Time to Back Up the Truck? This Stock Could Double in the Next 12 Months

Description

Commodity stocks, aside from gold, largely sat out the rally over the past few months, but investors are starting to buy top players in these hard-hit sectors.

Let's take a look at **Teck Resources** (TSX:TECK.B) (NYSE:TECK) to see why it deserves to be on your contrarian radar today.

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Stimulus surge

Teck Resources is Canada's largest diversified mining company. The core products are steelmaking coal (metallurgical coal), copper, and zinc. Teck is also a part owner of the Fort Hills oil sands site.

The pandemic hammered demand and prices for commodities in March, but a strong rebound is already on the way in two of Teck's key business units. All three should perform well, as governments around the globe launch aggressive fiscal stimulus measures to create jobs and boost economic activity.

Metallurgical coal

Teck's metallurgical coal sales came in at a solid five million tonnes in Q2 2020, even as steelmakers cut production faster than they did during the 2008-2009 crash.

Sales in Q3 are expected to be equal or higher, and Teck said it anticipates its adjusted cost of sales will drop from $68 per tonne to below $60 by the end of the year.

Steel production could surge in 2021, driving met coal prices higher. Teck is a low-cost producer and generates significant profits when steelmaking coal rallies.

Copper

Copper bottomed out near US$2 per pound in March but now trades at a two-year high above $3 per pound. The market has been so focused on gold in recent months that investors are just starting to realize that copper producers stand to make huge profits in the coming months.

Copper prices should continue to rise, as economic stimulus programs targeted as renewable energy projects boost demand. Wind turbines, solar panels, and electric cars all require significant copper inputs. In fact, the market might see a supply squeeze in the next few years.

Zinc

Zinc is also staging a nice rebound. The base metal currently trades near US$1.11 per pound, effectively putting it right back to where it was before the pandemic crash sent the price below US$0.85.

Should you buy Teck Resources stock?

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Teck has surged in recent days but still appears cheap at the current price of $16.50 per share. This stock tends to make massive moves in step with the base metals cycles. Teck rose from $5 per share in 2009 to above $60 in 2011. The cycle then peaked and Teck plunged back to $5 in 2016.

Heavy debt positions made the situation worse in both those crashes. Management learned a good lesson and took advantage of the subsequent recovery through 2018 to shore up the balance sheet. The stock topped $37 in 2018 before the next downturn took it below $10 in March this year.

The March 2020 low is likely the bottom for this cycle. Investors who buy now could potentially see Teck revisit $35-$40 per share in the next year. Unprecedented fiscal stimulus measures should drive strong demand for Teck's core products, and prices could surge as producers scramble to open new projects and boost supply to meet the demand.

If you have some cash on the sidelines, I think Teck Resources deserves to be on your buy list right now.

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