



## Should You Buy Teck Resources Ltd. or Cameco Corp. Today?

### Description

Commodity stocks are taking it on the chin these days, and that has contrarian investors searching through the wreckage for names that might be on the cusp of a rebound.

Let's take a look at **Teck Resources Ltd.** ([TSX:TECK.B](#)) ([NYSE:TECK](#)) and **Cameco Corp.** ([TSX:CCO](#)) ([NYSE:CCJ](#)) to see if one is attractive right now.

#### Teck

Teck delivered a stunning recovery last year that saw the shares surge from \$4 in January to \$35 in November.

The rally was broadly unexpected, as the price for the company's core product, metallurgical coal, was not forecast to rebound from a multi-year slump.

What happened?

The Chinese government put new restrictions on the number of days a mine can operate in a year, and the new 270-day limit was enough to shift the market from being oversupplied to rather tight.

That decision, combined with weather-related disruptions in Australia, had a dramatic impact on met coal prices.

How dramatic?

Coal soared from US\$90 per tonne in the summer to above US\$300 per tonne in November. The Chinese reversed the decision at that point, and coal quickly fell back to about US\$150 per tonne in the first part of this year.

Teck's stock also fell and is now back to about \$22 per share.

Teck also produces copper and zinc. Both base metals enjoyed rallies in 2016, but the trend has been mostly negative since February 2017, as markets try to figure out if a Trump infrastructure boom is truly

on the way.

For the moment, it appears the outlook is sideways at best for met coal, copper, and zinc.

## **Cameco**

Cameco is doing a good job of reducing costs and managing production through a difficult period in the uranium industry. The troubles began during the Great Recession, and picked up steam in the wake of the Fukushima nuclear disaster in Japan.

After the tsunami hit Japan, uranium spot prices plunged from US\$70 per pound to below US\$20 per pound late last year. A brief recovery occurred after the U.S. election, but that has fizzled out in recent months.

Cameco is also caught up in a nasty tax battle with the Canada Revenue Agency (CRA) over taxes owed on earnings generated by a foreign subsidiary.

If Cameco loses the case, it could be on the hook for more than \$2 billion in additional taxes and penalties.

Japan is trying to get its fleet of reactors back in service, but fewer than five of the 43 operable facilities are actually up and running.

The long-term outlook for the uranium market is positive, as production cuts and mothballed development plans could drive the market into a shortage situation in the coming years.

For the moment, however, secondary sources are filling demand gaps and keeping prices under pressure.

## **Should you buy Teck or Cameco?**

Both companies are low-cost producers in their respective industries and should do very well when commodity prices are moving higher.

That said, I don't think there is a rush to buy either one right now, but Teck is probably the better choice if you want to start nibbling on further weakness.

I would avoid Cameco until there is clarity on the CRA case.

## **CATEGORY**

1. Investing
2. Metals and Mining Stocks

## **TICKERS GLOBAL**

1. NYSE:CCJ (Cameco Corporation)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:CCO (Cameco Corporation)
4. TSX:TECK.B (Teck Resources Limited)

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