What You Need to Know About Teck's Latest Earnings Report

Description

If you have bad news to report, it always helps when expectations are already low. Because if the bar is low enough, it's much easier to jump over it.

This is how **Teck Resources** (TSX: TCK.B)(NYSE: TCK) must feel after reporting earnings on Tuesday. By almost any standard, the results were not acceptable. First quarter adjusted profit per share fell by 68%, to 18 cents. Pricing and revenue are down for all three of the company's products (copper, zinc, and steelmaking coal). Yet the stock price increased by 1% following the news. So why was there such a positive reaction?

Steelmaking coal is weak, but this is nothing new

Teck's biggest business is steelmaking coal, which is also its most cyclical business. The key customer is of course China, which accounts for 50% of worldwide steel demand. And since growth in China has been slowing, that has reduced the demand for steel, which puts pressure on Teck's coal prices. Even worse, Teck's competitors have ratcheted up supply, creating further price pressure. As a result, margins are at their lowest level in 10 years.

But these issues were already known. The same could be said for Teck's other commodities, zinc and copper.

Cost-cutting

Along with earnings, Teck announced that it would cut 600 jobs, about 5% of its employees. The cuts would mainly be done through attrition, a hiring freeze, and fewer contractors. This should ideally help save the company from restructuring (i.e., severance) costs.

This is the latest example of Teck's emphasis on cost-cutting, which has been very necessary giventhe weak commodity environment. The company's cost reduction program has reduced annualexpenses by $345 million so far, and another $200 million is being targeted. If that target is reached,then Teck will have reduced pre-tax costs by nearly $1 per share. Not bad for a company with a $24stock.

Teck has also cut capital spending, mainly by deferring its massive Quebrada Blanca Phase 2 project in Chile (copper), and its Quintette mine project in British Columbia (steelmaking coal). And the company is targeting an additional $150 million in capital cost reductions. This is a nice break from the Teck Resources of old, which spent money at will while trying to grow.

Foolish bottom line

Teck is still vulnerable to further setbacks in China, which have weighed on the stock price for quite some time now. So investors who are unafraid of the Chinese economy may want to consider Teck for their portfolio. If the Chinese economy can surpass expectations, then Teck's shares have plenty of room to run.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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