This 7% Dividend Is Safe… for Now

Description

Teck Resources Ltd.'s (TSX: TCK.A)(TSX: TCK.B)(NYSE: TCK) stock has been free-falling of late and is down 36% in just the past three weeks. Continued weakness in the coking coal market is largely behind the fall, although the plunge in oil prices is hurting the mining company too. That being said, Teck Resources says that the dividend, which now yields more than 7% is safe for the time being.

High-yield warning sign

A high dividend yield is often a red flag for investors. Unless the company's business structure is known for a high yield, like a REIT or MLP, anything over 5% suggests something is amiss. In Teck Resources' case there are growing worries that the company's cash flow will be impacted by the weakness in the metallurgical coal markets, which will impact its ability to fund its growth program.

Investors worry that the company might soon need the $510 million in cash it plans to give back to investors next year. It has a very large capital commitment on its hands as it's a partner with **Suncor Energy** (TSX: SU)(NYSE: SU) for the Fort Hills oil sands mine. That project, which will cost Teck Resources $2.9 billion over the next few years, is a growing risk due to the collapse in oil prices.

Why falling oil prices are impacting Teck Resources

While the bulk of Teck Resources' cash flow these days comes from typical base mining projects, the company's foray into mining bitumen out of the Canadian oil sands was supposed to diversify its cash flow with oil. Previous estimates suggested that the project would deliver 10% of the company's total cash flow by 2018. However, the $13.5 billion project, which was given the green light in late 2013, now looks like a big cash drain instead.

Teck Resources does have ample liquidity at the moment to handle both the downturn in met coal prices as well as its capital commitment. The company had about $2 billion in cash as of the end of last quarter on top of a US$3 billion line of credit. It's because of this liquidity that the company views its dividend as being safe. However, if market conditions don't improve the company could reduce its dividend at some point in the future as it did during the financial crisis.

Investor takeaway

Teck Resources was hoping that oil could provide it with stable cash flow to offset some of its other volatile commodities. However, oil is turning out to be much more volatile than anyone expected. Because of that it's causing Teck Resources investors to endure some volatility of their own as the stock price has cratered over the past few weeks. At least investors can continue to comfort themselves with the company's rich payout, which is still safe at the moment.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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Date
2025/08/02
Date Created
2014/12/16
Author
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