# Can Teck Resources Ltd. Continue Going up?

## Description

Investors who have been holding **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) since the beginning of the year have had their money grow from under $5 per share to over $20. That's incredible growth over the past seven months, and it might have investors asking if the rally can continue.



The big reason for the rise has to do with coal, which has risen over 30% in value since the year began. Because of the perfect storm of increased demand and reduced supply, companies that sell coal have been in a good position. And with an expectation that India will continue to increase its metallurgical coal imports, the price should continue to rise or, at the very least, stay relatively constant.

But Teck doesn't just do coal. Copper has been on a bit of a tear over the past months, bobbing around between US$2.05 and US$2.30 per pound. So long as it stays above US$2.11, which is Teck's average Q1 selling price, the company should be in a good place. No one knows for sure what will happen, but when a commodity trades in this sort of a rage for an extended period of time, there's rising belief that it has some support.

And then there's zinc, which is up 40% since the beginning of the year. Because of how painful zinc mining has been over the past five years, there have been quite a few mine shutdowns, causing supply to shrink. Therefore, I expect that the price will stay at least this high (if not go higher) throughout the rest of 2016, thus increasing profit for Teck.

Then there's oil. Teck doesn't actually make any money from oil yet, but it does own a 20% stake in the Fort Hills oil sands development. Investors were worried about this investment, but if oil prices can continue to rise between now and late 2017 when the project goes online, this could turn out to be a lucrative investment for Teck.

### Cost reductions

One thing that makes the price rally seem legitimate to me is that the company has fought hard to reduce its costs. According to the CEO, "We've reduced our cash unit costs at all operations year over year."

On top of that, the CEO explained that all major operating mines are cash flow positive. The reason for this is because of aggressive cost cutting–an effort to streamline the business for a world of low-priced commodities.

With commodities on the rise, these super-efficient operations should allow for greater margins, something that Teck has not been able to enjoy for the past few years.

On the debt side, it’s also working to reduce its footprint. It has $9 billion in debt and had quite a bit coming due in the next three years. However, it just closed a bond offering worth US$1.25 billion, which will replace the 2017, 2018, and 2019 notes. If commodity prices continue to rise and cash flows increase, expect to see this debt reduce.

So here’s the ultimate question … Should you buy Teck?

Any time a company rises from under $5 to over $20 in seven months, you have to ask yourself if that sort of a rally can last. Fundamentally, you’re trying to determine whether or not the commodities that Teck mines will continue to rise. There’s no doubt that prices have strengthened, but coal still has an oversupply problem and the other commodities are still trying to find truly solid support.

Therefore, if you bought Teck when it was low, maybe take some profits. And if you’re trying to get in now, start small. There’s no denying that it could go higher, but there might be a serious correction waiting for Teck.



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**TICKERS GLOBAL**

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