



Teck Resources Ltd.: More Gains on the Way?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) is at a new 2016 high, and investors are starting to believe the big rally might have more room to run.

Let's take a look at the current situation to see where the stock could be headed.

Commodity recovery

Teck produces metallurgical coal, zinc, and copper.

The three commodities spent most of the past five years in a horrible slump, and that sent Teck's shares on a nasty slide from \$60 in early 2011 to as low as \$4 in January this year.

Since then, things have turned around significantly, and investors who had the courage to buy last winter are sitting on some serious gains.

What's going on?

Zinc has gained 50% this year on the back of tighter supplies caused by production cuts and stronger than expected demand. The industry reduced output so much that market observers expect the strength to continue into 2017.

Copper has also bottomed out, but analysts are split on whether or not a full-blown recovery is in the works. The metal has remained in a trading range for most of this year, and that is expected to continue for the near term. Some pundits see a bright future as demand should rise for copper-heavy products, such as wind turbines.

Coal has been the biggest surprise in 2016 and is the driving force behind the most recent surge in Teck's share price. The spot price for metallurgical coal has more than doubled in recent months, supported by supply issues in Australia and a decision by China to reduce the number of hours coal miners can work.

The disruptions caught the market off guard, and while the price could pull back somewhat in the coming months, indications of stronger contract settlements are driving the producers higher.

Teck gets about half of its revenue from the coal division, so higher prices are going to have a significant increase on margins. Most producers sell on fixed-rate quarterly contracts, so the jump in the spot price won't have a big impact on the Q3 earnings. For example, Teck's Q3 2016 coal price was just above US\$90 per tonne. However, reports are starting to come out that Q4 contract settlement prices could be US\$200 per tonne. If Teck gets something close to that amount and the price holds through 2017, the company is going to see a strong boost to cash flow.

Earnings upgrades

Analysts are already beginning to raise their forecasts for the stock, and that is likely to continue as more clarity comes on the Q4 settlement price for coal. For example, RBC Capital Markets just increased its price target on Teck from \$23 to \$30 based on better earnings expectations over the next two years.

Is the stock going higher?

The last time Teck bounced off a low of \$4 it hit \$60 within two years. There's no guarantee that will happen again, but the stock still has momentum, and the tide has turned in its core markets.

If Teck's 2017 guidance comes out stronger than expected, the shares could catch an additional tailwind heading into next year.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/07/28

Date Created

2016/10/17

Author

aswalker

default watermark