



## Teck Resources Ltd.: Is the Sell-Off Overdone?

### Description

**Teck Resources Ltd.** ([TSX:TECK.B](#))([NYSE:TECK](#)) has given back some of its massive gains over the past month, and investors are wondering if the pullback has gone too far.

Let's take a look at the current situation to see if Canada's largest diversified mining company should be on your buy list.

### Commodity rally

Teck chalked up big gains in 2016 on the back of strong recoveries in its three products: metallurgical coal, zinc, and copper.

Coal wasn't expected to do well at all last year, but a move by the Chinese government in March to restrict the number of days mines can operate in a year had the effect of shifting an oversupplied market to one that was quite tight.

This set off a rally in the metallurgical coal market, driving prices from US\$90 per tonne in the summer to above US\$300 per tonne in November. In an effort to cool the market, the Chinese reversed the decision November 18, moving the allowable operating days from 276 to 330.

That has had the desired impact, as metallurgical coal spot prices have been on the slide ever since and finished the year close to US\$225 per tonne.

Teck sells most of its coal on fixed quarterly contracts rather than at the spot price. The company is expected to report an average Q4 2016 price of slightly higher than US\$200 per tonne.

Investors are eagerly waiting for the Q1 2017 contract prices to emerge. At one point, pundits were looking for something in the range of US\$250-275 per tonne, but the drop-in spot prices through the end of December could have pushed the number lower.

For the moment, the trend for metallurgical coal spot prices remains negative.

Zinc also had a strong 2016, rallying 70% as production cuts and improved demand moved the market back into balance. The rally stalled out in the first half of December, and investors are still trying to decide if demand will be strong enough in 2017 to trigger another move to the upside.

Copper lagged coal and zinc for most of 2016, but picked up a tailwind through November, rising close to 30% by the first week of December. That rally has since fizzled out, and pundits have mixed opinions about copper's ability to move much higher in the near term.

### **Should you buy?**

Teck will probably report very strong Q4 2016 results. If the numbers come out higher than the lofty analyst expectations, the stock could get a bounce.

At this point, however, I would be careful trying to call a bottom. Coal, zinc, and copper are still trying to sort out their next moves, and that means more downside could be in the cards in the near term.

Given the massive rally in Teck's stock over the past year, investors who haven't already booked profits might decide to do so if the commodities show further weakness.

As such, I would wait for a confirmed bottom in the coal, copper, and zinc pullbacks before buying Teck.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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aswalker

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