



Have Teck Resources Ltd.'s Shares Finally Bottomed?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK), the largest diversified resource company in Canada and the largest producer of steelmaking coal in North America, announced better-than-expected second-quarter earnings results on the morning of July 23, but its stock has responded by falling over 11% in the trading sessions since.

Let's take a closer look at the results to determine if we should consider using this weakness as a long-term buying opportunity, or if we should wait for an even better entry point in the trading sessions ahead.

Breaking down the second-quarter results

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

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	\$0.14	\$0.12	\$0.13
Revenue	\$2.00 billion	\$1.94 billion	\$2.01 billion

Source: Financial Times

Teck's adjusted earnings per share increased 7.7% and its revenue decreased 0.5% compared to the second quarter of fiscal 2014. The company's strong earnings per share growth can be attributed to its adjusted net profit increasing 9.7% to \$79 million, helped by its total costs of sales decreasing 1.3% to \$1.69 billion.

Its slight decline in revenue can be attributed to two primary factors. First, commodity prices have fallen dramatically over the last year, including the price of coal decreasing 14.4% to US\$95 per tonne. Second, the company sold just 6.5 million tonnes of coal during the quarter, a decline of 4.4% from the year-ago period. These two factors led to Teck's coal sales decreasing 8.3% to \$764 million, which could not be entirely offset by its copper sales increasing 8.3% to \$704 million and its zinc sales

increasing 0.8% to \$530 million.

Here's a quick breakdown of 10 other notable statistics from the report compared to the year-ago period:

1. Production of coal increased 3.1% to 6.6 million tonnes
2. Production of copper increased 6.9% to 93,000 tonnes
3. Sales of copper increased 11.5% to 97,000 tonnes
4. Production of zinc in concentrate increased 14% to 179,000 tonnes
5. Sales of zinc in concentrate decreased 5.4% to 105,000 tonnes
6. Production of refined zinc increased 4.2% to 75,000 tonnes
7. Sales of refined zinc increased 8.3% to 78,000 tonnes
8. Gross profit before depreciation and amortization increased 6.3% to \$676 million
9. Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 6.8% to \$596 million
10. Operating profit increased 12.3% to \$238 million

Should you buy Teck Resources on the dip?

It was a solid quarter overall for Teck, so I do not think the steep post-earnings drop in its stock was warranted. With this being said, I think the drop represents a great long-term buying opportunity, because its stock trades at very inexpensive forward valuations and because it has a high dividend yield.

First, Teck's stock now trades at just 13.6 times fiscal 2015's estimated earnings per share of \$0.68 and a mere 8.6 times fiscal 2016's estimated earnings per share of \$1.08, both of which are very inexpensive compared to its five-year average price-to-earnings multiple of 15.8.

Second, Teck pays a semi-annual dividend of \$0.15 per share, or \$0.30 per share annually, giving its stock a 3.2% yield at today's levels. Investors should also note that the company reduced its dividend by 66.7% in April to bring its dividend payout and yield "more in line with current commodity prices," and to ensure the "strength and flexibility" of its balance sheet, but I think the current rate is sustainable for the long term.

With all of the information above in mind, I think Teck Resources represents one of the best long-term investment opportunities in the metals and mining industry today. Foolish investors should take a closer look and strongly consider using the post-earnings weakness to begin scaling in to positions.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

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Date

2025/08/01

Date Created

2015/07/27

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