Will Teck Resources Ltd. Be a 10-Bagger?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) has done the unimaginable. Only a year ago, investors were wondering whether Teck would survive the commodity glut. Shares were trading around $3.80, and the expectation was that it would go much lower.

Fast forward to today, and Teck has appreciated by over eight times, and investors are sitting on returns that many investors would die for. But now the question is whether Teck can achieve even more or if it is going to run out of steam. Could Teck reach Peter Lynch's mythical 10-bagger status, in which a stock appreciates by 10 times?

Teck derives the vast majority of its revenue from metallurgical coal and copper. And for much of the year, prices were depressed. Even back in July, Teck was selling coal for US$90 per tonne. However, China announced a rule that coal mines could only operate for 276 days. This resulted in a serious impact on supply, which sent prices higher. And by higher, I mean more than three times higher to US$300 per tonne today.

That doesn't mean that Teck was making US$300 per tonne. Because Teck signs its contracts on a quarterly basis, it was still selling at US$90 despite the spot price rising. However, investors believe that commodity prices will stay high into the next quarter, allowing Teck to sell closer to the spot price. Should that occur, the stock will rise much higher due to the incredibly lucrative margins the company will be generating.

Since the end of October, the price for a pound of copper increased from US$2.10 to a little over US$2.60. This nice increase was after copper was in, effectively, a five-year price glut where it dropped from nearly US$4 per pound to a little under US$2. This improvement in copper's price will also contribute nicely to the company's margins should it stay higher for multiple quarters.

But just because the company might start generating significant revenue from its commodities doesn't mean it's an instant buy. Last year, it was dealing with a US$9 billion pile of debt, which could pull even the strongest of companies into the gutter. Instead, management was able to trim $1.4 billion from this debt, which should put it in a strong position to thrive as commodity prices remain strong.

Should you buy or sell?

This is a difficult question to answer. If you have been holding Teck since the beginning of the month, you are sitting on serious returns, and that is very appealing. However, I believe that Teck has more gas in the tank, especially if commodity prices stay higher. On the other hand, greed is one of the easiest ways to lose your paper returns. Taking some money off the table would be a good way to ensure your returns are safe.

On the other hand, I wouldn't advise buying shares. Trying to chase a stock as it skyrockets is a dangerous way to invest. When others are greedy, it's time to be fearful. Therefore, I would definitely not recommend buying Teck right now.

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