Teck Resources Ltd.: What Are the Biggest Risks Today?

Description

Teck Resources Ltd. (TSX:TECK.B)(NYSE:TECK) enjoyed a massive rally in 2016, but the stock has given back a hefty chunk of the gains, and investors are wondering if more downside is on the way.

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

All about commodities

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

Coal wasn't supposed to do much last year, but a policy shift in China triggered a rally that contributed significantly to Teck's outsized gains.

What happened?

Last March, the Chinese government decided to restrict the number of days a mine can operate per year, setting the limit at 276. As the changes went into effect, production fell and the impact on the market turned out to be stronger than expected.

In the summer, the met coal spot price was about US$90 per tonne. By early November, it had surged above the US$300 mark.

China then reversed its position in an effort to calm the market, and that has definitely had an impact. Coal dropped as much as 45% from the November high, and analysts are trying to decide where it will settle.

Copper and zinc also had strong runs in 2016, and those moves have continued into 2017. Recent action suggests the two metals might be taking a breather, and pundits are split on whether or not the upward trend can continue.

What about oil?

Oil might be the biggest risk for Teck in 2017. Fort Hills is expected to begin production by the end of the year, which means the site should stop being a cash drain on the capital plan and begin to generate revenue.

Whether or not it will be profitable is the big question.

Investors don't have any way of knowing what the true operating costs will be until the facility actually starts producing and Teck reports the results.

If oil can extend its 2016 rally through 2017, Teck might pick up a new tailwind on positive expectations. If oil tanks again, Teck could get hit hard as investors start to worry about the ability of Fort Hills to make money.

Should you buy?

Teck's pullback from $35 per share to $26 might look enticing, but downside risks remain, especially if copper, zinc, and oil decide to roll over in the coming months.

At this point, I would stay on the sidelines until there is a clear indication the commodities have started another strong move to the upside.

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. Newscred
3. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/07/28
Date Created
2017/03/10
Author
aswalker