



## Teck Resources Ltd.: Time to Buy the Sell-Off?

### Description

**Teck Resources Ltd.** ([TSX:TECK.B](#))([NYSE:TECK](#)) is taking a beating, and investors are wondering if the pullback has simply gone too far.

Let's take a look at Canada's largest diversified mining company to see if it deserves to be in your portfolio today.

### Commodity outlook

Teck soared from \$4 per share to \$35 last year as prices for metallurgical coal, copper, and zinc staged rebounds after a multi-year rout.

Coal's rally wasn't expected, but a policy change in China sparked a turnaround that few, if any, analysts saw coming.

What happened?

China reduced the number of days a mine can operate to 270 per year. This decision removed enough production to shift an oversupplied market to one that was relatively tight.

As a result, metallurgical coal prices moved from US\$90 per tonne last summer to above US\$300 in November. China reversed its decision in an effort to cool the market, and prices subsequently fell back to about US\$150 in early 2017.

Teck's stock has come down in step and really took a hit late last week. At one point on June 16 the shares were below \$20.

Why?

The company updated its Q2 2017 coal price estimate, and investors didn't like what they heard.

Teck says it expects to report a second-quarter average realized sale price of US\$160-165 per tonne. That's a big drop from the US\$213 per tonne the company averaged in Q1 2017.

Copper and zinc have also been on downward trends for the past four months, as enthusiasm around President Trump's big infrastructure program loses steam, and investor worry about slow growth in China.

### **What about oil?**

Teck is a 20% partner in the Fort Hills oil sands project.

The facility is expected to shift from development to production by the end of the year, which should put an end to a heavy burden on Teck's cash flow.

However, some analysts are concerned Fort Hills won't be profitable unless oil can move significantly higher.

### **Should you buy?**

Teck is a low-cost producer and generates significant free cash flow when commodity prices are rising.

At this point, the trend in all of its core products is downward or flat, so there isn't much incentive to jump in right now, despite the strong pullback in the stock.

As such, I would wait for a clear signal that coal, copper, zinc, and oil are headed sustainably higher before buying the stock.

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