



Teck Resources Ltd.: Should You Add This Stock to Your Portfolio?

Description

Teck Resources Ltd. ([TSX:TECK.B](#))([NYSE:TECK](#)) can be a [volatile](#) stock, but investors who get the timing right can book some impressive gains.

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

Results

Teck reported solid results for Q4 and full-year 2017. The company generated adjusted profit of \$700 million in the quarter and \$2.6 billion for the year. For all of 2017, Teck generated record revenue and record cash flow from operations.

The company is primarily a producer of metallurgical coal, copper, and zinc. Market prices in all three products have recovered after a multi-year sell-off, and that has helped Teck sort out some balance sheet issues that threatened to sink the company in early 2016.

Teck's average realized coal selling price in 2017 was \$229 per tonne compared to \$153 per tonne in 2016. Copper averaged US\$2.80 per pound compared to US\$2.21 per pound the previous year, and zinc averaged US\$1.31 per pound compared to US\$0.95.

As a result, the company had enough cash to pay down debt and return some profits to investors through dividend payments. Teck finished 2017 with \$6.37 billion in debt compared to \$8.3 billion at the end of 2016.

Growth

Teck continues to look for strategic opportunities. The company recently increased its ownership of a copper operation in Chile and stands to benefit from rising oil prices through its 20% interest in the Fort Hills oil sands development. Fort Hills was a major cash drain through the oil rout, but the project is now complete, and production should continue to ramp up through 2018 and beyond.

Other projects are in various stages of development, including Nueva Union in Chile, Zafranal in Peru, and San Nicolas in Mexico. These are primarily copper and zinc plays.

Risks

Teck and its investors are at the mercy of coal, copper, and zinc prices. When times are good, the stock can produce some impressive returns, as we saw in the wake of the financial crisis when Teck rose from \$4 per share to above \$60.

That said, the ride down can be a portfolio killer when the market turns, as it did when producers ramped up output just as global governments turned off the stimulus taps. Teck fell for five straight years from the \$60 high it hit in early 2011 to another bottom near \$4 in early 2016.

Since then the stock has recovered, trading as high as \$38 in January 2018. The stock currently sits around \$34 per share.

Should you buy?

Bulls point to a strong global economy and a potential infrastructure boom in the U.S. as reasons to buy Teck today. The company's balance sheet is also much stronger, so the downside risk shouldn't be as extreme as it was in the past.

That said, the tide will eventually turn again, and you don't want to be holding Teck at the top of the commodity cycle. At this point, there could be more upside in the next couple of years, and I wouldn't be surprised to see Teck take another run at \$60 per share. However, the easy money has probably already been made in this round, and I would keep any new position small right now.

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