



Teck Resources Ltd.: Should You Own This Stock Today?

Description

Teck Resources Ltd. ([TSX:TECK.B](#))([NYSE:TECK](#)) is trading near its six-month lows.

Let's take a look at Canada's largest diversified mining company to see if the pullback is a good opportunity to buy the stock.

Big rally

Teck traded for \$4 per share in early 2016 as investors essentially threw in the towel on fears the company would not survive that year.

At the time, Teck carried about \$9 billion in debt, prices for its three main products (metallurgical coal, copper, and zinc) remained in multi-year slumps, and the billions the company had spent on the Fort Hills oil sands development looked like a potential write-off.

As we know, Teck didn't go bust. Market conditions improved dramatically, and the stock soared to \$35 in November.

What happened?

Coal prices received a boost from a March 2016 regulatory change in China that limited the number of days a mine can operate in a year. That decision combined with supply issues in Australia shifted the coal market from a position of oversupply to one that was relatively tight.

As a result, met coal prices soared from US\$90 per tonne in the summer to above US\$300 per tonne in November. At that point, China reversed its restrictions and the market quickly corrected.

Spot prices have stabilized in the US\$150-160 per tonne range, although they spiked above US\$300 in April as a result of additional supply disruptions in Australia caused by Cyclone Debbie.

Teck sells most of its coal on quarterly contracts and averaged US\$213 per tonne in the first quarter. Settlement prices for Q2 have not been released amid ongoing negotiations due to the Australian

supply issues.

Copper, zinc, oil

Regarding copper and zinc, both metals enjoyed strong rallies through the end of 2016 but have trended lower since mid-February.

Concerns surrounding the strength of the Chinese economy are partly to blame. Profit taking after the Trump-induced rally might also be part of the picture.

As for Fort Hills, the facility is expected to begin production in late 2017. This should be a positive for Teck as the project has been a cash drain for several years. That said, some pundits are concerned oil prices might not be high enough for Fort Hills to turn a profit.

Should you buy?

Debt is now under control, and Teck's position as a low-cost producer sets it up well for further gains in the copper, coal, and zinc markets.

At the moment, however, copper and zinc are still in a downward trend, and coal is trying to find a new level of stabilization, so I would probably wait for confirmation of a new leg to the upside before buying the stock.

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Author

aswalker

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