



The Latest News Is a Boon for Teck Resources Ltd. (TSX:TECK.B)

Description

Growing uncertainty over the outlook for global growth has weighed on commodity prices and miners during recent months. Much of this has been triggered by fears of a [trade war](#) between the world's two largest economies, the U.S. and China. As base metal prices have softened, so too has the price of Canada's fifth largest miner **Teck Resources Ltd.** ([TSX:TECK.B](#))([NYSE:TECK](#)), which is down by 15% for the year to date.

While the outlook for the world economy going into 2019 remains soft, the latest news indicates that global growth may not weaken as much as expected.

Now what?

Fears of a U.S. China trade war combined with a budding crisis in [emerging markets](#) and weaker than expected growth in Europe led the International Monetary Fund (IMF) to conclude that the global economy will slow in 2019, sparking concerns that the demand for commodities such as oil and base metals will deteriorate which is weighing heavily on their prices.

Nonetheless, news that Trump and China's President Xi have essentially declared a truce in the trade war that has been developing between their two nations has helped to assuage concerns about slower global growth, causing base metals to firm and leading to speculation that world gross domestic product (GDP) will expand at a greater rate than currently anticipated.

Stronger economic growth will trigger greater demand for base metals used in a variety of construction and industrial applications such as steel, copper, lead and zinc. This will certainly be a boon for Teck and help to buoy not only its financial results, but also its stock price, meaning that the latest pullback has created an opportunity for contrarian investors seeking to boost their exposure to metals.

The decline in base metal prices caused by weaker demand and the increasing negative sentiment surrounding the global economic outlook was reflected in Teck's third quarter 2018 results. While revenue remained flat compared to the equivalent period in 2017, adjusted profit plunged by a whopping 23% to \$466 million because of sharply weaker copper and zinc prices, which on average were down by 4% and 14%, respectively for the period.

This was offset by firmer coking coal, which averaged \$172 per ton sold, which was 10% higher than a year earlier. Those stronger prices saw Teck's coking coal business report gross profit of \$634 million, which was 1.5% greater compared to the same quarter in 2017.

The wider differential between Canadian heavy crude known as Western Canadian Select (WCS) and the North American benchmark West Texas Intermediate (WTI) also impacted Teck's third-quarter results. This was because of Teck's 21% interest in the Fort Hills oil sands project, which commenced production earlier this year.

That operation nonetheless helped to boost earnings compared to a year earlier, and was the reason that revenue remained flat rather than declining because of softer metals prices.

Not only is the cooling of the escalating trade conflict between China and the U.S. poised to lift earnings but the recent narrowing of the differential between WCS and WTI triggered by the government of Alberta's introduction of mandatory production cuts will also boost earnings. After those plans were announced, the price of WCS more than [doubled](#) from its November 2018 low to over US\$30 per barrel.

So what?

If the threat of a trade war between China and the U.S. diminishes, global economic growth won't decline as sharply as predicted over the coming 12 months, which should trigger greater demand for steel, copper and zinc causing their prices and those of iron ore and steel-making coal to firm.

If the price of crude and especially WCS rises further, then this in conjunction with firmer base metal prices will give Teck's earnings a healthy lift, thereby boosting the miner's market value. While investors wait for that to occur, they will be rewarded by Teck's regular sustainable dividend yielding just over 2%.

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Author

mattdsmith

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