Teck Resources Ltd.: Is This Stock Destined to Run Higher?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) is already up 250% in 2016, and investors are wondering if the rally could continue through the end of the year.

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

Commodity outlook

Teck is Canada's largest diversified miner and produces metallurgical coal, copper, and zinc.

The coal market is in its worst slump since 1950, and the market remains oversupplied, but the price trend over the past few months suggests the worst might finally be over.

The market price for metallurgical or steel-making coal drifted higher through Q2 on the back of a sharp uptick in global steel prices. Going forward, strong demand from India is expected to support coal prices over the medium term. Australia's Department of Industry, Innovation and Science released a report in April that suggests India's metallurgical coal imports should rise 8% per year through 2021.

Copper is also showing signs of finding a bottom. The metal currently trades at US$2.20 per pound, above Teck's average Q1 selling price of US$2.11 per pound. Analysts are split on whether or not copper can maintain its recent rally, but the narrow trading range through the first half of this year indicates the market might have found a bottom.

Zinc is on a tear, rising 40% in the past six months. Pundits expect the trend to continue as production cuts work their way through the system and push the market into a shortage position heading into 2017.

Overall, things are starting to look better. Investors have to remember that the stock market is always forward-looking, so it's not a surprise to see the improved outlook for Teck's core products showing up as gains in the share price.

Oil's role

Teck is not an oil producer, but the company has a 20% stake in the Fort Hills oil sands development.

When WTI oil plunged below US$30 per barrel in January investors pretty much threw in the towel on Teck's chances of ever seeing a return on the Fort Hills investment. Now that oil has staged a recovery, the market is feeling better about the project.

Fort Hills is expected to begin production in late 2017. If oil continues to recover through the next 12-18 months, Teck might actually prove the critics wrong in its decision to remain committed to the project.

Debt issues

Teck is carrying about $9 billion in debt. Some analysts were concerned the company would have trouble repaying notes that were coming due in the next three years, but Teck recently closed a new bond offering for US$1.25 billion to replace notes due in 2017, 2018, and 2019.

For the moment, the company has significant breathing room on the debt side and is able to fund its Fort Hills obligations with existing cash on hand.

Should you buy?

Over the long term, I think Teck still looks like a solid holding, but the stock has rallied from $4 per share to $19 in six months. That's a big move, and anyone who had the guts to get in near the bottom should consider taking some profits.

Coal and oil prices will have to continue their recoveries to support another leg up in the stock. The coal market might have bottomed, but it is still oversupplied and oil looks like it could be setting up for another late-summer plunge.

As such, new investors should probably keep the position small if they want to buy right now.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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