



Teck Resources Ltd.: Could it Hit \$40 by Year-End?

Description

If you'd told your friends at the beginning of 2016 that **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) would finish the year at \$40 per share on the TSX, they would have laughed in your face.

Yet here we are with roughly one month to go, and Teck just broke through the \$33 mark.

What's the story?

Teck entered 2016 in bad shape. A multi-year meltdown in all three of its core products had pummeled prices and squeezed margins to the point where Teck was barely making any money.

Add to this a massive US\$9 billion debt load and \$1 billion in spending obligations on the Fort Hills oil sands project, and you can see why investors were throwing in the towel on this stock.

As oil plunged below US\$26 per share in January, the market figured Fort Hills was a write-off, and Teck's stock fell below \$4 per share.

Today, the world is a very different place.

Metallurgical coal, zinc, and copper prices have staged strong recoveries, boosting Teck's prospects.

Coal wasn't supposed to improve in 2016, but a decision by the Chinese government in March to restrict the number of days its mines can operate has had a massive impact on the market.

As a result, supplies have tightened to the point where metallurgical coal prices have surged from US\$90 per tonne in July to more than US\$300 per tonne today.

The rally caught everyone off guard, and China recently eased up on the restrictions. Coal mines will now be allowed to operate for 330 days in the year instead of previous limit of 276.

This decision should slow down the surge in coal prices, although the price drop that was expected after the November 18 announcement hasn't happened.

At the time of writing, metallurgical coal spot prices remain above US\$300 per tonne.

Effect on Teck

Teck gets most of its coal revenue on fixed quarterly contract rates. The company received about US\$90 per tonne in Q3 and is expected to get close to US\$200 per tonne in the current quarter.

Negotiations for Q1 2017 will begin soon, and the longer the coal spot price remains at US\$300, the more likely it is that buyers will be willing to pay close to that amount.

Could Teck hit \$40?

If word starts to get out that buyers are signing Q1 deals above US\$250 per tonne, Teck's stock could get an extra bounce in the coming weeks.

The momentum remains strong, so a surge to \$40 shouldn't be completely ruled out, but there would also have to be a big jump in oil or copper prices to spur a strong extension to the rally.

Should you buy?

The company is a low-cost producer and is enjoying strong margins at current prices. The longer the commodities rally lasts, the higher this stock will go.

Having said that, new investors should be cautious buying at the current price level and might want to wait for a pullback to start a position.

On a personal note, Teck has hit my price target, so I have decided to cash out.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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

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Author

aswalker

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