This Unloved Canadian Mining Giant Holds Huge Hidden Value

## Description

Canada's largest diversified resource company, **Teck Resources** (TSX: TCK.B)(NYSE: TCK), has been struggling for the past three years but it may be time for long-term investors to take a look at the miner's potential.



Teck is the second largest global exporter of steelmaking coal to the seaborne market and is the planet's third largest zinc producer. Teck also produces significant amounts of copper and has a large oil sands stake through its 20% interest in the Fort Hills project operated by **Suncor**.

Teck is currently suffering from very low metallurgical coal prices and this commodity represented 47% of its 2013 gross profit. The met coal market has been over supplied for some time but recent production cuts across the industry might mean a floor has been established under the met coal price.

On the copper front, the slowdown in Chinese demand has kept prices near the $3 per pound range but copper also looks like it is finding a bottom. Copper represented 38% of Teck's gross profit in 2013.

Zinc prices have been doing better as a global shortage has benefitted producers such as Teck. In fact, the base metal is trading near its three-year high. Zinc contributed 15% of the company's gross profit last year.

**What is the outlook for Teck moving forward?**

The met coal market is expected to rebound in 2016 as the recent supply cuts work through the system. Fort Hills is scheduled to start producing oil in 2017, and the copper market is already seeing some signs of life again as new home construction in the U.S. picks up steam.

So, looking two to three years out, Teck is well placed to ride a recovery in its core markets. Given that Teck is a low-cost producer in many of its businesses, the margins should improve significantly as commodity prices rebound.

On the energy side, Fort Hills is expected to produce 160,000 barrels of oil per day by 2018.

The market hates this stock right now and that's why I like it. At the current stock price, I'm willing to get paid to wait, but the next 12 months might be a bit rocky.

**What's the risk?**

The short-term risk to Teck's stock price is the possibility of a cut to its $0.90 per share dividend currently yielding about 3.5%.

I don't believe Teck will do this because the company recently announced plans to buy back up to 20 million shares in the next 12 months. This represents about 3.5% of the outstanding class B voting shares.

Teck has been reducing capital outlays to protect its liquidity situation amid the low prices for its products. The company missed earnings estimates in Q1, 2014 and the consensus for Q2 isn't great at a lowly $0.12 per share.

Beyond Q2, things are expected to be better. If the company continues to execute well on cost controls it should be able to ride out the current slump but cost cutting can only go so far.  Management might be forced to trim the dividend payout if met coal and copper prices stay too low for too long.



**CATEGORY**

1. Investing

**TICKERS GLOBAL**

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

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