# Can Teck Resources Ltd. Continue to Soar?

## Description

It was only a year ago, at the height of the commodities slump, when pundits were predicting that many miners were on the brink of failure and another financial crisis would erupt. In a stunning turnaround, many metals and steel-making coal have rebounded quite strongly in recent months.



This has sparked a massive rally among mining stocks. Metallurgical coal and base-metals miner **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) is up by a stunning 478% for the year to date. Despite being less than optimistic on the outlook for metals, there are signs that this rally could continue with a confluence of events indicating that higher metals and coal prices are here to stay.

**Now what?**

Over the past few months, metallurgical coal has rocketed skyward–its spot price more than tripling compared with a year ago; it's now at over US$289 per tonne. This is also more than triple the average of US$92 per tonne realized by Teck for metallurgical coal for the third quarter 2016. In conjunction with Teck's lower operating costs and increased output, Teck's fourth-quarter earnings are set to surge.

Soaring coking coal prices can be attributed to diminishing supplies and China's growing demand for steel because of Beijing's decision to stimulate economic growth by making massive investments in infrastructure.

Beijing is also hell-bent on reforming many poorly performing industries in China as it attempts to move the economy to one where domestic consumption is the key driver of growth. Part of this reform consists of imposing limits on the number of days that China's coal mines can operate, further limiting supplies that have already been disrupted by production outages in Australia's coal heartland.

Given Beijing's predilection for ensuring that economic growth targets are met by using investment-led economic stimulus, the significant uptick in construction activity should continue for the foreseeable future. This not only puts a floor under metallurgical coal prices, but increases the likelihood that they could rise further until supply catches up with demand.

Then you have president-elect Trump's plan to substantially increase infrastructure spending as part of his plans to boost U.S. economic growth and create jobs. This will spur even greater demand for steel and its key ingredients, iron ore and metallurgical coal, thus supporting higher prices.

While many investors are familiar with the positive effect this is having on Teck's share price, what many have missed is copper's stealthy rally. It is now trading 17% higher than it was a year ago, and further investments in infrastructure globally will only drive copper prices ever higher because it is an important metal for use in construction. This is a boon for Teck because it generates over a fifth of its revenue from copper.

**So what?**

After such a strong rally, I would normally urge investors to view Teck with considerable caution, but it is discernible that the surge in commodities will continue, at least for the foreseeable future. Even if metallurgical coal prices soften as major miners, including **BHP Billiton Ltd.** and **Rio Tinto plc.**, seek to grow output, and China's coal mines boost the tempo of operations, rising copper prices will make up for any shortfall.

It also appears that copper's rally has further to run, increasing the likelihood that Teck's earnings will grow more than currently expected. Along with management shaving $1.4 billion off Teck's monstrous pile of debt over the last 12 months, this reduces the risks faced by the miner, boding well for its shares to continue their stellar climb.



Nonetheless, Teck doesn't come without risk. Higher commodity prices are dependent on Beijing continuing with its credit-fueled economic stimulus, which some analysts have called unsustainable, and on Trump following through with the planned infrastructure investment.

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