3 Reasons to Like Teck Resources Ltd. as a Turnaround Stock Today

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) is in its fifth year of a downtrend. From its high of $60 per share in 2011, it has gone down to its current price of under $9 per share, setting new 52-week lows. Just three weeks ago, it was under $12, meaning it went down 25% in that short period.

Because Teck Resources's business performance is dependent on the prices of the commodities it mines, it only makes sense to consider an investment in Teck when it's priced significantly below its intrinsic value. I believe now is the time to get in on its discounted shares. Here are three reasons why.

1. Dirt cheap valuation

With an S&P credit rating of BBB-, I don't consider Teck Resources a core holding in my portfolio, but as a speculative investment given its discounted valuation right now.

At under $9 per share, Teck Resources is priced at a price-to-book ratio (P/B) of 0.3. This is the lowest in the last decade. In the past decade, it has priced between a P/B of 0.3 and 3.3.

As a result, I think it's logical to think that it can trade at a P/B of 1.0 again, implying a price of about $32. This implies an upside of 256% excluding the dividend. To clarify, the book value of $32 is the value of Teck Resources's assets that shareholders would theoretically receive if the company were liquidated.

2. Favourable risk/reward ratio

The dirt cheap valuation leads to a favourable risk/reward ratio for investors today. In this case, investors are risking $9 per share to make an expected return of $23 per share, targeting to sell at $32. This indicates a risk/reward ratio of 1:2.56.

3. The dividend has already been cut

Seldom do I use a dividend cut as a positive for a company. For investors thinking of buying a fresh position in Teck Resources, the dividend cut that occurred this year is a plus. Why?

Well, the board thought long and hard before cutting the dividend because they knew that once they cut the dividend, the stock price would plummet even more. Before they made the cut, they also had to think about how much to cut, so that they won't have to cut it again any time soon.

As a result, I think Teck Resources's 3.4% dividend is relatively safe today. The 50% payout ratio also gives some margin of safety for the dividend. The dividend is really a bonus because most returns are expected to come from capital appreciation.

In conclusion

I bought Teck Resources under $9 as a trade with a three to five-year time frame. My target is to sell it close to its book value, which is roughly $32 per share. However, if a core company becomes priced attractively, I'm willing to sell Teck Resources for a lower profit to exchange it for higher quality. That said, I think Teck Resources is a reasonable investment today due to its cheap valuation.

I want to reiterate that I'm not buying Teck Resources for quality, but as a speculative investment. Teck Resources equates to less than 1% of my portfolio. The share price is likely to remain volatile, so I do not recommend Teck Resources for people new to investing. Teck Resources's price is likely to remain low while commodity prices remain at multi-year lows. However, if commodity prices start showing an uptick, Teck Resources's shares would likely skyrocket.

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1. Dividend Stocks
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