



Teck Resources Ltd.: Is Another Leg up About to Begin?

Description

Teck Resources Ltd. ([TSX:TECK.B](#))([NYSE:TECK](#)) chalked up impressive gains in 2016, but the stock has bounced around in 2017, and investors are wondering where things are headed.

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

Coal

Teck's big gains last year were heavily driven by a surprise rebound in the metallurgical coal market.

What happened?

Coal was in a multi-year slump leading into 2016, and most pundits figured the trend would continue.

However, the Chinese government decided in March 2016 to put restrictions on the number of days that mines can operate in a year. The move had a quick impact on the market, shifting it from a position of over supply to one that was relatively tight.

As a result, met coal prices went from close to US\$90 per tonne in the summer to more than US\$300 per tonne in November.

In an effort to cool the market down, China eased the restrictions, and the impact was quite dramatic.

When Teck reported its Q4 2016 results, it said met coal spot prices had pulled back to US\$155 per tonne.

Teck sells most of its coal on quarterly contract settlements. The Q1 2016 average realized price is expected to be about US\$210 per tonne.

Settlement prices for the Q2 2017 contracts haven't been released, as buyers and producers sort out the impact of supply disruptions in Australia due to major storms.

Spot prices have rebounded above US\$200, so there might be room for some upside price surprises in

the coming quarter.

Copper and zinc

Teck also produces copper and zinc.

Zinc rallied significantly through most of 2016 and into the first part of this year, but spot prices have fallen over the past two months and are pretty much back to where they ended the year.

Copper had a huge run in Q4 2016 and started out strong in the new year, but it has also tracked lower over the past 60 days.

Oil

Teck is a 20% partner on the Fort Hills oil sands development, which is scheduled to begin production in late 2017. The switch from development to production means the cash drain should be at an end, but some pundits are concerned oil prices are not high enough for the facility to generate a profit.

Is it time to buy Teck?

Coal is catching a nice rebound in the wake of the big storms in Australia, but copper and zinc are in a downtrend, and there is no indication yet that those moves have bottomed out.

Regarding oil, analysts are all over the map with predictions for the next year with some saying WTI is headed towards US\$70 per barrel, and others calling for a dip back down to US\$40.

As such, investors should probably be cautious right now regarding this stock.

If you like the long-term outlook for the commodities, Teck deserves to be in your portfolio, but I would keep the exposure small until there is a confirmation of a new uptrend in the prices for all of the company's core products.

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