Investors: Now Is Not the Time to Sell Teck Resources Ltd.

Description

It has been a big year for investors in coal and metals miner **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK). The one-time beaten-down miner's share price has surged over the last year to now be more than six times higher than it was a year ago.

After such a strong rally, many investors are wondering if it is time to sell.

There are signs that Teck's rally is far from over and that further upside lies ahead for investors.

Now what?

Teck's latest rally is all about commodities or, more specifically, metals which have spiked in value over the past six months.

Coking or steel-making coal has exploded. Its spot price, even after allowing for a recent decline, is now more than four times higher than it was this time last year.

Copper, which many pundits consider to be an important indicator of the health of the global economy, has also rallied to now be 26% higher than it was a year ago.

The significant rally that these and other commodities have experienced can be attributed to demand swiftly outpacing supply. There are signs that higher metals and other commodities prices are here to stay. Not only has Beijing's credit-led stimulus triggered a boom in construction, fueling higher demand for important construction materials like steel, copper, and zinc, but Trump's planned trillion-dollar investment in infrastructure will drive even higher demand.

Then there are the growing supply pressures relating to coking coal, copper, and zinc.

You see, the deep slump in commodities saw many miners hold off on investing in exploration andmine development. This means that for at least the short to medium term, global copper, zinc, andsteel-making coal supplies won't grow fast enough to meet the growth in demand, causing prices torise further.

Such an outlook is particularly good news for Teck as most its earnings come from coking coal, copper, and zinc.

In fact, because of the significant cost-cutting efforts taken during the commodities downturn, Teck is now capable of earning wider margins because of these higher coking coal, copper, and zinc prices. This will lead to higher cash flows and enhanced profitability.

The miner has already released a more upbeat guidance for its coal operations during 2016. Teck now expects a blended realized price for the fourth quarter 2016 of US$200-205 per tonne, which is well above the US$92 per tonne realized during the third quarter 2016.

As a result of the expected stronger cash flows, Teck's chief executive officer Don Lindsay has flagged the possibility of a change in its dividend policy in April next year–a dividend hike is under consideration. Any dividend increase will not only reward loyal investors, but also buoy Teck's share price even further.

So what?

Because of the optimism surrounding steel-making coal, copper, and zinc, it isn't difficult to see Teck's profitability and share price continue to grow.

Investors should note, nonetheless, that Teck's story is all about China, which is the world's leading consumer of steel and copper. This means that should China experience any economic glitches in coming months, then metals prices could fall sharply.

However, there are signs that China's massive investment in infrastructure and construction will continue into 2017. When coupled with the optimism surrounding the U.S. economy, this will support higher metals price for at least the foreseeable future.

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1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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