Is Teck Resources Ltd. Your Turnaround Stock?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) is a diversified miner that has operations in Canada, the United States, and Chile. Since its high of $60 per share in 2011, it has been in a long-term downward trend, reaching its present level of $12 per share.

Investors lost 80% of their money from that high. Of course, investors shouldn't have invested at that high price, but at the time there was euphoria from the price run up from $35 to $60 in mid-2010.

Even if you bought at $30 per share with the thinking that shares were 50% cheaper than they were, that's still a 60% decline to today's levels. Is now a good time to buy Teck Resources?

The business

Most of Teck's revenue comes from coal, copper, zinc, and lead. Those commodities haven't been doing well in the past few years, and that's why Teck hasn't done well either.

In low-risk, stable jurisdictions, Teck is building a strong reserve and resource position with long-life assets. Teck's coal resources are expected to last more than 100 years, copper more than 30 years, zinc more than 20, and energy more than 50.

In 2014 one-third of Teck's cash operating profits came from coal, 40% from copper, and close to 27% from zinc. For each incremental change in the price of these commodities, Teck will earn more profits. The weak Canadian dollar results in higher coal prices for Teck in Canadian-dollar terms.

Cost reduction

Teck has been reducing its costs since 2012. For example, Teck's cost reduction initiatives in 2013 and 2014 led to annualized savings of roughly $640 million. This year the company is targeting another $100 million in annualized savings.

Teck recently cut its dividend that's paid out every half year from $0.45 per share to $0.15 per share, a 67% decline. Obviously, investors weren't happy about it.

The dividend cut was probably done to raise funding for Teck's Fort Hills oil sands project. One may question this investment in a low oil price environment; however, the project isn't expected to come online until 2017, by which time oil prices may have rebounded.

In conclusion

Teck Resources yields 2.5% today with a price-to-earnings ratio (P/E) of 16.6. However, investors shouldn't buy it for income purposes. Instead, it is a speculative play with potential for high capital gains, given that commodity prices improve.

Assuming an earnings growth of 20% per year and a P/E of 16, by 2018 Teck could reach close to $21 with an annualized rate of return of 25% or a total rate of return of 117%.

However, there needs to be a stimulus for higher commodity prices.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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Date
2025/08/02
Date Created
2015/07/06
Author
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