Should Teck Resources Ltd. (TSX:TECK.B) Be in Your Portfolio Today?

Description

Teck Resources Ltd. (TSX:TECK.B)(NYSE:TECK) has pulled back from the recent highs, and investors are wondering if this is a good time to add the stock to their portfolios.

Let's take a look at the current situation to see if the diversified miner is attractive right now.

Financials

Teck reported solid Q2 2018 results. Adjusted profit came in at $653 million, or $1.14 per share compared to $580 million, or $1.00 per share in the same period last year. Higher year-over-year coal, copper, and zinc prices helped support the improved numbers.

Teck's balance sheet is in good shape, with just US$220 million in long-term debt due before 2022. The company finished the second quarter with $1.7 billion in cash and US$3 billion in undrawn credit facilities. Total debt stood at $6.6 billion on June 30.

In July, Teck closed the sale of its two-thirds interest in the Waneta Dam to BC Hydro for $1.2 billion in cash. As a result, the company currently has about $2.9 billion in cash and total liquidity of roughly $6.8 billion.

Growth

Teck is a 20% partner in the Fort Hills oil sands development. The project began production late last year and is expected to hit full output capacity by the beginning of Q4, 2018. Teck is targeting production of 8.5-10 million barrels at an operating cost of $28.50-32.50 per barrel for 2018, which is better than previous estimates of 7.5-9 million barrels at costs of $35-$40 per barrel.

Western Canadian Select (WCS) prices are down significantly in recent weeks, trading at US$33 per barrel at the time of writing, compared to the Q2 2018 average of US$49. If the weakness persists, oil revenue could disappoint in the coming months.

Teck is making good progress on plans for its Quebrada Blanca Phase 2 copper development. The company says it will look for a partner on the project in the near term and intends to ultimately hold a 60-70% interest.

Outlook

Copper and zinc prices have also fallen in the past two months. The recent trend shows signs of a bottom in the pullback, but it is too early to tell whether we'll see a rebound or another leg to the downside. The two base metals soared in the past two years, driving up Teck's margins and enabling the company to pay down a good chunk of its debt.

Steelmaking coal also enjoyed a nice rally after a multi-year slump, but prices cooled off last year and have since traded at profitable, but less lucrative, levels.

Should you buy?

Teck's stock is down from $38 per share in June to about $32. At this point, the decision to buy depends on your view on the next move for the base metals. If you think a multi-year rally is in the cards, Teck looks attractive today.

However, given the uncertainty regarding global trade tariffs and how those decisions might impact markets in the near term, I would look for other opportunities today.

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