Teck Resources Ltd. Down 18% in 1 Week: Now What?

Description

Last week was certainly not a positive one for **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK) with shares falling by over 18%. And if we look at the company since April 7, the stock has fallen by over 38%, giving up all of the gains that had been achieved year to date.

But why are shares down so much, and, more importantly, what should investors be looking for going forward?

Shares dropped by so much last week because the company forecasted that its averaged realized price of steel-making coal would be lower in the second quarter. In Q1, its average price was US$213 (~$283) per tonne, but it's now expecting to only generate anywhere from US$160-165 (~$211-218) per tonne. Originally, it had predicted that it would earn US$190 ($251) per tonne.

In a statement, the company wrote, "After steel mills filled their prompt requirements immediately following the Queensland cyclone, there were very few prime hard coking coal spot sales during the four-week period from mid-April." In other words, the beginning of the quarter was strong, but then sales died off.

Nevertheless, management is still predicting sales of 6.8-7 million tonnes, which is in line with or a little higher than the 6.8 million tonnes the company expected in its original guidance.

This drop in share price has investors worried about a repeat of the company's fall during 2015-16. By early 2016, shares were trading at $4, and with the company carrying $9 billion in debt, there was concern that Teck might go bankrupt. However, since then, the company is in a far better position, so investors need not worry.

In Q1 2016, Teck sold 6.5 million tonnes of steel-making coal, while its realized price was only $102 per tonne. In Q1, it sold 5.9 million tonnes at the realized price of $283. If it can sell nearly one million tonnes more at $211-218 per tonne, revenue should be relatively constant for the company. While margins will drop, the company could still be in a pretty strong position.

Ultimately, we won't know the impact of Teck's coal sales and revenue until the company releases its quarterly report.

Whenever a company gives up 18% of its value over a five-day period, it's important to recognize that the move is an emotional one. And when there is an emotional reaction to something on the market, that creates an opportunity to buy.

Teck is not the same company it was a couple years ago. First, the price per tonne is still more than double what it was. And second, the company has aggressively been paying down its debt, so it's not paying as much interest. As of April 2017, Teck has reduced its debt from over US$7 billion in September 2015 to US$5.1 billion. That US$2.1 billion cut in debt will help the company save US$55 million in interest.

Do I recommend buying Teck? Frankly, Teck is oversold in the short term because of an emotional response. It might be a worthy trade to pick up shares and see how the market calms down over the next few days. However, in the long term, we still need to know where commodities are going to settle. At current prices, I believe Teck can continue to pay down its debt and return cash to its investors. If shares crater more, Teck will suffer.

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