



Teck Resources Ltd.: Time to Jump Back in?

Description

Teck Resources Ltd. ([TSX:TECK.B](#))([NYSE:TECK](#)) has picked up a new tailwind over the past three weeks, and investors are wondering if more gains are on the way.

Let's take a look at the current situation to see if Teck should be in your portfolio.

Coal prices

Teck produces metallurgical coal, copper, and zinc.

Coal rallied significantly in 2016 after China put restrictions on the number of days mines can operate in a year. The Chinese government made the move in March, setting the limit at 276 days.

This decision had a greater-than-expected impact on the market, bringing an oversupplied situation to one that was relatively tight. As a result, met coal prices soared from about US\$90 per tonne in the summer to above US\$300 in November.

In an effort to cool the rally, China reset the limit at 330 days, and prices subsequently dropped. At the time Teck reported its Q4 results, spot prices were down to about US\$155 per tonne.

How does this affect Teck?

Teck sells most of its coal on quarterly contracts. The company reported a realized average sale price of US\$207 per tonne in Q4 2016 and recently said its Q1 2017 price should be slightly above that number.

Quarterly settlement prices for Q2 are not available as buyers and sellers continue to assess the impact of recent weather disruptions in Australia.

Copper and zinc

Copper had a nice rally at the end of 2016, but prices have drifted lower over the past month. Pundits appear to be split on whether or not copper is going to move higher in the near term.

Zinc also enjoyed a big run last year and continues to trend higher. Analysts tend to be more optimistic about zinc's prospects for additional gains.

Most market watchers are now waiting to see if President Trump will announce an infrastructure plan that could drive base metal demand higher in the medium term.

What about oil?

Teck is a 20% partner on the Fort Hills oil sands development. The project is on schedule and expected to begin production later this year.

Once Fort Hills goes into operation, oil prices could start to have a larger impact on Teck's stock.

Should you buy?

Teck is making good money right now, even at current coal prices, and the company should be able to further reduce its debt load in the coming quarters.

At this point, it appears the initial pullback off the high has run its course, so investors who are bullish on oil and the base metals in the coming years might want to consider a small position on further weakness.

Teck is a low-cost producer and will benefit significantly if copper, zinc, and coal stabilize at current levels or move higher.

The main concern today is the likelihood of a pullback in the broader market. If we get a steep drop in the coming months, names that have enjoyed big gains, such as Teck, could see a strong bout of profit taking.

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