



Teck Resources Ltd.: Could This Stock Hit \$25?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) is heading higher again after a brief pullback, and investors want to know if more big gains are on the way.

Let's take a look at the current situation to see if Teck deserves a spot in your portfolio.

Commodity rebound

Teck produces metallurgical coal, copper, and zinc.

These products have been in a bear market for the better part of the past five years, but recent price strength suggests the rout could be near its end.

Coal is Teck's largest segment and the one that has taken the hardest hit. In fact, the current downturn is the worst since 1950.

Prices have firmed up in recent weeks, and Teck says coal is currently fetching more in the spot market than buyers are paying for Q2 2016 contract settlements, so the trend is finally moving in a positive direction.

Copper prices have also been in the tank, and the verdict is still out as to whether or not the base metal has bottomed. Stockpiles are falling, but demand is still relatively weak and the price remains volatile. Teck sold its copper for an average price of US\$2.11 per pound in the first quarter. Copper traded above US\$2.25 in April but currently sits at US\$2.09 per pound.

Zinc has fared better and looks to be in recovery mode. Miners have reduced output to the point where the market is coming back into balance, and some market watchers expect a shortage to develop by the end of the year. Zinc is up more than 20% in the past six months and appears to be holding the gains.

Oil is also a factor

Teck isn't an oil producer, but it owns a 20% stake in the Fort Hills oil sands project that is scheduled to begin production in late 2017.

Fort Hills has been a huge cash drain in recent years, and the company is still on the hook for another \$1 billion to get it completed. When WTI oil dropped to US\$26 per barrel in January the market decided Fort Hills was a write-off left Teck for dead, driving the stock below \$4 per share.

With the move in crude prices back near US\$50 per barrel, Fort Hills suddenly looks viable again, and Teck has enjoyed a significant rally. At the time of writing, the stock is trading for \$13.50 per share.

Could it run to \$25?

Teck is generating positive cash flow at all but one of its facilities and remains profitable. Most of the debt isn't due for many years, and the company has the cash on hand to cover the remaining expenses to complete Fort Hills. If oil continues to recover through 2017, Teck should catch a nice tailwind once Fort Hills begins production, and a move to \$25 is certainly possible.

The last time commodity prices recovered from a downturn, Teck soared from \$4 per share to \$60 per share in less than two years.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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