Teck Resources Ltd.: Time to Take Money off the Table?

Description

I wrote about **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK) on December 1. In the article, I suggested that those who'd ridden the wave up from $3.80 to over $34 a share might feel the desire to take some money off the table, but not completely because the stock had more gas in the tank. I was half right. Taking some money off at that time would have saved you from a nearly $8-a-share drop in two weeks.

But now, the price has recovered, and we're back to square one. Should we be taking money off the table, or should we continue to push this rally even higher? That answer is derived entirely from the price of commodities.

The bulk of its revenue comes from metallurgical coal and copper. For much of 2016, though, the price of coal and copper were depressed. In July, for example, Teck was selling a tonne of coal for US$90.

In March 2016, China restricted mine operations, so they could only operate for 276 days a year; however, when the price catapulted, they pushed that to 330 days. This pulled the price back down to under US$200 per tonne.

Copper side had been selling for approximately US$2.20 per pound, but then in November it experienced a resurgence, rising to US$2.6 per pound, or an 18% increase.

But the problem for Teck is that it didn't get to reap the benefits of the catapulting price in coal because it signs quarterly contracts. That means that if it were to sign a contract when the price is US$90 and then coal tripled, Teck wouldn't benefit from that increase. However, the company expects that its contracts in Q4 will be a little over US$200 per tonne, and its Q1 2017 contracts will be closer to US$285.

One problem for Teck that has always held me back from it (unfortunately) is its debt. Last year, it was sitting on a giant US$9 billion pile of debt. However, it has trimmed $1.4 billion from that and issued new bonds to pay off old ones, giving it more time to focus on paying debt off. In an interview withBNN, Don Lindsay, president and CEO of Teck, suggested that if commodity prices stay where theyare, “we could be debt-free in six quarters.”

There are two factors that could really help Teck in the long term, though. The first is Donald Trump, who has promised to invest heavily in infrastructure. This large investment could push the spot price of all base metals higher. The other factor is that it owns 20% in the Fort Hills Energy Limited Partnership. This is expected to launch in 2017, so with oil prices rising, this could provide an additional push for the mining company.

So, should you buy or sell Teck?

If you took my advice last time and sold some of your position, don’t keep selling. I believe that Teck can go higher, especially with its contracts generating more and its debt getting smaller. And if you are thinking about getting in, I think this might not be a bad idea. Teck experienced a drop and shook off some of those investors who had accrued returns that were multiples of their investment. Therefore, current investors might be thinking more long term. I’d start small, but I believe the risks are worth the potential reward.

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