



A Closer Look at Teck Resources' Third Quarter Earnings

Description

Teck Resources (TSX: TCK.A and TCK.B) (NYSE: TCK) is out with its third quarter earnings. Despite slumping profits, the diversified miner beat estimates which has sent its stock higher. Let's dig in and see what happened this past quarter.

Digging into the numbers

Teck Resources reported adjusted profit of C\$252 million or C\$0.44 per share. This is actually down from the C\$425 million or C\$0.73 per share it earned in the third quarter of 2012. However, the fact that analysts were expecting earnings of C\$0.38 demonstrates just how negative they had become.

The other important number this past quarter was cash flow from operations. Teck delivered C\$647 million for the quarter, which while less than the C\$885 million it earned last year, but still a solid tally. The company's efforts to cut costs, including a C\$330 million cost reduction program is clearly working.

What went right?

The biggest contributor to the earnings beat were the record coal sales that Teck Resources delivered this past quarter. Coal sales hit 7.6 million tonnes, which was up 37% from the year ago quarter. The company saw strong customer demand in the quarter as Chinese demand played a big role in surging Canadian steelmaking coal sales. Canadian coal exports to China more than doubled in the quarter over last year.

In addition to record coal sales, Teck really did a good job keeping costs down. Mine operating costs dropped 14% to C\$50 per ton, well below the C\$58 it delivered last year.

What went wrong?

If there is one area of concern it's coal pricing. Teck Resources noted that the current price for steelmaking coal is below the price needed to sustain adequate long-term production for the industry. The company only realized \$139 per tonne, which is well below the \$193 per tonne it realized in last year's third quarter.

The other negative on the quarter were copper sales, which were down C\$49 million. The company experienced reduced production at its Quebrada Blanca mine, along with lower grade ore production at most of its mines, which resulted in lower production. Teck was also hurt by falling copper prices, which were down 8% year-over year.

Lower copper prices also impacted copper giant **Freeport-McMoRan** ([NYSE: FCX](#)). Average realized copper prices were about 10% lower for Freeport-McMoRan. However, its diversified business helped keep Freeport-McMoRan's results from slipping too far. Teck benefitted from its diversified production base as well as its zinc business more than made up for the lost revenue in copper as zinc revenue was up by C\$57 million.

Looking ahead

Teck's fourth quarter is already off to a solid start. The company has agreements to sell more than 5.6 million tonnes of coal and expects total sales to hit 6.3 million tonnes in the quarter.

Looking even further ahead, Teck Resources owns a 20% interest in **Suncor's** ([TSX: SU](#)) ([NYSE: SU](#)) Fort Hills oil sands mining project in Alberta. A final decision on the project has not been made at this point. However, if Suncor and its other partners in the project give the green light it could be a significant future cash flow driver for Teck. [Current estimates suggest](#) that the Suncor operated project could contribute 10% of Teck's 2018 cash flow.

Investor takeaway

Teck Resources reported a very solid quarter. Coal sales rebounded and look to remain strong through next quarter. The company continues to keep a lid on costs and is doing a solid job delivering in the currently tough operating environment.

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1. Investing

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1. NYSE:TECK (Teck Resources Limited)
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