Teck Resources Ltd.: Is the Stock Price Going Back to $60?

Description

Teck Resources Ltd. (TSX:TECK.B)(NYSE:TECK) is on the rise again, after a steep pullback in the first half of this year.

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

Volatile moves

Long-term followers of this stock remember the last time Teck roared back from a $4 low and hit $60 within two years.

Is history repeating itself?

Teck's latest multi-year slide ended in early 2016, when the stock touched a low of about $4 per share. At that time, coal, copper, and zinc prices remained under pressure, and Teck carried about $9 billion in debt.

As often happens in the commodity sector, an unexpected turnaround occurred in the company's core markets, and Teck rode a commodity rally through most of 2016 to the point where the stock topped out around $35 last November.

Teck took advantage of the boost in margins to pay down the debt load and stabilize the balance sheet.

Coal, copper, and zinc then cooled off through the first part of 2017, and Teck pulled back to about $20 in June, but the stock has been on a tear since then and is now approaching $30.

The pattern is somewhat similar to the rally we saw in the wake of the Great Recession, when Teck rebounded from a $4 low in 2009 to above $40 in early 2010. The stock then took a break through the spring and summer, and finally shot higher to $60 by the end of that year.

What’s driving the new rally?

Copper and zinc have renewed their upward trend, supported by a weaker U.S. dollar and supply disruptions.

Copper is now trading at levels not seen since late 2014, as production issues at some of the world’s largest mines prop up prices.

Zinc is hitting highs not seen in a decade, as demand improves and supply shortages in China impact the market. China accounts for about 40% of global zinc consumption.

Coal is also drifting higher after a sharp pullback.

Could Teck hit $60?

Coal would probably have to surge again for Teck to take a run at $60 in the coming months. At this point, that’s not likely to happen, as last year’s rally was primarily driven by policy changes in China that limited the number of days a mine can operate in a year. The country reversed the measures last November in an effort to bring down met coal prices.

In addition, oil is going to start to play a factor in Teck’s numbers.

The company is a 20% partner in the Fort Hills oil sands development, which is scheduled to begin production later this year. The shift from development to production is good news for the capital plan, but some analysts are concerned the facility won’t make money unless oil prices improve.

Should you buy?

The moves in copper and zinc have been extreme in the past few weeks, so it would be prudent to be careful right now. Teck could continue to drift higher, but I would keep any new position small today.

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