What Can Investors Expect From Teck Resources Ltd.?

Description

After returning to its 52-week high, **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) dropped down a couple of dollars before stabilizing. For the past couple of weeks, the stock has been in a relatively calm period.

However, this is after the stock rose from $3.80 per share all the way to over $15 from January to the very beginning of March. Investors have to be wondering whether this stock can go much higher or if it is actually overbought and might drop back down.

To understand, you'll need to look at what it sells.

Metallurgical coal is Teck's largest segment, and the space has not seen a downturn this significant since 1950. However, the price has stabilized and started rising, giving investors hope. According to management, the spot price for metallurgical coal is greater than the Q2 2016 contract settlements, which is a good sign. When it negotiates further contracts, it should be able to get higher rates.

Copper, on the other hand, is still very uncertain. In April it was selling for US$2.25, but it has since dropped to US$2.09 per pound, below the US$2.11 per pound the company sold it in the first quarter.

And zinc is in a solid position to increase in value significantly beyond the 20% it has grown in the past six months. The primary reason for this is because miner output has dropped, so if the market continues to develop, there might be a shortage.

Then there's oil…

While Teck doesn't produce its own oil, it does own a 20% stake in the Fort Hills oil sands project. The company has the $1 billion it still needs to put into the project, so if oil prices continue to rise past the US$50 per barrel, it could provide interesting returns for the company.

But there are negatives to Teck. First up, it has $9 billion in debt. That debt isn't due for a while, and it will have no problem paying it back so long as commodity prices continue rising. However, if they drop, Teck could easily go into default.

Further, China's economy is slowing down. Its exports were down 1.8% year over year in April, and its imports dropped by 11%, marking 18 months in which imports have dropped. No one really knows if the Chinese economy will return to its former strength anytime soon, which could really keep commodity prices depressed.

Ultimately, Teck is in in a difficult position for investors to understand. On the one hand, it had Q1 2016 earnings of $18 million, which was greater than analysts had expected. Further, all but one of its operations are cash flow positive, which is always a good place to be.

But on the other hand, it has $9 billion in debt, a weak Chinese economy to deal with, and it is at the whims of volatile commodities.

While the price of Teck could certainly go higher, if you'd bought this at the beginning of the year and are sitting on nice returns, I'd advise taking some money off the table. And if you're considering getting in, wait for signs that commodities are going to go even higher.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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