



## Teck Resources Ltd.: Should You Buy the Latest Pullback?

### Description

**Teck Resources Ltd.** ([TSX:TECK.B](#))([NYSE:TECK](#)) is giving back some of its stellar gains, and investors who missed the massive rally are wondering if they should buy the pullback.

Let's take a look at the current situation to see if this is the right time to add Teck to your portfolio.

### Coal prices

Teck's largest operation is the production of metallurgical or coking coal, which is used to make steel.

Coming into 2016, the met coal market was in its worst slump since 1950, and most market observers expected the pain to continue.

As we all know, coal has enjoyed an unprecedented rally, and that is a large reason for Teck's major advance.

What happened?

Back in March the Chinese government changed the rules on how many days a coal mine is allowed to operate per year. The new limit, which was set at 276 days, was expected to have an impact on the market, but analysts were caught off guard by how drastically things changed in the last half of the year.

The production drop tipped the balance of the coking coal market from being oversupplied to quite tight. As a result, met coal prices surged from US\$90 per tonne in the summer to above US\$300 in November.

In response, China relaxed the rules on November 18; mines are now allowed to run 330 days per year.

This should bring the market back into balance, and while coal prices remain elevated, the top appears to have been hit, and lower bids have started coming in over the past few days.

At the time of writing, prices are down to about US\$290 per tonne.

This is why Teck's shares have taken a hit, dropping from \$35 to below \$30 per share.

### **Impact on Teck's earnings**

Teck sells most of its coal on quarterly contracts rather than at the spot price. The company received about US\$90 per tonne in Q3 and is expected to average a bit better than \$200 per tonne in Q4.

Negotiations are underway between suppliers and buyers for Q1 2017, but estimates suggest the settlement price will come in at US\$250-280 per tonne.

If that's the case, Teck's Q1 results are going to be very good.

### **Copper and zinc**

Teck also produces zinc and copper.

Zinc has enjoyed a strong recovery in 2016, chalking up gains of about 70% year-to-date. The rally looks like it might be taking a breather, but market watchers expect prices to remain healthy through next year.

Copper had lagged coal and zinc for most of the year, but it has really taken off since late October, rising 30%. Pundits are mixed on the sustainability of the copper rally with many saying the fundamentals don't support the huge move.

### **Should you buy Teck today?**

Teck's Q4 2016 and Q1 2017 results will certainly be strong, and the flood of cash that is expected to come in will go a long way to help paying down the huge debt pile.

Having said that, the market is always forward-looking, and investors are nervous that coal, zinc, and copper are going to pull back in a meaningful way.

As such, I would stay on the sidelines until the reversal has clearly run its course.

Investors are sitting on big gains in this stock, and any hint of an exodus to protect gains could see the share price drop significantly in the near term.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

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

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