



## Teck Resources Ltd.: Is the Rally Just Beginning for This Stock?

### Description

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

Let's take a look at Canada's largest diversified mining company to see if more gains might be on the way.

### Commodity recovery

Teck produces metallurgical coal, copper, and zinc.

For most of the past five years these three commodities have been in a nasty slump. In fact, coal's plunge was the worst since the 1950s. This resulted in Teck's shares plunging from \$60 to as low as \$4 in early 2016.

That appears to have been the bottom as a recovery in prices is now driving the stock much higher.

Coal is responsible for most of the gains in recent weeks. The spot price of the commodity has surged on lower output from China, stronger demand from India, and better margins on steel.

What's going on?

China put new measures in place to restrict the number of working days for coal miners. This has reduced output more than the market had anticipated and has pushed the spot price to highs not seen since 2013.

Spot prices are now above US\$170 per tonne. That's significantly higher than the US\$92.50 per tonne benchmark settlement price for the third quarter, so the odds are pretty good that the Q4 settlement price will be much higher.

The longer the spot price remains at elevated levels, the more likely it is that Teck and its peers are going to negotiate much higher contract prices in 2017 as buyers will start to get nervous that coal could continue to surge.

Investors are just starting to crunch the numbers on this possibility, and that's providing a nice boost to Teck's shares.

Zinc is also driving Teck higher. The metal has rallied 40% in 2016, and market observers believe the recovery could continue as lower output and stronger demand bring the market back into balance.

Copper appears to have bottomed, but the metal has been stuck in a tight range for most of this year, and analysts are split on whether or not the price is headed higher in the medium term.

### **Balance sheet issues**

Teck's stock plunged earlier this year on worries its \$9 billion debt load would bury the company.

The recovery in commodities has alleviated some of the concern. Teck has also replaced notes that were coming due in the next three years with new bonds, so the risk of a cash crunch in the medium term has been eliminated.

Teck's liquidity remains healthy with US\$3 billion in available credit and \$1.4 billion in cash. This means the company has the funds needed to complete the construction of the Fort Hills oil sands facility, which is scheduled to begin production in late 2017.

### **How high could Teck go?**

The last time Teck rallied off the \$4 level, it hit \$60 in less than two years. There's no guarantee that will be the case this time around, but the potential is there for more gains.

I wouldn't back up the truck to buy the stock today, but investors who already own Teck might want to hang on to their positions. If analysts start increasing their earnings expectations, this stock could add to its gains.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

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

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