



3 Reasons to Buy Teck Resources Stock Now

Description

Teck Resources ([TSX:TECK.B](#))([NYSE:TECK](#)) soared off the 2020 lows amid a surge in copper prices. Investors who missed the rally want to know if the recent pullback makes Teck Resources stock [undervalued](#) today.

Copper market

Teck Resources produces metallurgical coal (steel-making coal), copper, and zinc. The rebound in commodity prices over the past year helped drive the share price up from \$9 to a recent high near \$31. Copper soared from US\$2 per pound to US\$4.75. Profit taking and some moves by China caused the price to drop to the current level around US\$4.15. That's largely why Teck's stock is now back down to \$25.50.

China is the world's largest buyer of copper. The country wants to push out speculators that might be driving the price above fundamental levels. As part of its strategy, China is releasing copper, zinc, and aluminum from its [reserves](#).

China's manufacturing industry supplies much of the world with appliances and renewable energy equipment that use a lot of copper in their construction. The sharp jump in the price of copper is apparently squeezing margins for the manufacturers, as they are not able to pass on the full cost increase to their customers.

The moves might put a near-term cap on copper prices, but tight supplies and soaring demand should provide a strong tailwind over the next few years. Copper producers shelved a number of expansion projects amid a multi-year downturn in the market. Getting new mines up and running takes time. In addition, existing growth projects have been delayed due to the pandemic.

Earnings

Teck Resources reported strong [Q1 2021 results](#). Adjusted earnings per share came in at \$0.61 in the

quarter compared to \$0.17 in the same period last year.

The average realized copper price was US\$3.92 per pound. Teck Resources expects its net cash unit cost for copper to be US\$1.30-1.40 per pound this year. At the current copper price, Teck Resources is generating significant margins.

Steel-making coal sales enjoyed higher prices due to strong orders from China. The country is in a trade dispute with Australia and banned the import of Australian steelmaking coal. Discussions between the two countries broke down last month. It could be some time before the issues get resolved.

Investors should see Teck Resources deliver strong Q2 results, and the positive trend is expected to continue through the end of the year and into 2022. The company is past the halfway point on a major expansion at one of its copper sites.

Teck Resources stock price

Past performance is no guarantee of future results, but it is worth taking a look at how Teck Resources typically performs through the base metals cycles.

The last three times the metals markets bounced off of a crash, Teck Resources saw its share price rise significantly. It went from \$5 in 2003 to above \$50 in 2007. After the financial crisis, it went from \$4 in 2009 to \$60 in 2011. A drop back to \$6 in 2016 was followed by a surge to \$36 in 2018.

Given the expectations for strong steel, copper, and zinc demand in the next few years, it is reasonable to expect the stock to move higher. A run to \$40 wouldn't be a surprise by the end of 2022.

The bottom line on Teck Resources stock

Volatility should be expected, and investors need to keep an eye on the commodity markets. You don't want to own this stock when global supply ramps up and demand begins to slide.

That said, demand growth and tight base metals supplies should keep prices elevated for some time. The recent pullback in Teck Resources looks overdone, and the share price should move meaningfully higher in the next 12-18 months.

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