



The Outlook for Teck Resources Ltd. (TSX:TECK.B) Is Improving

Description

The news that President Trump and his administration are willing to negotiate with China over trade barriers means that a trade war [could be averted](#), boosting the optimism surrounding the outlook for the world economy. While some economists and analysts are predicting a global slowdown heading into 2019, if a trade war between the world's two largest economies is avoided, then growth should improve. A firmer economy will drive greater demand for commodities, notably base metals, which will be a boon for diversified miners like **Teck Resources Ltd.** ([TSX:TECK.B](#))([NYSE:TECK](#)).

Demand for steel will grow

Fears of a trade war and a slower global economy have hit Teck's stock hard, seeing it down by 17% since the start of 2018, but this has created an opportunity for contrarian investors willing to bet on better-than-expected growth. The World Steel Association expects demand for steel to remain positive moving into 2019 despite weaker data from China and fears of a trade war. In a recent report, the industry association stated that global steel demand will grow by 1.4% compared to 2018.

That will support prices for the metals key ingredient iron ore and steel-making coal, which is responsible for over 60% of Teck's gross profits, making the consumption of steel an important driver of earnings growth.

The most recent data from China, the world's largest consumer of steel, was disappointing. The November 2018 Purchasing Managers Index (PMI) fell by 20 basis points (bps) compared to a month earlier to 50%, thereby indicating that manufacturing activity was slowing, while data from the construction sector showed that activity was also weaker than a month earlier. This is a worrisome trend because construction and manufacturing are the two largest consumers of steel in China.

Nonetheless, a range of [supply concerns](#) regarding steel combined with growing demand will likely drive prices higher over the coming months.

You see, Beijing's push to shutdown uneconomic and heavily polluting enterprises as it introduces policies aimed at bolstering air quality will cause domestic mining and smelting to fall sharply. According to a report from the Australian Department of Industry, Innovation and Science will buoy

coking coal prices.

If the emerging trade war is defused, it will boost manufacturing activity in China, further lifting demand for steel and hence coking coal giving prices an additional boost.

The outlook for copper, which is responsible for 17% of Teck's gross profits, is also improving despite prices having softened lately. Analysts believe that copper will firm in coming months, particularly if global growth is not as anemic as expected. There is also a similar outlook for zinc, which earns just over a fifth of Teck's gross profit.

For these reasons it is likely that prices will firm over coming months which will act as a tailwind for Teck's earnings and hence market value.

Why buy Teck?

Teck's share price has fallen by 28% from its 52-week high of \$39.08 per share, and this, along with an improving outlook for the global economy, will bolster demand for coking coal, copper, and zinc. Along with emerging supply constraints, this will cause prices to rise, giving Teck's earnings a healthy lift, which should translate into a firmer share price. While investors wait for this to occur, they will be rewarded by Teck's regular dividend, which is currently yielding just under 1%.

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Author

mattsmith

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