Teck Resources Ltd.: Are More Gains on the Way?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) just hit a new 12-month high, and investors are wondering if the latest surge is the start of another big move to the upside.

Let's take a look at the miner to see if it deserves to be in your portfolio.

Financial results

Teck generated Q2 2016 earnings of $15 million, or $0.03 per share. That's down from the $0.11 per share it earned in Q2 2015.

The company produces metallurgical coal, copper, and zinc. All three products have been in a nasty slump for the better part of five years, but things have begun to turn around in recent months.

Teck reported an average realized sale price of US$83 per tonne for coal during Q2 2016. That's up from the US$75 per tonne it received in Q1 and below the current benchmark settlement price for the third quarter.

The improvement is still a far cry from the price the industry enjoyed several years ago, but it looks like coal has found a bottom.

Teck has done a good job of reducing costs through the downturn. The coal unit cost in Q2 came in at US$59 per tonne–down from US$68 per tonne in the same period last year. Even at current prices, Teck is still generating reasonable margins.

Copper's recovery is less evident. The metal has traded in a range between US$2 and $2.30 per pound for most of this year, and analysts don't expect a big move to the upside in the medium term.

Teck received US$2.15 per pound for its copper in the second quarter. At the time of writing copper is trading for US$2.07 per pound, which is down from US$2.20 at the beginning of the month. Teck's copper cash costs fell 17% to US$1.44 per pound in Q2 compared with the same period last year.

Zinc has been the star in 2016. The metal is up 50% since January, and most market observers expect continued strength through the end of the year.

Overall, things appear to be on the mend, and Teck continues to lower its expenses.

Oil factor

Teck is a 20% partner in the Fort Hills oil sands development. The project has been a cash drain over the past few years, and some pundits are concerned a prolonged slump in oil prices will mean a write-down on the investment.

Fort Hills is expected to begin production in late 2017. If oil manages to rally through next year, Teck's shares could get an additional boost.

Debt and liquidity

Teck recently sold US$1.25 billion in bonds and is using the funds to redeem notes that were coming due over the next three years. The debt position remains large at nearly $9 billion, but there is no concern about a near-term cash crunch.

The company's liquidity remains strong with US$3 billion in available credit and $1.4 billion in cash. This means Teck has the funds it needs to see Fort Hills through its final stage of development.

Should you buy?

Teck continues to make good progress on cost reductions, and commodity markets are finally improving. As a long-term pick, the stock remains attractive.

However, Teck is already up more than 300% in 2016, so investors who bought early in the year might want to book some profits on a part of the position. It's simply the smart thing to do.

As for new investors, more upside could be on the way, but the stock looks like it might be getting ahead of itself. As such, I would keep the position small and wait for a pullback to add more shares.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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