



Teck Resources Ltd.: Is a New Rally Underway?

Description

Teck Resources Ltd. ([TSX:TECK.B](#))([NYSE:TECK](#)) has bounced 15% off the June low, and investors are wondering if this is the beginning of a broader move to the upside.

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

Coal, copper, and zinc

Teck produces metallurgical coal, copper, and zinc.

The three commodities had been in a multi-year downturn leading into 2016, and that really took a toll on Teck's stock.

In fact, with debt levels setting off alarm bells, some investors thought the stock was headed for creditor protection, and the share price plunged to \$4.

As we now know, that was a fantastic buying opportunity, as a rebound in met coal, copper, and zinc provided a nice boost to cash flow last year and sent the stock soaring.

By November, Teck was paying down huge chunks of debt, and the stock topped \$35 per share.

Since then, however, things haven't been great for investors.

Why?

Coal maxed out above US\$300 per tonne and was back down to US\$150 in the first part of this year. Teck is expected to report a Q2 2017 average realized sale price of US\$160-165 per tonne.

Copper and zinc peaked in February and then slid through the first part of May and June, respectively. Since then, the two have staged recoveries.

What about oil?

Teck is a 20% partner in the Fort Hills oil sands facility, which is scheduled to begin production in late 2017.

The project has been a major cash drain in recent years, so the shift from development to production should provide some capital relief.

However, pundits are concerned the facility will not be profitable unless oil prices recover.

Should you buy Teck?

Teck is a low-cost producer and market leader in its core areas of operation. The debt load is down to a reasonable level, and management even raised the dividend earlier this year.

If you think the recent bounce in copper and zinc is the beginning of a new rally and are of the mind that oil is also headed higher in the coming years, it might be worthwhile to start a small position in the stock.

I'm not convinced the mini-rally is the start of longer-term trend, so I would stay on the sidelines for the time being.

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