Teck Resources (TSX:TECK.B) Stock: Buy Now or Wait?

Description

Teck Resources (TSX:TECK.B)(NYSE:TECK) has tanked in recent weeks, as commodity prices pulled back, and traders booked profits after a massive two-year rally. Investors who missed the big gains are wondering if TECK.B stock is now undervalued and good to buy or still at risk of seeing more downside.

Commodities outlook

Teck Resources produces steel-making coal, copper, and zinc. The company is also a part owner of the Fort Hills oil sands facility. Steel, copper, zinc, and oil prices have come under pressure amid rising fears that high inflation and aggressive interest rate hikes by central banks to combat soaring prices will trigger a deep global recession.

Last week, the International Monetary Fund (IMF) said it plans to downgrade its projections for global growth in both 2022 and 2023 as a result of ongoing economic headwinds that will likely get worse. Higher-than-expected inflation, the war in Ukraine, ongoing supply chain bottlenecks, lockdowns in China, and steep interest rate hikes will put added pressure on the global economy.

Businesses and consumers will reduce spending to preserve cash. Demand for steel, copper, and zinc, could decline further. High borrowing costs are already hitting major housing markets. Mortgage demand in the United States just dropped to its lowest level in 22 years. Lower home sales will translate into a reduction in demand for appliances.

Just as commodity prices pull back, major producers are warning investors that costs continue to rise. Shipping, labour, and fuel expenses have soared and are not expected to drop significantly in the next 12-24 months. The combination of reduced revenue and soaring costs will put pressure on the high margins commodities producers have enjoyed in the past two years.

Is Teck Resources stock a buy?

Teck Resources is at the mercy of the commodities market. Copper currently trades for US$3.30 per pound at the time of writing compared to more than US$4.50 in early June. Teck Resources still makes good money at today's price, but more downside could be on the way if the global economic outlook weakens in the next few months.

The company is on track to complete a new copper mine this year with first production expected to commence in the next few months. This will boost revenue, but the site will also add more supply to a copper market that could continue to slide.

Long-term copper demand should be supported by an expanding market for electric vehicles, wind farms, and solar panels. Steel could bounce back, as well, driven by a potential wave of new Chinese infrastructure projects designed to jumpstart the weak economy.

At the current share price, Teck Resources trades for less than five times trailing 12-month earnings and is probably oversold, so traders might consider taking a position on the hope of catching a near-term bounce.

Investors with a buy-and-hold strategy, however, should probably wait. Teck Resources had a nice two-year rally off the 2020 crash, but the stock might have already peaked. A quick look at the historical moves of Teck Resources stock suggests a new spike could be short-lived and more downside is probably on the way before the pullback bottoms out.

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