Teck Resources Ltd.: Time to Sell?

Description

No one could have predicted that **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) would be trading at about $22.50 back in January. On January 13, Teck was trading around $3.80 a share, and investors were worried that the price could go lower. But the trend of downward pressure that first really gained steam in January 2013 finally came to a halt three years later. And from there, the stock started to rise.

Now that the price has appreciated by over 300% since January, investors are wondering whether there are still tailwinds that could send the stock even higher or if the time might be right to take profits off the table. There are numerous stories of investors taking profits too early, only to watch the price continue to grow quite aggressively. But there are also stories of stocks dropping after achieving meteoric growth.

I believe it's time to sell. Primarily, this is because all signs point to an increase in supply for commodities without considerable growth in demand. And, as we've seen with many of Canada's mining companies, when supply races ahead of demand, share prices drop.

In its Q2 2016 earnings, Teck revealed that it earned $15 million, or $0.03 per share. As is to be expected, that was down nine cents from its earnings in the same time last year. The good news was that its average realized sale price for metallurgical coal was US$83 per tonne, which was up US$8 from the previous quarter. And, its coal unit cost was only US$59 per tonne, down US$9 year over year. During the third quarter, the price was up even higher with spot prices showing US$140 per tonne. That's huge, but it won't last.

Some of Teck's biggest competitors are seeing significant increases in supply; some have even experienced record production. And there are reports that Chinese coal mines are coming back online, which will only apply further pressure to prices.

If China were experiencing double-digit GDP growth like it had been a few years ago, this wouldn't matter. The country couldn't get enough coal; however, with its GDP growth about the same year over year, the demand just isn't there.

And the same can be said for copper. There are numerous copper mines coming online, which will only push the price below its six-year low. Many mines around the world are looking to achieve their earnings through pure bulk rather than high prices. This will also harm Teck's earnings in the short term.

The reality is that investors bought Teck because they were excited that commodity prices were rising. However, because of how much new supply is coming on the market, I believe that there is not much growth for Teck to achieve. And without growth, I have a hard time seeing this stock rise much higher. While I don't expect the price to crater back down to $3.80 a share like it did in January, I remain unconvinced that Teck will remain where it is.

Therefore, my recommendation is to take some profits while you can, but keep a small position in case Teck surprises us. And then take those profits and diversify.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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