



Teck Resources Ltd. Tanks: Should You Buy the Pullback?

Description

Teck Resources Ltd. ([TSX:TECK.B](#))([NYSE:TECK](#)) dropped more than 5% after reporting lower-than-expected earnings for Q1 2017.

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

Q1 results

Teck posted a strong quarter compared to the same period last year.

Profit attributable to shareholders came in at \$572 million or \$0.99 per share, compared to \$94 million or \$0.16 per share in Q1 2015.

Much stronger commodity prices in all three of the company's core product lines are responsible for the better numbers.

So why did the stock fall?

Analysts expected the company to post better results.

Teck's steel-making coal production slipped from 6.6 million tonnes in Q1 2015 to 6.1 million tonnes in the first three months of 2017. Sales came in at 5.9 million tonnes, compared to 6.6 million tonnes last year.

Logistics constraints caused most of the grief in the first quarter, and while higher prices for key inputs were expected, the reduced production drove up unit costs by \$13 per tonne to \$56 from \$43 last year.

The company expects Q2 2017 sales to be 6.8 million tonnes.

Outlook

Steel-making coal prices remain volatile.

The market saw a surge from US\$90 per tonne last summer to above US\$300 per tonne in November in the wake of policy changes in China that limited the number of days mines can operate. The country reversed the decision in November and price fell back below US\$160 per tonne.

The market has since seen a recovery on the heels of supply disruptions in Australia caused by Cyclone Debbie.

Teck sells most of its coal on quarterly settlement contracts and averaged US\$213 per tonne in the first quarter. Spot prices have moved back above US\$200 per tonne, but the Q2 settlement contracts have not been released as suppliers and buyers continue to assess the impact of the damage in Australia.

Should you buy?

Teck is making good money at current commodity prices and management is taking advantage of the positive momentum to pay down debt. The company reduced its obligations by US\$1 billion in Q1, reducing the balance of the outstanding notes to US\$5.1 billion.

Debt was a major concern in the past but the company's balance sheet has greatly improved, removing much of the risk.

Coal is the largest division, but Teck also produces copper and zinc. Prices for the base metals have cooled off after a major rally, so investors might want to wait to see how things go in the coming month or two before backing up the truck for Teck's stock.

If you believe the long-term outlook for the commodities is positive, Teck deserves to be in your portfolio. For the moment, however, I would keep the exposure small until a new uptrend is confirmed in the coal, copper, and zinc markets.

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