



Teck Resources Ltd.: Should You Buy Ahead of the Q3 Report?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) will report its Q3 earnings on October 27.

Investors who have watched the huge rally from the sidelines are wondering if they should be owners of the stock before the numbers are released. Let's take a look at the current situation to see if Teck should be in your portfolio.

Stellar rally

Teck bottomed out near \$4 per share in January as investors fled the stock on fears that weak commodity prices and a monster debt load were destined to send the company to bankruptcy.

Then things began to turn around, and the rally that has ensued is nothing short of stunning.

What happened?

Teck produces metallurgical coal, copper, and zinc. The markets for these three commodities have been in nasty slumps for most of the past five years. In fact, the downturn in coal was the worst since the 1950s.

At the beginning of the year the outlook remained quite bleak, but things started to pick up in the first quarter, and the rebound has continued right through 2016.

Zinc got the ball rolling as market observers started to realize the steep production cuts in recent years were about to bring the market back into balance. As a result, zinc has surged 50%, and analysts expect the rally to continue.

Teck is also bullish on zinc and recently moved to increase its holdings in the Teena/Reward zinc project to 100%.

Coal was supposed to remain in the doldrums in 2016, but supply disruptions in Australia and a move by China to restrict the working hours for coal miners have resulted in a 100% price spike in recent

months; the current spot price sits above US\$245 per tonne.

Teck sells most of its coal in fixed quarterly contract agreements, so the big price move won't show up in the Q3 numbers. The company received US\$92.50 per tonne in the third quarter—up from US\$84 in the second quarter.

Copper halted its slide this year and has traded in a range between US\$2 and US\$2.30 per pound.

Balance sheet

Teck's \$9 billion debt load weighs heavily on the minds of investors, but the company has now replaced debt coming due in the next three years with new notes maturing in 2021 and 2024. This gives the company significant breathing room to start tackling the debt position as markets continue to recover.

Teck also finished the last quarter with \$5.4 billion in liquidity, including \$1.4 billion in cash, which is adequate to cover its remaining capital obligations on the Fort Hills oil sands project.

Fort Hills has been a cash drain, but is expected to begin production in late 2017.

Should you buy before the Q3 report?

At the time of writing, Teck is trading at \$28.50 per share. That's a significant run in just nine months, and investors who bought last winter should consider banking some of the profits.

For those who are looking for an entry point, it's a tough call today.

Teck's Q3 results will probably be in line with expectations, but the market will be more focused on guidance.

If Teck announces it has secured Q4 settlement prices of US\$200 per tonne or better for its coal sales, the stock could take off on upward earnings revisions for the coming quarters.

However, the market is feeling pretty optimistic, and there could be a pullback if guidance isn't as cheery as expected.

If you don't want to miss a chance at getting in before another spike and are willing to ride out a pullback, it might be worthwhile to take a small position ahead of the third-quarter numbers.

If your investing style is more conservative, wait for the report to come out before making your move.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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