Teck Resources Ltd.: Should You Own This Stock Heading into 2017?

Description

Teck Resources Ltd. (TSX:TECK.B)(NYSE:TECK) has given back some of its massive gains, and investors are wondering if the pullback is an opportunity to buy.

Let's take a look at the current situation to see if Teck should be in your 2017 portfolio.

Commodity prices

Teck produces metallurgical coal, zinc, and copper. It is also a 20% partner on the Fort Hills oil sands project, which is scheduled for completion near the end of 2017.

Metallurgical coal has been the big surprise in 2016, rising from below US$90 per tonne to November highs above US$300. The surge came on the heels of a March 2016 decision by the Chinese government to restrict the number of days a mine can operate to 276 per year. This change shifted the market from being oversupplied to relatively tight, setting off a huge rally in coal prices from mid-summer through the fall.

In order to cool the market down, China loosened the restrictions on November 18 to 330 days, and that has had an impact on met coal spot prices, which have fallen back to about US$260 per tonne.

Teck sells most of its coal on quarterly fixed contracts rather than at the spot price. The company received about US$90 per tonne in Q3 and is expected to report a number slightly above $200 per tonne for Q4. Analysts are currently looking for Q1 2017 settlement prices in the industry to be US$250-275 per tonne.

Zinc is up 70% this year, and copper surged 30% in the past two months. Both have pulled back over the past week, so it will be interesting to see what happens next year. Zinc is expected to see strong support, but analysts have mixed opinions on whether or not copper can maintain its momentum.

Oil might be the big wildcard for 2017. If prices trend higher through the year, Teck could get a nice boost leading into the Fort Hills start-up. If oil rolls over again and the other commodities flatten out or slip, Teck could see further downward pressure.

Should you buy?

Teck will certainly deliver strong Q4 2016 and Q1 2017 results based on rising coal contract prices, but the market has probably priced that into the stock already.

So, the challenge is to decide where coal, copper, zinc, and oil are headed through 2017. At the moment, there seems to be a weakening trend across coal, copper, and zinc, and oil might give back some gains if the market starts to question OPEC's commitments to supply cuts.

As a result, I would stay on the sidelines and wait to see if the recent weakness in the market picks up steam. The pullback looks like a tempting entry point, but another leg to the downside might be in the cards.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/07/28
Date Created
2016/12/21
Author
aswalker