



Why the Teck Resources's (TECK.B) Stock Price Fell 21.1% in February

Description

I wish I could say that the reason for **Teck Resources's** ([TSX:TECK.B](#))([NYSE:TECK](#)) stock price disaster in February was due to coronavirus fears, because the actual reason is far more sinister for Canada. While the coronavirus did play a part in the Teck's stock price decline of 21.1% in February, the most significant reasons are outlined below, and [one relates directly to Canada and the business environment for the oil and gas industry](#).

Teck's stock price suffers due to withdrawal of the Frontier oil sands project

Teck's 21% interest in **Suncor's** Fort Hills project is not as profitable as management initially expected, with an oil price far below initial expectations. In fact, the situation is so dire that Teck recently took a \$1.2 billion writedown on the project. So, while the Frontier oil sands project would arguably be significantly cheaper to build than Fort Hills, it faces many of the same challenges — mostly the fact that higher oil prices are needed to make this a sustainably profitable mine.

Coupled with environmental concerns and government delays, Teck management did not see a favourable way forward, and even though Teck's Frontier mine would have been among the least emissions-intensive oil sands projects (40% below the oil sands average), emissions were still a problematic issue.

As Teck's CEO Don Lindsay said, "the project has landed squarely at the nexus of a much broader national discussion on energy development, Indigenous reconciliation, and of course climate change, so we are stepping back to let Canada have this important discussion without a looming regulatory deadline for just one project."

There is work to be done to reconcile Canada's environmental goals and its path forward for its economic growth, which is heavily tied to its oil and gas industry, and Teck is bailing on a project that is fraught with major uncertainties and a bad undertone.

Teck suffers due to QB2 delays and cost overruns

The start of the Quebrada Blanca phase two (QB2) mine in Chile will elevate Teck to one of the world's major copper producers. This is the good news. The bad news is that permitting delays and social unrest in Chile has caused delays of up to six months and cost increases of up to 14.5%. While this setback is certainly a negative for Teck, as we can see in the Teck stock price reaction, we really should try to keep our eyes on the long term.

Teck's QB2 copper mine is the company's highest-priority major growth project. As one of the world's largest undeveloped copper resources, this mine has an initial life of 28 years with the potential for further growth. Construction on the mine was sanctioned in December 2018 and first copper production is planned for the second half of 2022.

This focus on copper is a good strategic move for Teck, as copper is one of the most versatile and durable base metals. It is used extensively in the renewable energy industry, and so it has a solid secular demand growth trend supporting its market fundamentals.

Foolish final thoughts

Teck is a company that is not only trading at cyclical lows but that is experiencing a secular shift in its business, as commodities such as coal and bitumen from oil sands are experiencing huge shifts in demand-and-supply controls as a result of environmental concerns. As evidenced by the stock's 55% decline in the last year, the future is uncertain, but bear in mind that Teck stock trades well below book value, and the company is replacing its coal production with copper production, which is a metal that is very much needed in the new "clean energy" future.

In closing, I would like to remind Foolish investors of our belief in [holding great businesses for the long term](#). While this belief remains intact, we are also aware that sometimes, short-term stock price movements create opportunities to create wealth. Blending this long-term focus with a keen eye for short-term stock mispricings, we can use both strategies in harmony, and our quest for financial freedom can be fulfilled.

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