally rising. Spot prices in the market are now higher than the US$84-per-tonne Q2 contract settlement price.

Copper sales jumped in Q1 compared with last year. Teck only received US$2.11 per pound for the metal, down from US$2.67 in Q1 2014, but the company also lowered its costs by 16%.

Copper prices have rebounded about 10% in 2016 to above $2.20 per pound and, while the recovery has picked up a tailwind in the past couple of weeks, market observers are still debating the sustainability of the move. Teck says an additional 2% supply disruption could balance the market. Historic disruptions average 7-9% per year.

Zinc appears to be in the best shape of the three products. Mine closures are tightening supply and growing demand is expected to outpace supply curtailments through the year. As inventories fall, most pundits expect to see further price strength. Zinc has already rallied 20% this year.

**Oil factor**

Teck isn't an oil producer, but the company has a 20% stake in the Fort Hills oil sands development. The facility has been a massive cash drain in recent years, and when WTI oil fell below US$30 per barrel in January, investors pretty much threw in the towel. The oil rally to above US$40 is bringing believers back into the game, and Teck's shares are coming back to life as a result.

Teck is still on the hook for an additional $1 billion to get Fort Hills completed, but the company has the cash on hand, so there is no concern about taking on additional debt before the end of 2017 when Fort Hills should begin production.



That's a good thing because Teck is carrying a debt load of $9 billion. Most of the notes aren't due for many years, and the company has $5 billion available in credit facilities, but the balance sheet is an ongoing concern.

**Should you buy?**

Teck has gone from below $4 per share to nearly $14 per share in about three months. The last time the stock began a similar rally it kept going for almost two years and topped out above $60 per share.

If coal, copper, and zinc have bottomed out and oil can muster a decent recovery before 2018, Teck's upside potential remains significant.

The easy money has been made, but the long-term story still looks good. If you have a contrarian investing style and a bit of cash on the sidelines, it might be worthwhile to start a small position in the stock.

**CATEGORY**

1. Energy Stocks
2. Investing

**TICKERS GLOBAL**

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