Why the Father of Value Investing Would Probably Be Buying Teck Resources Ltd

Description

Benjamin Graham might not be the most famous value investor — that prize would go to his pupil, billionaire Warren Buffett — but he might be the most influential.

In 1934, Graham, along with his investing partner David Dodd, co-authored a text called *Security Analysis*, a summary of the pair's investing philosophy. They introduced the concept of valuing a stock like a business, choosing to invest in stocks that primarily traded for either less than their book value or those that traded at a lower price-to-earnings multiple than their peers. This seems to be pretty elementary now, but it was revolutionary advice at the time.

In 1949, Graham wrote *The Intelligent Investor*, the layman's version of *Security Analysis*. He used examples from real-life companies to show investors just how easy value investing could be. *The Intelligent Investor* has a spot on every value investor's bookshelf, including my own. It's an extremely valuable book for any investor.

Of course, Graham heavily influenced a young Warren Buffett, eventually inviting him to New York to work at his company. To this day, Buffett credits Graham as his investing mentor.

Based on one part of Graham's formula, there's a Canadian company that looks pretty attractive. Its shares have been beaten up, but if he was still around, I think Graham would at least be taking a look at **Teck Resources Ltd** (TSX: TCK.B)(NYSE: TCK). Here's why.

Four letters: CAPE

One of Graham's specialties was buying stocks with normally solid earnings that traded at a discount because of a bad year or two. His thought was that looking at a depressed company's short-term earnings was silly. Graham was much more interested in a longer-term average of earnings, usually five or 10 years' worth of numbers. This is called the Cyclically Adjusted P/E, or CAPE.

Investors in Teck Resources should do the same. Let's take a look at the company's earnings per share over the last decade:

Year	EPS
2004	$1.59
2005	$3.31
2006	$5.77
2007	$3.74
2008	$1.46
2009	$3.43
2010	$3.09
2011	$4.52
2012	$1.82
2013	$1.66

Source: The Globe and Mail

The 10-year average is $3.04 per share.

On Friday, shares of Teck Resources closed at $25.09 each. This means they're trading at just 8.3 times the company's average earnings over the last decade. That's pretty cheap.

There are other reasons to buy Teck. Its shares trade at just 77% of book value, and it has a cash hoard of more than $2 billion to ensure adequate liquidity. Balance sheet strength is always important in a turnaround situation.

The company has been depressed mostly because of a weak metallurgical coal market, which has recently slumped to six-year lows. The short-term outlook for coal doesn't look great, but the company can at least look forward to less supply on the North American markets, since one of its competitors announced earlier this year that it was shuttering its Canadian operations.

Meanwhile, Teck is working hard at diversifying away from coal, including a joint venture in the oil sands called Fort Hills. Teck holds a 20% stake in the project, which is slated to begin production in late 2017. It also has a wholly-owned oil sands venture, Frontier, where it is just in the testing phase. No production date has been set.

The demand for copper and zinc has also been strong. Copper prices have held steady, while zinc prices have crept up. Currently, about 55% of the company's revenue comes from metals, with no significant expansions planned.

Investors who can look past the coal market's weakness can buy a high-quality Canadian miner trading at a low price-to-average 10-year-earnings multiple, a discount to book value, and significant oil exposure in the future. If Benjamin Graham was still investing, he'd probably consider Teck Resources, and so should you.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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