Should Teck Resources Ltd. Be on Your Buy List?

Description

Teck Resources Ltd. (TSX:TECK.B)(NYSE:TECK) is grinding higher after a sharp pullback from the late 2016 highs.

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

Commodities story

Teck's fortunes are directly tied to the prices of metallurgical coal, copper, and zinc.

The three commodities had been in multi-year slumps heading into the beginning of 2016, and, at one point in January, it looked like Teck was in trouble.

With $9 billion in debt threatening to crush the company, investors bailed out in droves, sending the stock to $4 per share.

In hindsight, that was a fantastic buying opportunity, as an unexpected turnaround in the base metals and metallurgical coal markets provided much-needed margin gains and enabled Teck to pay down a good chunk of debt.

By November, the stock was at $35 per share after metallurgical coal prices soared from US$90 per tonne to above US$300 per tonne. Strong rallies from copper and zinc supplied additional support.

Where are we now?

Coal prices fell back below US$200 per tonne in the winter, and the base metal rallies also gave back some gains in the first half of this year.

That led to profit-taking in Teck's stock, and the share price fell all the way back to $20 in the middle of June. Since then, the stock has staged a bit of a comeback and currently trades for $24.50.

Metallurgical coal remains well below the November highs, but the spot price is creeping back up towards the US$200-per-tonne mark. The bigger story might lie with a sharp rebound in the base metals, especially zinc.

Copper is up about 8% since hitting a 2017 low in early May. Zinc is up more than 10% since early June.

Should you buy Teck today?

The recovery is starting to look like it might have legs, but investors should be careful chasing the rebound, as much of the gains could be due to weakness in the U.S. dollar as opposed to stronger demand driven by economic fundamentals.

If the American dollar reverses course, commodity prices might follow it lower, and that would likely be negative for Teck's stock.

In addition, oil is going to start impacting the company's numbers.

How?

Teck is a 20% partner in the Fort Hills oil sands project, which is scheduled to begin production later this year. The shift from development to production will provide relief to the capital program, but pundits are concerned the facility won't make money unless oil stages a significant recovery.

The bottom line

Teck is a low-cost producer, and the debt load is now under control, so the stock is attractive for long-term commodity bulls. At this point, however, I would keep any position small until there is more evidence of sustainable price gains in the core products.

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Date
2025/09/13
Date Created
2017/07/26
Author
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