5 Reasons Why Teck Resources Ltd. Will Outperform the TSX This Year

Description

Following a 50% rise in its share price, **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK) stock is back down to a three-month low, as the markets have cooled off to start 2018.

Despite being one of the largest publicly traded companies in Canada, Teck is one of the better stocks to trade, with the shares doubling in 2017 after gaining more than 700% in 2016.

With the stock having recently made new lows as March came to an end, now is a great time to be picking up this stock on the dip.

2017 was a record year for Teck

For the year ended December 31, 2017, Teck reported record revenue and cash from operations (CFO) of $12 billion and $5.1 billion, respectively.

Following strong performance in 2017, Teck's shares now trade at just three times CFO, a four times EV/EBITDA (enterprise value to earnings before interest, taxes, depreciation, and amortization) ratio, and are yielding free cash flow (FCF) in excess of 20%.

Despite that commodity prices can be volatile at times, the strong showing in 2017 has gone a long way to providing Teck with a nice buffer of capital that will help it weather the next storm.

Teck's profits from coal more than doubled in 2017

Teck's gross profit from its steel-making coal operations more than doubled in 2017, improving to $3.1 billion from $1.4 billion in 2016, as its realized prices for coal gained 49.6% for the year.

The company is forecasting steel-making coal production to be in the range of 26-27 million tonnes with management forecasting an increase in production from 2019 to 2021.

Copper prices are on their way up

The mining and production of copper is Teck's biggest business unit behind steel-making coal.

Teck's realized price on copper sales rose 27.7% in 2017, including a $3.07 realized price in Q4, a $0.67 gain over the year-ago period.

Despite that the company faced some challenges at its Antamina mine, higher prices helped the company's copper profits to improve to $618 million from $190 in 2016.

Fort Hills has begun production in 2018

Following several years of heavy investments, Teck reported in its 2017 annual report that the Fort Hills Energy LP was commissioned in 2017 with more than 80% of the plant being operational and safely run at full capacity through test runs.

The Fort Hills project will be another step in helping Teck to diversify its risk across more commodity classes and will help to make it less subject to swings in coal prices.

2018 could be a great year for commodity prices

There are encouraging signs that 2018 could be a bullish year for commodity prices led by inflationary pressures in the U.S. in combination with a weaker U.S. dollar.

Oil prices have risen more than 31.4% since the end of October, which could signal a broader recovery for other commodities in 2018 including prices for the coal, copper, and zinc that Teck produces.

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