



What to Watch When Teck Resources Reports Earnings This Week

Description

Teck Resources (TSX: TCK.B)(NYSE: TCK) is set to release its quarterly earnings on Tuesday. As each earnings season approaches, it's a good idea to write down a concrete definition of what a successful quarter looks like *before* the report is released. That way the results themselves don't bias your assessment.

After big declines in base and precious metal prices, investors should be bracing themselves for the worst. For current or prospective shareholders, the question is whether the recent plunge will put the company's dividend and share buyback program at risk. Let's take an early look at what's been happening at Teck over the past couple of months and what we're likely to see in the upcoming report.

Analyst EPS Estimate \$0.26

Year Ago EPS \$0.56

Revenue Estimate \$2.10B

Change From Year-Ago Revenue -9.70%

Earnings Beats in Past 4 Quarters 3

Source: Yahoo! Finance

Will Teck's earnings hold up this quarter?

While gold and silver steal all of the headlines, it has been a rough year for all resource investors.

Thanks to slowing economic growth in China, the prices for commodities like coal, copper, and zinc have been in the doldrums. And as any armchair equity analyst could tell you, this has badly hurt the bottom lines of operators in the mining industry.

Over the past 90 days, the Street has cut its consensus estimate for Teck's earnings, down a dime and \$0.66 per share for the upcoming quarter and the full-year, respectively. The stock has stabilized somewhat following a big drop in 2014, though shares are still off 12% year-to-date.

Thankfully, Teck is better prepared than its rivals to survive the turmoil thanks to its low operating costs and strong balance sheet. Even at current commodity prices, the company should be able to maintain its investment-grade credit rating for the time being.

The only concern is that Teck may need to consider reducing its dividend and share buyback program if it wants to maintain its aggressive growth targets and current commodity prices persist.

Over the past few years, the company has done a great job rewarding shareholders, consistently raising its dividend since 2010. Today, Teck pays out \$0.90 per share, or \$521 million annually to investors. However, the miner may be pushing its financial limits with oil, copper, and shareholders all fighting for limited cash.

The Fort Hills oil sands projects, in which Teck has a 20% interest, was given the green light by operator **Suncor** last year. A decision on the Frontier oil sands mine in Alberta and phase two of the Quadra Blanca copper mine in Chile is expected in 2016. And last quarter, management hinted the cost inflation was starting to bite into profits. At least for the next few years, the interests of shareholders may need to wait as the business sucks up constrained capital.

Foolish bottom line

In Teck's earnings, watch the company's operating cash flow and capital spending closely. If free cash flow remains constrained, it could put a halt to the company's string of dividend hikes and generous share buyback program.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:TECK.B (Teck Resources Limited)

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