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Is it Too Late to Get into Teck Resources Ltd.?

Description

The start of 2016 saw shares of **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) plummet to levels not reached since the Great Recession. Fast forward seven months later, with fears of a global economic slowdown and a hard landing in China's economy largely in the rear-view mirror, Teck shares have rallied a staggering 300% off their lows.

But as remarkable as this turnaround has been, Teck has also reached dangerously overbought levels. In other words, those on the sidelines looking to get in on the action might be better served by waiting for a more attractive price and valuation.

Teck currently trades at a premium to commodity spot prices

In the midst of their fantastic rally, Teck's shares have largely overshot the spot commodity prices, as apparent by the decoupling shown in the figure below, from both the broader commodity (green) and copper (red) indices.

Furthermore, while Teck continues to track the zinc break out, zinc prices would have to reach $1.60/lb, a 50% premium to the spot price, to justify Teck's current market cap (based on **Bank of Nova Scotia's** 2017 estimates).

Finally, although metallurgical coal prices have also rallied significantly pass the US$130-per-tonne level, the current spot price is still below Teck's share implied premium of US$145 per tonne. Moreover, the bulk of the move in metallurgical coal will most likely prove to be temporary, as the market adjusts to the recent structural and policy shifts from China and India. Of note, the consensus forecasts for metallurgical coal continue to be well below the current price at just US$80 per tonne for the rest of 2016.*

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Source: The Australian
**Source: theaustralian.com*

Teck's valuation is also stretched

Teck is currently trading at a premium to not only commodity prices, but also to its own historical average valuation as well as its peer group. At 8.4 times blended forward EBITDA, Teck's valuation is one full standard deviation above its historical average of 7.1 times, while its EV to sales and P/BV multiples are two or higher sigma above their historical norms.

Source: theaustralian.com

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On the relative valuation side, Teck's blended forward EV/EBITDA of 8.4 times and forward P/E of 30.7 times are well above its peer average of 7.7 times and 16.6 times, respectively.

Source: theaustralian.com

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In other words, this rich valuation is implying strong growth going forward. However, Teck is in the midst of a turnaround as it looks to cut costs and monetize its non-essential assets to improve its balance sheet. Moreover, with Fort Hills still under construction, near-term growth catalysts for Teck are virtually non-existent. Therefore, Teck's valuation is largely unwarranted, and a bullish case cannot be justified on a fundamental level.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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2. TSX:TECK.B (Teck Resources Limited)

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