



Is Teck Resources Ltd. Going Under \$5 Again?

Description

Long-time investors in **Teck Resources Ltd.** ([TSX:TECK.B](#))([NYSE:TECK](#)) will remember the sell-off which came about during the latter half of 2015 and the recovery in early 2016. Looking at the current 52-week range, investors may not realize just how much risk shares of the Canadian mining giant really hold.

If we look at the past two years, investors will notice a significantly large discrepancy between the high and low share prices of the company. In 2015, the low share price was an abysmal \$3.65, which coincided with when the previous U.S. president took aim at coal. Following the departure of Mr. Obama, shares rebounded to \$35.67 during 2016.

Currently trading at a price near \$24 per share, Teck Resources has declined considerably from the 52-week high of \$35.67.

As is the case with most mining companies, when resources are moving in contango (a natural upward trajectory), the share price of the miner can very easily get stretched and trade at a multiple of tangible book value. Barring clear expansion in the overall economy (and an increase in resource prices), investors should expect things to settle, potentially even decline for a long period of time before another economic boom.

Teck Resources's current share price of \$24 may actually be a bargain given the tangible book value of \$29.30 per share. To make things better, the company has taken excess cash and deployed it into a share buyback in the first quarter of the year. During this time, shares outstanding declined from 586.25 million to 577.65 million. Assuming management continues to recognize good value and has the cash available, investors may see the total number of shares outstanding decline further in the coming quarter.

The conundrum faced by investors is going to be the momentum which is currently moving against the company. Looking at the 10-day, 50-day, and 200-day Simple Moving Averages (SMAs), it is clear that investors have started to lose optimism over the past six months. SMAs dropped on a number of occasions in addition to the share price, which broke below all three SMAs over the past month.

Teck Resources is currently on a clear downward trend, so it is important for investors to understand that the continuation of this could lead the 50-day SMA to cross over the 200-day SMA— a bearish signal. This should happen this week, if it has not already.

Because Teck Resources is in the business of mining several different resources, investors must be very cautious when entering this name. Any number of negative things could happen to the different skews which contribute to the bottom line. Basically, there are many opportunities to lose money. Remember the \$3.65 per share? That was coal.

Although it is one of Canada's biggest mining companies, Teck Resources's shares are by no means a slam-dunk investment. While revisiting a price of \$3.65 may be unlikely, investors could still experience a significant drop from current levels. Buyer beware.

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