



Teck Resources (TSX:TECK.B): Has the Stock Price Peaked?

Description

Teck Resources ([TSX:TECK.B](#))([NYSE:TECK](#)) has generated big gains for savvy investors who bought the stock near the 2020 lows. Those who missed the rally are wondering if more upside is on the way or if the rally is finished.

Teck Resources earnings

Teck Resources reported record Q1 2022 results, driven by high copper, coal, zinc, and oil prices.

Adjusted EBITDA came in at \$3.0 billion, more than triple the same period last year. The company is using the cash windfall to buy back stock and reduce debt.

Teck is a major producer of metallurgical coal that is used to produce steel. Prices were already moving higher before the pandemic due to a trade dispute between China and Australia that shifted Chinese buying to other suppliers, including Teck Resources. The demand surge and supply constraints that have occurred in the past two years have pushed prices even higher. Big infrastructure investments by governments to drive an economic rebound, particularly in China, where the economy is still suffering due to ongoing COVID-19 lockdowns, could keep the steelmaking coal price elevated.

Copper prices have pulled back after soaring from US\$2 per pound to above US\$4.75 earlier this year. At the time of writing, copper trades near US\$4.17 per pound. This isn't too far off the 12-month low. Teck Resources still makes good profits at the current price, and copper bulls think the market will remain strong for several years. Copper is a key component in the manufacturing of electric vehicles, solar panels, and wind turbines. Teck Resources is nearing completion of a new copper mine. Production is expected to begin by the end of this year.

Teck Resources also has a stake in the Fort Hills oil sands facility. With WTI oil near US\$120 per barrel, the investment is delivering strong cash flow.

Risks?

Soaring fuel costs, particularly diesel, are eating into some of the profit gains. Operating costs jumped 13% in Q1 compared to Q1 2021 with about half of the increase caused by the surging diesel fuel prices. This isn't expected to change much in the near to medium term, as refineries are already running near full capacity, and bringing new facilities online to make gasoline, diesel fuel, and jet fuel takes a long time.

Commodity prices, however, could plunge if rate hikes by the U.S. Federal Reserve and other central banks trigger a severe economic downturn. The drop in the price of copper from nearly US\$5 per pound at the peak in March to the recent low around US\$4.10 is a good warning to investors about how quickly commodity markets can shift directions.

Is Teck Resources stock still a buy?

Teck Resources trades for close to \$52 per share at the time of writing compared to the 12-month high of \$57.50. At just 6.9 times trailing 12-month earnings the stock appears [undervalued](#), and a surge to \$60 is certainly possible in the coming weeks or months.

That being said, a quick look at the stock chart of Teck Resources over the past two decades suggests buy-and-hold investors should be careful. The rally is now more than two years old, and history suggests a big pullback is on the way. It is possible that the commodity markets are in a supercycle and will move higher for longer this time, but Teck Resources tends to take the stairs up and the elevator down, so you don't want to get caught holding the stock when commodity prices reverse course. The copper weakness in the past few months could be an early warning.

Traders might be able to book decent profits on expected near-term volatility, but I would look for other opportunities today for long-term investments.

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