2018 Is Shaping Up to Be a Solid Year for Miners

Description

At the start of this year, the International Monetary Fund upgraded its outlook for global economic growth, forecasting that gross domestic product will expand by 3.9% in 2018 and 2019. This is 0.2% higher than 2017 and accounts for the tailwind given to economic growth by U.S. tax reform and firmer growth in Asia, where the emerging economies of China and India are growing at a rapid pace.

The global economic upswing, a more positive outlook for Asia, and a weaker dollar are all proving to be a boon for commodities. For these reasons, analysts expect commodities to perform well over the course of 2018, making now the time for investors to add **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK) to their portfolios.

Now what?

Canada's largest miner of steel-making coal reported some of its strongest results in some time for 2017. That can be attributed to firmer coking coal, copper, and zinc, which should all see demand grow because of greater demand for basic materials from China and India.

The solid uptick in net income, which for 2017 was more than double than it was a year earlier, allowed Teck to reward shareholders with a supplemental dividend payment of $0.40 per share paid in December 2017. This was on top of the $0.05 per share base dividend.

There is every indication that earnings will continue to grow, and Teck will unlock further value for investors during 2018.

In late January 2018, first oil was achieved at the Fort Hills oil sands development, in which Teck has a 21% interest. The project is expected to reach 90% of capacity by the end of 2018. This couldn't have occurred at a more fortuitous time for Teck, allowing the miner to benefit from the latest oil rally, which sees West Texas Intermediate trading at over US$60 per barrel.

The upbeat outlook for industrial activity in both emerging and developed nations coupled with ongoing investment in infrastructure will drive higher base metals prices, notably for copper and zinc.

In fact, the red metal, which is a key input for many industrial and manufacturing processes, recently hit its highest price since late 2017 on an increasingly upbeat outlook for industrial activity. Zinc prices are also rising because of higher industrial demand. That certainly bodes well for Teck's earnings with almost 40% of its gross profit being generated by copper and zinc sales.

It is anticipated that demand for steel will also firm over the course of the year. This is because increasing industrial activity and investment in critical infrastructure in India as well as China will trigger greater demand. State-mandated factory and mill closures in China caused by Beijing's desire to reduce pollution and close uneconomic operations will constrain supplies, bringing balance back to a global market long dominated by a supply glut.

That will further support higher prices for steel and its basic inputs, iron ore, and coking coal. This is good news for Teck, because 62% of the miner's 2017 gross profit was derived from sales of steel-making coal.

So what?

The positive outlook for base metals, including steel, copper, and zinc, along with the Fort Hills project coming online, will all give Teck's earnings and cash flow a solid boost. Increased cash flow will support the payment of additional supplemental dividends, which, in conjunction with Teck's first-quarter 2018 share-buyback program, should give its stock a solid lift. Despite Teck's stock having soared by 37% over the last year, there are signs that it will appreciate further over the course of 2018.

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