



Should You Buy Teck Resources Stock Now?

Description

Teck Resources ([TSX:TECK.B](#))([NYSE:TECK](#)) soared 100% in the past year amid a surge in commodity prices. Investors who missed the rally are wondering if Teck Resources stock is still [undervalued](#).

Earnings

Teck Resources reported record Q4 2021 and full-year 2021 results. Adjusted EBITDA came in at \$2.5 billion in Q4 — more than three times higher than the same period the previous year. Adjusted profit was a record \$1.4 billion, or \$2.58 per share. Full-year 2021 adjusted profit was \$3.1 billion, or \$5.74 per share for the year.

Teck raised its base dividend to \$0.50 per share when the Q4 numbers came out and announced a payout of \$0.625 per share. The higher amount is due to the strong profits the company generated in the quarter.

Teck Resources produces steel-making coal, copper, and zinc. The prices of these commodities have remained elevated in the first part of 2022, so Teck Resources is expected to report strong results to start the year.

In its April 10th update, Teck Resources said its average realized steel-making coal price was US\$357 per tonne in the quarter compared to US\$351 in Q4 2021. Sales, however, were six million tonnes — slightly below the low end of the guidance for the quarter due to disruptions on a key rail line.

Teck Resources had an average realized copper price of US\$4.46 per pound in Q4 2021. Copper currently trades above US\$4.70 per pound. It was US\$2 per pound at the pandemic low. Zinc is now above US\$2.00 per pound. Teck Resources reported an average realized price of US\$1.52 in the Q4 results.

The company is also a partner on the Fort Hills oil sands facility. Oil prices soared above US\$100 per barrel in 2022 and remain elevated.

Outlook

Steel-making coal, copper, and zinc prices are expected to remain high for some time. The mining industry reduced investment in big projects over the past decade due to weak prices and challenged balance sheets. This means new supplies will take time to come to market while demand for the products continues to grow.

Infrastructure projects should support steel demand for several years. Copper is a key component in the manufacturing of solar panels, wind turbines, and electric vehicles.

Teck Resources has one of the few new developments that are near completion. The long-life, low-cost QB2 copper project is expected to start production in the second half of 2022 and has significant expansion potential.

Risks

Bond markets in the United States are flashing recession warnings. At some point, the current commodity supercycle will peak, and the downside tends to be dramatic when that happens. A quick look at the stock chart of Teck Resources gives investors a good indication of what might occur after this surge ends.

Is Teck Resources a buy today?

Despite the large rally, the stock trades at a reasonable 10 times trailing 12-month earnings. High copper, zinc, and steel-making coal prices will likely persist for some time, and Teck Resources should deliver even better earnings this year. The stock currently trades near \$53 per share. A move to \$60 or \$65 before the end of the year wouldn't be a surprise, but I would keep any new position small. Given the size of the surge over the past two years, there is a risk of a sharp pullback if market sentiment changes.

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