Teck Resources Ltd. (TSX:TECK.B): Is the Stock a Buy Today?

Description

Teck Resources Ltd. (TSX:TECK.B)(NYSE:TECK) is down more than 15% from the June high, and investors are wondering if the pullback has simply gone too far.

Let's take a look at Canada's largest diversified mining company to see if it deserves to be on your buy list right now.

Volatility

Teck is one of those stocks that can either make your rich or hammer your retirement fund, depending on when you buy. To give you an example, the company traded for close to $50 per share in May 2008. As the financial crisis took hold, commodity stocks got crushed, and by the time the holiday season rolled around in December of that year, Teck was down to $5.

Investors who decided put the coal producer in their stockings at that point ended up with a nice gift. The market bottomed out in March 2009, and Teck began an impressive rebound as countries worldwide ramped up spending to pull their economies out of the Great Recession.

The infrastructure boom led to rallies in metallurgical coal, copper, and zinc prices, and Teck shareholders watch the stock skyrocket through the end of 2010, topping $60 per share. As often happens, producers ramped op production to take advantage of the rising prices just as the stimulus taps began to be shut off, resulting in a multi-year crash for Teck's three core products.

With roughly US$9 billion in debt on the balance sheet, Teck sank like a rock, and by early 2016 the stock was back below $5, with investors wondering whether the company was headed for bankruptcy.

That didn't happen, of course, as zinc and coal surged in the first half of 2016, supported by a zinc shortage due to extensive production cuts and a Chinese policy change on coal production. A rally in copper through the end of the year completed the home run. Teck took advantage of the improvement in margins to pay down debt, and investors sent the stock back above $34 in November of 2016. A pullback in coal prices triggered by a reversal of the Chinese policy and falling zinc and copper prices sent Teck back to $20 last summer.

Copper and zinc rallied again through the end of 2017, pushing Teck above $38 at the start of this year. Since then, it has bounced between that level and a 2018 low of about $32 per share.

Should you buy today?

Teck is a 20% partner in the Fort Hills oil sands project that began production late last year and is ahead of schedule in its ramp up that should see the facility producing at close to capacity by the end of 2018. If oil holds its gains, this should provide some support to cash flow. However, copper and zinc have fallen sharply in the past six weeks, sliding roughly 15% and 20%, respectively, from the highs. Coal is also trending lower.

Given the volatile history of the base metals and Teck's stock, I would stay on the sidelines until things have settled down. We could be approaching a near-term bottom before a surge to new highs, but that's a risky call to make. If you get it wrong, the stock could easily retest the $20 mark in the coming months if declines in copper, zinc, and coal prices pick up steam.

There are other opportunities in the market right now that likely carry less risk.

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