Teck Resources Ltd.: Time to Cash Out?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) has enjoyed a fantastic run since January, and investors are wondering if the surge is starting to run out of steam.

Let's take a look at the current situation to see if investors should take some money off the table.

Surprise earnings

Teck reported Q1 2016 adjusted earnings of $18 million, or $0.03 per share. For a business the size of Teck, $18 million in profit isn't very much, but analysts expected a loss, and a closer look at the report suggests good things are finally happening at the beleaguered miner.

Teck delivered positive cash flow from all but one of its facilities. This is important because it means the company is doing a good job of reducing costs in a tough market. Once commodity prices begin to rebound, investors could see a nice surge in margins.

Commodity picture

Teck produces metallurgical coal, copper, and zinc. The three commodities have been in a nasty slump for the better part of five years, and the rout knocked Teck's share price from $60 in 2011 to below $4 earlier this year.

Are better times finally on the horizon?

Coal prices have started to rise and currently trade above the Q2 contract settlement price of US$84 per tonne.

Copper sales rose in Q1, and the current market price of US$2.21 per pound is above the US$2.11 per pound Teck received in the first three months of this year. Pundits are split as to whether or not a copper recovery is firmly underway. Stockpiles are down, but the demand picture isn't strong enough to suggest a big rally is in the works.

Zinc is faring better as mine closures are putting pressure on supply just as demand appears to be improving. The spot price is already up 20% year-to-date and analysts believe the rally could have legs given the shift in market fundamentals.

What's the oil angle?

Teck is a 20% partner on the Fort Hills oil sands development, which is scheduled to begin production in late 2017. The company has poured billions into the project, and that has exacerbated the slide in the stock price over the past two years.

In fact, when WTI oil dropped below US$30 per barrel in January, investors pretty much left Teck for dead, thinking the Fort Hills investment would be a total write-off.

The price of WTI oil has since recovered to US$44 per barrel, and that has driven much of the big gains in Teck's stock price. Today the ticker trades for more than $14 per share.

Teck still has to spend an additional $1 billion to get Fort Hills up and running, but the company has the cash available, so there shouldn't be a need to to take on any more debt.

Risks

Teck is carrying $9 billion long-term debt, and that weighs heavily on the minds of investors. The average maturity on the notes is about 14 years, and none of the debt is due before 2017, but commodity prices have to improve if Teck is going to be able to chip away at that rock.

Should you buy or sell?

Staying the course at this point requires a belief that coal, copper, zinc, and especially oil have bottomed. Teck is acting like a compressed spring, so there could certainly be more upside on a continued commodity recovery, and the last time we went through this cycle, Teck rallied from $4 to $60 per share.

With its cost structure at such low levels, the long-term prospects look good, and I think the stock is still worth owning.

Having said that, investors who had the guts to get in at $4 per share might want to take some profits just in case the latest run turns out to be a head fake.

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1. Investing
2. Metals and Mining Stocks

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