



Teck Resources Ltd.: The Rally Is Picking up Steam

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) gained 22% in October and has rallied a staggering 442% in 2016.

Let's take a look at the current situation to see if more gains could be on the way.

Zinc and coal recovery

Teck produces zinc, metallurgical coal, and copper.

Coming into 2016, the markets for these commodities had been in multi-year slumps, and that resulted in Teck's stock falling from \$60 per share in 2011 to \$4 per share in January.

Then things started to turn around.

Zinc is up 60% this year as investors realized production cuts were bringing the market back into balance. After a brief pullback, zinc is hitting new year-to-date highs, and pundits expect the momentum to continue into 2017.

Coal has been the big surprise in 2016 as most analysts expected another dismal year, but unforeseen developments have triggered a massive rally.

What's going on?

China reduced the number of operating days for its coal mines, resulting in a drop in production. This has combined with supply disruptions in Australia and better global demand to drive coal prices significantly higher.

How high?

At the time of writing, the metallurgical coal spot price is above US\$250 per tonne. That's about triple the low for the year.

Teck's results

Teck just reported decent Q3 2016 numbers. Adjusted profit came in at \$152 million, or \$0.26 per share, compared to \$29 million, or \$0.05 per share, in the same period last year.

Cash flow from operations jumped to \$854 million from \$560 million, and the company repurchased US\$759 million of its outstanding debt, bringing the outstanding notes down to US\$6.1 billion.

Teck finished Q3 with \$4.7 billion in available liquidity, including a cash position of \$690 million.

The company sells most of its coal on fixed quarterly contracts, so the huge rally in the spot market had a limited impact on the Q3 numbers. In fact, Teck received just US\$92 per tonne for its coal in the third quarter.

Going forward, things are looking a lot better. The company says it has contracts in place with most of its customers for US\$200 per tonne for the fourth quarter and is selling some production into the spot market.

The tight supply situation in the coal market will eventually balance out, but it takes time for companies to ramp up production, especially after several years of cuts, so the market could remain elevated for some time.

How high could this stock go?

The last time Teck bounced off \$4 per share, it hit \$60 within two years. There is no guarantee the same thing will happen this time, but the stock is now closing in on \$30, and momentum remains strong in both the zinc and coal markets.

I wouldn't back up the truck today, but it might be worthwhile to hold a small position in this stock as the markets for Teck's core products continue to recover.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
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