Teck Resources Ltd.: How High Could This Stock Actually Go?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) continues to hit new 12-month highs.

Let's take a look at the current situation to see if more upside could be on the way.

Earnings

Teck reported Q2 2016 earnings of $15 million, or $0.03 per share, down from $79 million, or $0.11 per share, in Q2 2015.

On the surface, that doesn't sound very good and certainly wouldn't lead one to believe the stock could possibly add to its 300% gain for 2016. But once you see what's happening in the market, you'll start to understand why investors are getting excited.

Coal, copper, and zinc

Teck is Canada's largest diversified mining company with operations focused on the production of metallurgical (steel-making) coal, copper, and zinc.

The coal market has been in its worst slump since 1950, but Teck continues to drive down operating costs, leading to strong margins despite the difficult times.

The company's coal unit costs came in at US$59 per tonne in Q2, down from US$68 per tonne in the same period last year. That has helped keep the division profitable, and there might finally be some relief in sight on the pricing side. Teck's average realized sale price for the quarter was US$83 per tonne, up from US$75 per tonne in the first quarter, and the rebound appears to be gaining steam with the Q3 benchmark settlement price now at US$92.50 per tonne.

Copper unit costs also fell, dropping from US$1.49 per pound last year to US$1.34 per pound in Q2 2016. Copper prices rose slightly in Q2 compared with the first quarter and currently trade at $2.16 per pound, about in line with the Q2 average selling price.

Zinc is on fire. The metal shot up 14% in Q2 compared with Q1 and continues to rise. Teck's average Q2 selling price was US$0.87 per pound. Zinc is now trading above $1.00 per pound, and analysts believe the rally could run through the end of the year.

Oil impact

Teck is a 20% partner in the Fort Hills oil sands development. The project is scheduled to begin production in late 2017, and investors are worried Teck will eventually write off the billions invested in the site. If WTI oil is destined to remain at US$40 per barrel, the concerns are valid. However, the facility is being built with a production horizon of decades, not two or three years, so it is a bit early to throw in the towel.

If oil manages to rally through 2017, Teck's stock should benefit.

How high could it go?

Teck has already rallied from $4 per share to $22 since early January. That's an impressive move, and investors who had the courage to buy below $10 should consider taking some profits. It's just the prudent thing to do.

Regarding more upside, it all depends on commodity prices. For the moment, coal and zinc are sending signals that they have found a bottom, and copper is still making up its mind.

As long as the market sees higher prices down the road, Teck should continue to find support.

The last time Teck bounced off $4 per share, the rally lasted two years and the stock hit $60. The market situation is different this time around, but the potential is worth keeping in mind.

I wouldn't back up the truck, but contrarian types might want to hold a small position in Teck, just in case the rally is still in its early innings.

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