



## Does the Post-Earnings Weakness in Teck Resources Ltd. Represent a Buying Opportunity?

### Description

**Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK), the largest diversified resource company in Canada and the largest producer of steel-making coal in North America, announced first-quarter earnings on the morning of April 21 and the results fell short of expectations. The company's stock has responded by falling over 5%, so let's take a closer look at the report to determine if we should consider using this weakness as a long-term buying opportunity.

### The results that narrowly missed expectations

Here's a summary of Teck's first-quarter earnings results compared to what analysts had expected and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Earnings Per Share	\$0.11	\$0.14	\$0.18
Revenue	\$2.02 billion	\$2.03 billion	\$2.08 billion

Source: *Financial Times*

Teck's adjusted earnings per share decreased 38.9% and its revenue decreased 2.9% compared with the first quarter of fiscal 2014. The company's steep decline in earnings per share can be attributed to its adjusted net income decreasing 39% to \$64 million, primarily due to ongoing weakness in commodity prices.

Its slight decline in revenue can be attributed to revenues falling in two of its three major segments, including a 1.7% decline to \$865 million in its coal segment and a 19.8% decline to \$523 million in its copper segment, and these declines were only partially offset by revenues increasing 15.2% to \$635 million in its zinc segment.

Here's a quick breakdown of 12 other notable statistics from the report compared to the year-ago period:

1. Production of coal increased 1.5% to a record 6.8 million tonnes
2. Sales of coal increased 9.7% to a record 6.8 million tonnes
3. Production of copper decreased 4.7% to 81,000 tonnes
4. Sales of copper decreased 14.5% to 71,000 tonnes
5. Production of zinc in concentrate increased 1.8% to 166,000 tonnes
6. Sales of zinc in concentrate increased 2.7% to 152,000 tonnes
7. Production of refined zinc increased 21% to 75,000 tonnes
8. Sales of refined zinc increased 17.7% to 73,000 tonnes
9. Gross profit before depreciation and amortization decreased 6.7% to \$685 million
10. Gross profit decreased 14.5% to \$348 million
11. Earnings before interest, taxes, depreciation, and amortization decreased 2% to \$546 million
12. Cash flow from operations decreased 31.7% to \$372 million

Teck also announced a 66.7% reduction in its annual dividend to \$0.30 per share and went on to state, "This reduction brings our dividend payout and yield more in line with current commodity prices and outlook and ensures balance sheet strength and flexibility for future capital expenditures or other capital allocation opportunities." The company also noted that the next semi-annual dividend payment of \$0.15 per share will come on July 2 to shareholders of record at the close of business on June 15.

### **Should you buy shares of Teck Resources today?**

Although I think the post-earnings drop in Teck's stock is warranted, I also think it has led to a long-term buying opportunity. I think this because it trades at favourable valuations, including just 14.9 times fiscal 2015's estimated earnings per share of \$1.07 and only 10.3 times fiscal 2016's estimated earnings per share of \$1.54, both of which are very inexpensive compared to its five-year average price-to-earnings multiple of 15.8.

I think Teck's stock could consistently command a fair multiple of at least 15.5, which would place its shares upwards of \$23.75 by the conclusion of fiscal 2016, representing upside of more than 49% from today's levels, and this does not include reinvested dividends.

With all of the information provided above in mind, I think the post-earnings drop in Teck Resources' stock represents a great long-term buying opportunity. Foolish investors should take a closer look and strongly consider beginning to scale in to long-term positions today.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

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

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