



Time to Buy Teck Resources Stock?

Description

Teck Resources ([TSX:TECK.B](#))([NYSE:TECK](#)) is up more than 40% in 2022. Investors are wondering if the strong conditions in the commodities [sector](#) will continue to drive the share price higher.

Teck Resources Q1 2022 earnings

Teck Resources reported record results for the first three months of 2022. Adjusted profit came in at \$1.57 billion compared to \$326 million in the same period last year. Revenue nearly doubled to \$5.03 billion, and adjusted diluted earnings per share hit \$2.96 compared to \$0.61.

Teck produces steel-making coal, copper, and zinc. The company is also a part owner of the Fort Hills oil sands facility. The prices for these commodities soared in the past two years after the initial crash early in the pandemic.

Strong demand conditions and tight supplies will likely persist, as investments in infrastructure, electric vehicles, and renewable energy ramp up while the mining industry scrambles to bring new supply online. Mining companies shelved many projects in recent years due to weak commodity prices. Teck Resources is one of the few that is actually close to putting a new large mine into production. The QB2 copper project in Chile is more than 80% complete and first output is expected by the end of this year.

Copper in particular should remain in high demand. The metal is a key component in the manufacturing of solar panels, wind turbines, and electric cars. These segments are growing globally and will require significant increases in copper supply over time.

Outlook

Teck Resources expects its 2022 copper net cash cost to be US\$1.40-1.50 per pound. Copper currently trades near US\$4.25 per pound and that's down from US\$4.80 last month. Zinc trades near US\$1.90 per pound compared to less than \$1 in 2020. Teck Resources expects its zinc net cash unit cost to be US\$0.32-0.38 per pound this year. Steel-making coal prices have also soared and are

expected to remain elevated and drive strong profits over the medium term.

For the remainder of 2022 and probably through 2023 Teck should generate strong margins and bumper earnings.

Risks

Commodities go through cycles and mining stocks like Teck Resources follow the pattern of the commodity prices. A quick look at the historical moves in the share price gives investors a good indication of what likely lies ahead when industry supply starts to ramp up and demand begins to falter for steel-making coal, copper, and zinc.

Based on previous rallies and subsequent crashes, Teck Resources might not be far from its next top given that the bull run off the 2020 lows is already at two years. That being said, this time could be a super cycle that takes the share price much higher for longer. Teck Resources definitely has a much stronger balance sheet than in the past, but investors still need to be careful.

Is Teck Resources stock a buy?

Additional gains are certainly possible, but investors should be ready to ride out some volatility and be willing to book profits if there is another big surge. At this point, the easy money has already been made, and the downside risk is real. If you think commodity prices are headed even higher and will stay high for another couple of years, the stock might be attractive here, but I wouldn't back up the truck.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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