Could Teck Resources Ltd. Stock Jump Another 20%?

Description

After **Teck Resources Ltd.'s** (TSX:TECK.B)(NYSE:TECK) dizzying rally this year, investors are wondering if it's time to take some profits off the table. **Citigroup Inc.** (NYSE:C), though, thinks otherwise, having just upgraded the stock from neutral to buy with a price target of $40. That represents another 20% upside from current prices. So, should you still hold on to Teck shares?

Why Teck's prospects look bright

Citigroup is bullish about metallurgical coal, zinc, and copper going forward. Teck deals in all three commodities, prices of which–especially met coal–have jumped significantly in recent months. That has fueled hopes of higher sales and profits for Teck. Met coal–a key raw material for steel–is Teck's primary product.

The optimism isn't unwarranted, though. A couple of weeks ago, Teck updated its guidance, now projecting its Q4 average realized prices to be US$200-205 per tonne for its steel-making coal products. You'll realize how significant that is only when you know that Teck's average realized price in Q4 2015 was only US$110 per tonne. That should mean a huge jump in year-over-year profits, especially given that Teck expects to sell the same amount of coal of 6.5 million tonnes this Q4 as it did in last year's Q4.

Furthermore, as Teck will lock in sales contracts for the first quarter of next financial year in Q4, rising met coal prices should mean high realized prices for Q1. Let's also not forget the prospects of Donald Trump reviving the coal industry under his presidency. In short, there's every sign that Teck's profits are going to go up from here.

Meanwhile, Teck is striving hard to cut costs and deleverage, which should further boost margins going forward.

It's a bet on oil, cash, and growth

Higher coking coal prices could turn around Teck's fortunes, but there's a caveat: prices need to keep at these levels, which largely depends on China's appetite for met coal. With the nation easing restrictions on the operation of local mines, supply could go up and put a lid on prices.

That said, there's another catalyst on the horizon: recovering oil prices. As you might already know, Teck is adding another commodity to its portfolio with its Fort Hills oil sands project, which is on track to start production late next year. Teck will own 20% stake in Fort Hills, or roughly 13 million barrels per year of the bitumen produced.

Of course, there's still at least a year until Fort Hills comes online, but it's important to consider future opportunities and threats when investing in a stock for the long term. As its Fort Hills projects winds up, Teck should also be able to free up substantial amounts of cash to invest in other growth projects or return to shareholders as dividends.

Foolish bottom line: be patient

I wouldn't write off Teck just yet as there are several growth catalysts in sight. As Teck is a typical cyclical stock that is bouncing off its lows in anticipation of a turnaround in the mining industry, long-term investors might want to hold on to it with patience.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. NYSE:C (Citigroup Inc.)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:TECK.B (Teck Resources Limited)

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