Is Teck Resources Ltd. a Buy Today?

Description

Teck Resources Ltd. (TSX:TECK.B)(NYSE:TECK) has a rocky history, but the stock can deliver big returns to investors when they get the timing right.

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

Volatile stock

Anyone who has owned Teck in the past decade will tell you that the stock isn't ideal for investors who prefer a conservative buy-and-forget pick for their portfolios. In fact, one quick look at the chart might have you reaching for the antacids before you even add the stock to your holdings.

Nearly 10 years ago Teck was on a roll and traded for close to $45 per share. Six months later, amid the worst of the financial crisis, Teck was suddenly a $4 stock. The ensuing recovery was nearly as dramatic, as governments worldwide ramped up stimulus programs and drove up demand for Teck's core products of metallurgical coal, copper, and zinc. In fact, the stock was back above $45 in April of 2010, and topped $60 per share in early 2011.

As is often the case in the Teck's markets, producers ramped up output near the end of the boom, and a heavily oversupplied market occurred just as government stimulus spending ran out out of steam. Coal, copper, and zinc prices went into a five-year slump, and Teck's investors once again found themselves with a $4 stock in early 2016.

Most analysts expected the tough times to continue, but a surprise recovery triggered by policy changes in China sent the metallurgical coal market soaring that year, and heavy production cuts by zinc producers finally shifted the supply balance to a tight market. Copper joined the party later that year, resulting in another stellar Teck rally to $35 per share in November of 2016.

China reversed its policy change in an effort to cool off the coal market, and the impact was felt almost immediately. Copper and zinc also took a breather through the first half of 2017, and Teck was back down to $20 per share by June.

At the time of writing, the stock is trading at $33 per share, down more than $5 from the $38 high it hit in January 2018.

How’s your stomach?

The bull case

Looking ahead, Teck bulls have a strong case. The global economy is strengthening and most analysts expect a big infrastructure boom to occur in the United States in the coming years. In addition, Teck learned a lesson in the latest rout and has used a good chunk of the windfall in the past two years to pay down debt to the point where the balance sheet is in much better shape. Further, the Fort Hills oil sands project, of which Teck is a 20% partner, is now in production. This removes a huge burden from the capital program, and the rally in oil prices since last June means the company could start to see some cash flow benefits once the facility ramps up to full production later this year and beyond.

Should you buy?

The easy money has already been made, and more volatility should be expected. However, if you have a bit of cash sitting on the sidelines and are generally positive on the outlook for oil and global growth, Teck might be worthy of a small position in your portfolio. There is no guarantee the stock will hit $60 again, but I wouldn’t be surprised if it takes another run at that milestone in the next couple of years.

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