



Teck Resources Ltd: Is a Run to \$60 Possible in 2017?

Description

Teck Resources Ltd. ([TSX:TECK.B](#))([NYSE:TECK](#)) chalked up some impressive gains last year, and investors are wondering if the big rally is going to continue.

Let's take a look at Canada's largest diversified mining company to see if it should be in your portfolio.

Commodity rally

Teck produces metallurgical coal, copper, and zinc. The company is also a 20% partner in the Fort Hills oil sands project.

Coal prices rallied in 2016 on the back of Chinese production cuts and supply disruptions in Australia.

Pundits didn't see this coming, and the huge surge in coal prices from about US\$90 per tonne in the summer to above US\$300 in November helped drive Teck's stock above \$35 per share.

Last March, China restricted mine operations to 276 days per year. In order to slow the price surge, the country back-tracked in November, setting the limit at 330 days.

This has had the desired effect, and coal prices have since dropped back below US\$200 per tonne.

Teck sells most of its coal on quarterly settlement contracts. The company received about US\$90 per tonne in Q3, is expected to report slightly higher than US\$200 per tonne in Q4, and said its Q1 2017 contracts are at US\$285 per tonne.

Right now, it looks like Q1 2017 will be the near-term peak for Teck's coal revenues.

Zinc and copper both enjoyed big rallies last year, but pulled back a bit in December. A strong start to 2017 has pundits calling for a continued move to the upside, but some analysts say the surge might be overdone, especially in the case of copper.

Fort Hills is expected to begin production by the end of 2017. If oil can rally through the end of the year, Teck might pick up an additional tailwind.

Could Teck hit \$60?

The last time Teck rallied off a \$4 low, it topped \$60 in less than two years.

There is no guarantee the same will happen this time, but investors shouldn't rule it out, especially if President Trump's infrastructure plans spur an additional rush into the base metals.

Teck currently trades for \$32 per share, so there would have to be strong support from all of the business segments to get it to \$60 this year.

Should you buy?

Teck's Q4 2016 and Q1 2017 results are going to be strong, so the stock could ride that momentum higher in the coming months.

If you think coal prices are going to stabilize near current levels and believe copper and zinc still have room to run, Teck remains attractive, but I would keep the position small at this point.

The downside risk is significant if coal continues to slide and copper and zinc run out of steam.

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