Is Teck Resources Ltd's Dividend About to Get Cut?

Description

It's been a rough few years for shareholders of **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK), whose shares are down by more than 70% in the past four years.

Over this time, there has been one piece of good news for the company's shareholders. The dividend has increased by 50%. But now, even that has been called into question. Notably, **Deutsche Bank** analyst Jorge Beristain has speculated that a dividend cut is on Teck's horizon.

So just how safe is that payout? Below we take a look.

What's gone wrong?

Back in 2011, everything was going right for Teck and its Canadian mining peers. China's GDP had just posted double-digit growth. Supply for products like coking coal (which accounts for nearly half of Teck's revenue) was weak, due to flooding in Australia. As a result, Teck was able to command very high pricing.

Since then, practically everything has gone wrong for Teck. Worst of all, coking coal prices have been hammered, thanks to strong supply from Australia and slowing economic growth in China. To put this in perspective, Teck was able to sell its coking coal for $279 per tonne in the third quarter of 2011. In its most recent quarter, that price had dropped to $119.

Copper, which accounts for 30% of Teck's revenue, has also declined in price. Back in 2011, the metal fetched more than US$4 per pound at one point, but today is trading for well under US$3.

Fort Hills a serious drag

Making matters worse, the Fort Hills oil sands megaproject, of which Teck Resources owns a 20% stake, has come under question due to falling oil prices. Most analysts agree that US$90+ oil prices are needed for the project to break even. This is a problem for Teck, which has committed to spending roughly $700 million per year on Fort Hills over the next three years.

Both Teck and project operator **Suncor Energy Inc.** have remained committed to the project. The CFO of Suncor recently said that, “In the longer term oil is going to go back to $90-$100,” and for that reason Fort Hills remains viable. Teck CEO Don Lindsay also weighed in, saying that Fort Hills development costs should fall in this environment.

But Teck’s capital commitments are no laughing matter, and investors are getting antsy.

So how safe is the dividend?

Teck certainly has its fair share of problems. And those problems could easily get worse, especially if China falters. But for now, the company’s dividend appears very safe.

Teck’s financial position is quite solid. The company has $5.3 billion in liquidity, which includes over $1.8 billion in cash. Better yet, the company is still profitable, even with today’s depressed prices — just last quarter, cash flow from operations totaled nearly $500 million. Meanwhile, the dividend only costs about $260 million per quarter. And Teck is committed to maintaining the dividend, so a cut will only come as a last resort.

But if you’re a dividend investor, you still should avoid this company. After all, you’re probably not looking to make a China bet with your savings. Rather, you’re simply looking for regular, reliable income, without having to worry about it. The free report below profiles three stocks that you should look at instead of Teck.

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