Is Teck Resources (TSX:TECK.B) Stock Oversold?

Description

The pullback in the share price of **Teck Resources** (TSX:TECK.B)(NYSE:TECK) has investors wondering if the stock is now undervalued and good to buy for a TFSA or RRSP portfolio.

Teck Resources overview

Teck Resources produces metallurgical coal, copper, and zinc. It is also a partner in the Fort Hills oil sands facility.

Commodity prices have plunged in recent weeks, as traders fear a global recession will drive down investment and spending and reduce demand for base metals used to make appliances and other finished goods that have been in high demand over the past two years. A drop in commercial construction would hurt steel demand while a slowdown in home building will reduce demand for copper wiring.

Metallurgical coal is used to make steel. This is the largest operation at Teck Resources. The division saw sales increase in the past couple of years due to a trade spat between China and Australia that saw China switch purchases of steelmaking coal away from Australian producers. COVID-19 impacts on production in other countries reduced global supplies and drove up met coal prices.

China's lockdowns over the past few months have hit demand for steel and copper. A real estate slump in the country has reduced construction of new buildings. Zinc has seen a drop as well due to its use in the process of galvanizing steel.

Oil prices have also plunged from the 2022 highs, so Teck Resources has taken a a hit across the board. At the time of writing, copper trades for US$3.50 per pound compared to US$4.75 per pound in April. Zinc is down to US$1.40 per pound from US$2.00 earlier this year. Metallurgical coal prices plunged in Q2 2022 as falling steel prices forced reductions in steel production. In addition, China is buying more coal from Russia at steep discounts to the international market price. This could continue, resulting in reduced demand for met coal produced by Teck Resources.

Recession fears will make it difficult for the market to bounce back quickly, although there are some specific catalysts that could spark a rebound. Sanctions against Russia could offset China's decision to buy more from Russian suppliers. China is also considering a major stimulus initiative focused on infrastructure projects to kickstart the economy after the strict lockdowns this year.

The combination of the two situations could spark a new rally in met coal, copper, and zinc.

Is Teck Resources stock a buy?

Teck Resources trades near $35.50 per share at the time of writing compared to $57 in early June. The pullback is beginning to appear overdone. While commodity prices have declined, Teck Resources is still making good profits at current levels.

That being said, volatility should be expected and another sharp move to the downside is possible if the broader market pullback picks up speed. Nimble traders might be able to pick up some nice gains on a spike, but buy-and-hold investors should probably wait for a clear indication the rout has bottomed before buying TECK.B stock.

Teck's share price history suggests more downside could be on the way in this cycle before the next major rally.

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