



Why Did Teck Resources Ltd. Stock Fall 11% Last Week?

Description

The stock of **Teck Resources Ltd.** ([TSX:TECK.B](#))([NYSE:TECK](#)) tumbled 6.7% from \$31.58 on September 5, and fell another 5.36% on Friday, September 8, after a short-lived attempted recovery on Wednesday and Thursday the same week for a total 11% decline to \$28.23 by close of trade on Friday.

Two negative events during the week — a company-specific announcement on September 5, and a metals market development on Friday — had a massive bearing on the stock's valuation.

Company-specific event

Teck announced on Tuesday last week that one of its major institutional investors, China Investment Corp. (CIC), had almost halved its stake in the leading diversified mining resources giant. CIC sold 42 million Class B shares in a private transaction, which comprised 7.3% of Teck's outstanding share count.

CIC still holds 10.4% of Teck's B shares (down from 17.8%), and it advised that its sale was just an ordinary portfolio adjustment exercise, but some investors were not convinced and interpreted the move as a message that CIC anticipates some weakness in Teck's business in the future.

Should investors read much into the CIC stock sale?

While it could be possible that CIC saw some potential weakness in Teck's commodity business going forward, there could be another stronger reason for the portfolio adjustment.

In the excerpts from China's State Council policy briefing published on August 25, 2017, we learn that the government of China is making frantic efforts to attract more foreign direct investment into the advancing economy and has opened half of the 190 previously restricted sectors.

However, even after giving tax incentives, it was reported that in recent years, “national-level development zones encountered a series of challenges in attracting foreign investment which resulted in a 9% drop year on year,” and government departments and local authorities financed the zones by making use of state funds, issuing bonds, and “tapping more channels.”

In this light, it was revealed that “supporting policies are under consideration to encourage Chinese enterprises that invest overseas to spend more in their own country.”

It’s possible CIC may have been “encouraged” to invest more in China, and we may see other Chinese institutional investors making similar portfolio adjustments to free up some more investment capital to invest in their motherland, if this thesis holds any water.

Teck investors may need not be overly shaken by CIC’s recent move — unless, of course, the institutional investor feared a copper and zinc price correction after a sustained rally.

This brings us to the second factor: Friday’s metals market selloff.

Metals market sell-off

Copper and zinc prices tumbled on the world market on September 8.

The price of copper was down 3% to US\$6,970 per tonne on Friday after touching a three-year high of US\$6,970 on the London Metal Exchange. The metal had enjoyed a 27% gain from its May 2017 lows, and a feared fundamentals-induced correction was due.

Zinc’s price was also down 3% on the same day.

Copper and zinc contributed about 26% to Teck’s gross profit last quarter. A fall in these metals’ prices would hurt future profitability for the miner.

Investor takeaway

The current weakness in Teck stock could be a compelling opportunity for investors anticipating a sustained commodities rally in the near term. Teck’s fundamentals remain positive with ever-improving debt metrics, cash flow growth, and a new Fort Hills oil revenue line coming online in a few months.

However, there could be some risk to the copper and zinc business line, with analysts at Macquarie reportedly saying they expect copper to trade down to US\$6,000 a tonne — a significant decline from Friday’s closing price of US\$6,993.

If you wish build a position in Teck, it could pay to wait a bit and see how the near-term metals market pendulum swings before placing the buy order. A better entry position may make itself available during the week as those with weak hands run for cover.

For those long the stock, the positive metallurgical coal price outlook and Teck’s improving fundamentals are reasons for a continued long-term hold — unless, of course, you want to take off some profit.

Fool on.

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