Teck Resources Ltd.: Is Another Big Rally About to Begin?

Description

Teck Resources Ltd. (TSX:TECK.B)(NYSE:TECK) is catching a nice tailwind after a strong pullback.

Let's take a look at the current situation to see if this could be the start of another big surge for the stock.

Coal, copper, and zinc

Teck produces metallurgical coal, copper, and zinc. The three commodities had been in multi-year slumps leading into 2016, and Teck's shares paid the price as a result.

How bad was it?

Teck fell from $60 per share in early 2011 to below $4 per share in January last year.

Ouch!

With coal expected to remain under pressure in 2016, and Teck's $9 billion debt pile looking like it might crush the company, investors hit the panic button. That has proven to be a big mistake, as 12 months later, Teck is worth $29.50 per share.

What happened?

Zinc got the ball rolling with a nice recovery on the back of reduced output and improving demand. The metal jumped about 70% in 2016.

Coal joined the party in the spring after China made a surprise cut to the number of days a coal mine can operate in a year. The move quickly shifted the market from being oversupplied to quite tight, and coal prices surged as a result.

Met coal traded for about US$90 per tonne in the summer and topped US$300 per tonne in November.

China then backtracked on the move in order to cool down the market, shifting the mine operating limit from 276 days up to 330 days. That has taken some of the pressure off the market, and spot prices have since pulled back.

Copper lagged the other commodities for most of 2016, but surged near the end of the year, gaining nearly 30% from early November to the first part of December.

All three commodities gave back some gains in the last two weeks of December, but copper and zinc have started to pick up again, and investors are wondering if the coal pullback has run its course.

Should you buy Teck?

Teck received about US$90 per tonne for its coal in the third quarter. The company is expected to show a Q4 realized coal price of better than US$200 per tonne and reached Q1 2017 contract agreements to sell at US$285 per tonne, so the next two sets of earnings results are going to be very strong.

Going forward, investors have to decide where they think prices are headed for the rest of 2017 and beyond. At this point, it looks like the commodity rally might be getting its second wind, but it’s is still too early to tell.

I would keep the position small until there is a clear sign the coal pullback is over.

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
2017/01/11
Author
aswalker