Teck Resources Ltd.: Is the Pullback Complete?

Description

Teck Resources Ltd. (TSX:TECK.B)(NYSE:TECK) is moving higher after a sharp decline in recent weeks.

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

Coal, copper, and zinc prices

Teck produces metallurgical coal, copper, and zinc.

The three commodities had been in multi-year slumps leading into 2016. As a result, Teck's stock took a nasty hit, falling from a previous high of $60 to about $4 early last year.

Most pundits expected 2016 to be a rough year, but an unexpected recovery in Teck's key markets caught analysts by surprise, with metallurgical coal and zinc initially leading the way, followed by a late 2016 surge in copper prices.

What happened?

Coal received some help from a policy change in China that restricted the number of days a mine can operate in a year. The move shifted an oversupplied market to one that was relatively tight, sending coal prices from US$90 per tonne to above US$300 per tonne in November 2016.

The Chinese government then reversed the decision in an effort to cool off the market, and coal prices subsequently fell by 50%.

In an update released earlier this month, Teck said it expects to see an average realized coal sale price of US$158-163 per tonne for Q3 2017. Volumes are projected to be 7.2-7.5 million tonnes, which is above previous guidance.

Zinc and copper also cooled off earlier this year, and that helped extend Teck's pullback from $35 per share last November to about $20 in June. A renewed interest in the base metals saw their prices skyrocket through the summer months, with zinc hitting highs not seen in a decade and copper touching its best levels in three years.

This sent Teck's stock soaring again, topping $31 per share in late August, before the recent pullback that brought it back below $26.

Zinc is holding its gains, while copper has taken a bit of a break over the past couple of weeks.

Oil impact

The recent uptick in Teck's stock to above $27 per share might be connected to improving oil prices. Teck is a 20% partner in the Fort Hills oil sands development, which is scheduled to begin commercial production by the end of this year.

With WTI oil above US$50 per barrel, investors might be feeling better about the project.

Should you buy?

Teck is a great stock to own when coal, copper, and zinc prices are moving higher, but things can get scary when the situation goes the other way.

Copper is already pulling back and zinc could follow suit, given the massive run in recent months. Metallurgical coal demand appears strong, but prices are not expected to move significantly higher in the near term.

As a long-term play on global growth, Teck is an attractive pick. For the moment, however, I would keep any new position small until there is evidence coal, copper, and zinc are ready to extend their recoveries.

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