



Is Teck Resources Ltd a Turnaround Opportunity?

Description

Teck Resources Ltd (TSX:TCK.B)(NYSE:TCK) is reporting its second quarter earnings results today. Should you buy it? First, let's take a look at Teck Resources' business.

The business

Teck Resources is the biggest diversified miner in Canada. It operates in Canada, the United States, Chile, and Peru. Teck's business performance is based on the commodity prices. Specifically, in 2014, its gross profits came from copper (41%), coal (32%), and zinc (27%).

The volatile commodity prices affect Teck's earnings directly. To shed more light, in 2001, Teck's earnings per share (EPS) decreased by 121%, but in the following three years, its EPS increased by 217%, 443%, and 279%, respectively. In other words, an investment in Teck Resources is a roller coaster ride that spans multiple years.

Is Teck Resources' dividend safe?

As mentioned before, Teck's earnings are entirely dependent on commodity prices. Teck Resources cannot control the sale price of these commodities, but it can control cost.

Since 2012, Teck has been reducing its costs. For instance, Teck's cost reduction initiatives in 2013 and 2014 led to yearly savings of about \$640 million. This year the company is targeting another \$100 million in yearly savings.

As much as Teck is reducing costs, it still cut its dividend that's paid out every half year from \$0.45 per share to \$0.15 per share, a 67% decline. Investors weren't happy about it. Period.

Teck probably did that to raise funds for its Fort Hills oil sands project. One may question this investment in a low oil price environment, but the project doesn't come online until 2017, by which time oil prices may have rebounded at least somewhat.

So is Teck Resources' dividend safe? I think by now, you should know that my opinion is no. The

board can decide to cut it anytime to raise funds for the company. It's a nice reminder that no dividends are guaranteed. There's no guarantee that a company that pays a dividend now will pay you next time.

Around \$10.30 per share, Teck Resources yields 2.9%, but as I said, its dividend is not to be trusted. Further proof is that in 2008-2009, Teck also cut its dividend.

Should Foolish investors buy today?

So far, I sounded quite negative about Teck Resources. Its earnings are highly volatile, leading to a highly volatile stock price, and of course it has a history of cutting its dividend.

However, I have also shown that it has historically had a huge cut in earnings in one year, and only to come back with a vengeance of exponential earnings growth in the next few years. Please keep in mind that that can only happen when the demand is great for its underlying commodities of copper, coal, and zinc.

So, in conclusion, at best, Teck Resources is a speculative, contrarian play after its high of \$60 in 2011, and having been in a downtrend since. Around earnings time, particularly for a volatile stock such as Teck Resources, it can go up or down more than 10% in a day. So, be careful!

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1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

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

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