



Teck Resources Ltd.: Don't Step in Front of This Train

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) continues to push higher despite calls by critics that the stock is destined to crash again.

Let's take a look at why investors are still buying this stock.

Commodity bottom

Teck produces metallurgical coal, copper, and zinc. The three products have been in a nasty downturn for several years as overproduction and a slowdown in Chinese demand have combined to drive prices into their worst slumps in decades.

Efforts to reduce output are starting to take effect, and the first half of 2016 has shown evidence that the bottom might finally have arrived in the cycle.

Coal is starting to see improving demand in Asia and Teck says spot prices in the global market have actually moved higher in recent months to the point where they are positioned above the Q2 contract settlement prices.

Copper is also showing signs of a recovery, although there is a heated debate among market observers as to whether or not copper has truly turned the corner. At the moment, the metal is catching a nice tailwind and trades comfortably above Teck's average selling price for the first quarter of 2016.

Zinc is on fire. Mine closures have restricted output to the point where analysts believe a shortage could form by the end of the year, and many believe the 30% rally in the metal over the past six months is just the beginning of an extended recovery.

The power of oil

Teck isn't an oil producer, but the bloodbath in the market is a big reason why Teck's stock cratered below \$4 per share earlier this year.

The company has a 20% interest in the Fort Hills oil sands development that is scheduled to begin production in late 2017. Teck has ploughed billions into the project, and when WTI oil dropped below US\$30 per barrel in January, the market decided the entire investment was destined to be a write-off.

As we all know, oil has staged an impressive recovery and the move back toward US\$50 per barrel has investors feeling a bit better about the potential of the project.

Is Teck safe to buy?

Teck is carrying roughly \$9 billion in debt and is at the mercy of the commodity markets. If oil reverses course this summer as it did last year, things are going to be ugly for this stock.

However, the general trend in the commodity space appears to be one of improvement, and the longer the rally continues, the more investors are going to feel comfortable owning Teck.

The last time the stock bottomed out at \$4 per share, it rallied to \$60 in less than two years. There is no guarantee the same thing will happen this time around, and the global dynamics are certainly different, but as a contrarian investor, I would prefer to be on this train right now rather than standing in front of it.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:TECK.B (Teck Resources Limited)

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/07/29

Date Created

2016/06/29

Author

aswalker

default watermark