# Is Teck Resources Ltd. a Steal at Less Than $10 Per Share?

## Description

Shares of **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) have been in freefall in recent weeks, and have now sunk below $10 per share for the first time since April 2009.



Interestingly, if you had invested $1,000 in Teck back then, your stake would have been worth about $4,500 just one year later. Are Teck's shares once again grossly mispriced? Below we take a look.

**The latest bad news**

This year has not been a good one for Teck, with the main problems coming in its steelmaking coal unit. Put simply, China's slowing growth is putting a damper on steel demand, causing prices for iron ore and steelmaking coal to plummet. Making matters worse, supply has held up fairly well, even though so many producers are incurring losses.

To put this in proper perspective, Teck's coal sold for an average price of US$95 per tonne in the second quarter of this year. And now the spot price is approaching US$80 per tonne. Back in the third quarter of 2011, this number was US$285.

Teck is encountering other problems too. Oil prices continue to stagnate, which doesn't look good for the Fort Hills oil sands project, of which Teck has a 20% stake.

There have also been concerns about the company's balance sheet. To help deal with this problem, the company had to slash its dividend by two-thirds earlier this year. The company has also had its debt downgraded by all three major rating agencies this year.

**So is now the time to step in?**

Depending on how you look at it, Teck is either an absolute bargain or wildly overpriced.

Let's start with the bargain argument. Teck has some of the world's highest-quality assets, especially in its steelmaking coal unit, and the replacement cost of these assets is not reflected in Teck's stock price. In fact when using this measure, Teck's coal and copper assets are *each* worth more than the company's stock market value. So even after factoring in debt, Teck's stock is wildly undervalued on a replacement cost basis.

Here's the problem: in order for any miner to realize the full value of its assets, the market needs to be in balance. And that won't be happening in the steelmaking coal business anytime soon. If you don't believe me, numerous commodities are cheaper than their supply cost, yet there's no sign of recovery. Examples include uranium, iron ore, thermal coal, and aluminum. Perhaps oil belongs on that list too.

And as long as steelmaking coal prices remain depressed, there's downward pressure on Teck's share price. After all, the company earned only $0.11 per share last quarter, not much for a $10 stock.

So for now, your best bet is to avoid Teck Resources. The risks are simply far too great, and history is not on its side.

**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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