Teck Resources Ltd.: Should You Buy This Stock Today?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) is up nearly 300% in 2016, and investors are wondering if the rally still has legs.

Let's take a look at Canada's largest diversified mining company to see if it belongs in your portfolio.

Commodities markets

Teck is a producer of steel-making coal, copper, and zinc.

The coal market has been under pressure for the better part of five years, and the current slump is the worst in more than six decades.

In an effort to bring the market back into balance, producers have reduced output and shelved expansion plans. Weak demand out of China has hindered the process, but Teck's latest earnings report suggests the worst might be over.

Teck's average realized sale price for Q2 2016 was US$83 per tonne, up from US$75 per tonne in the previous quarter. The Q3 benchmark settlement price is above US$90 per tonne, so the recovery could be picking up steam.

Copper's turnaround is less obvious. The metal has halted its nasty slide, but continues to trade in a tight range between US$2 and US$2.30 per pound. Some analysts say more pain is on the way for copper, while others believe the metal is setting up for a recovery.

The price of zinc rose 14% in the second quarter and is now 50% above the January low. Most market watchers expect the strength to continue as production cuts could shift the balance to a shortage situation heading into next year.

The role of oil

Teck doesn't produce oil, but it is a 20% partner in the Fort Hills oil sands development. The project has been a major cash drain in recent years, and investors are concerned the billions of dollars invested in Fort Hills could ultimately be written off.

If WTI oil is destined to trade at US$40 per barrel for several years, there is reason to fret, but these projects are built based on a production outlook of decades, so it might be a bit early to assume Fort Hills is toast.

Production at the facility is scheduled to begin in late 2017.

Teck's financials

Teck continues to reduce costs amid the difficult market conditions and is still profitable.

Coal unit costs in Q2 2016 dropped to US$59 per tonne from US$68 per tonne in Q2 2015, and copper unit costs fell from US$1.49 per pound to US$1.34 per pound.

Earnings for the second quarter came in at $15 million, or $0.03 per share, down from $79 million, or $0.11 per share, in Q2 2015. Lower prices are the main reason for the weaker results.

Teck recently bought itself some breathing room on the debt side. The company issued US$1.25 billion in bonds in the second quarter and used the funds to buy back notes that were coming due over the next three years. This is important because it means Teck can get through the final leg of the Fort Hills construction without worrying about immediate debt repayments.

Liquidity remains strong with US$3 billion in available credit and $1.4 billion in cash.

Should you buy?

The stock has been in a holding pattern for the past few weeks, and it's not clear which way things will go in the coming months. As such, investors who bought the name below $10 per share might want to take some profits. It's simply a reasonable thing to do.

If you missed the rally and are a commodities bull with a contrarian investing style, you might want to start nibbling on a pullback, but new investors should probably average in right now rather than back up the truck.

CATEGORY

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2. Metals and Mining Stocks

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Date
2025/07/29
Date Created
2016/08/23
Author
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