



Is Teck Resources Ltd. the Cheapest Company in Canada?

Description

It hasn't been a good year for **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK).

A year ago, shares of the mining giant were trading at nearly \$25 per share as prices for commodities were still good and the market was excited about its upcoming expansion into the oil sands. A year later, shares have slumped all the way down to \$8.50, which is close to the lows set in early 2009 when the market was convinced the company was on the express train to bankruptcy.

Investors will likely remember what happened the last time Teck shares ended up this low. A year later the stock traded above \$40 per share, ultimately peaking at more than \$60 per share in early 2011. Needless to say, that's a pretty good return for someone who got in at the bottom.

Are Teck shares poised to do the same thing once again? Let's have a closer look.

It's cheap, that's for sure

From a book value perspective, you're not going to find many stocks cheaper than Teck Resources.

The company has a book value of \$32.62 per share, which is a huge difference compared to the \$8.50 share price. I'd bet the total number of companies in Canada trading at 25% of book value is a list only a few members long, with most being tiny companies trading on the Venture Exchange.

Even from an earnings perspective, it's not expensive either. Shares trade at just 14.4 times earnings, which even includes a couple of quarters where commodities have really slumped. Teck has done a nice job making sure costs stay under control, and lower fuel prices have definitely helped. Additionally, the weak Canadian dollar has been a nice tailwind as well, since commodities are priced in U.S. dollars. Analysts project the company will remain profitable through 2015 and 2016 as well.

There are other things to like about Teck's balance sheet. The company has just US\$300 million worth of debt due between now and the end of 2016, and is targeting its cash balance to be \$1 billion at the end of the year as it continues to pour money into its oil sands project at Fort Hills.

What about Fort Hills?

One thing that's making investors nervous about Teck shares is the company's commitment to Fort Hills. According to a recent presentation by management, the company has pledged to fund \$2.3 billion over the next three years into the project. That might be an issue for a company that only projects to have \$1 billion in cash at the end of the year.

But remember, Teck is still profitable and has generated nearly \$350 million in free cash flow over the first six months of 2015. It also has the ability to borrow more than \$5 billion, and it did slash the dividend earlier in the year, which will save \$340 million annually.

Even though the crude market doesn't look great right now, nobody knows what the market will be like in 2018 when Fort Hills starts producing. The good news for Teck is even at US\$70 for WTI and an exchange rate of \$0.80, its share of the project looks to add approximately \$350 million in cash flow. That's a projected 12% return.

How will it recover?

Teck is doing everything right. It just needs commodities to recover.

When that happens is anyone's guess. China is looking particularly weak right now, which is affecting the whole market, not just Teck's share price. And it looks like the country still has farther to fall before it starts to recover.

Coal is the big wildcard. Teck is the largest producer of metallurgical coal in North America, and even at depressed prices, the commodity still contributes about a third of its operating income. If coal recovers, it will bring Teck shares up with it.

Ultimately, an investment in Teck Resources is a bet on higher commodity prices. If we get another commodity boom, chances are the company's shares end up much higher. Shares are so cheap because the market is betting it won't happen. But for patient investors, Teck could end up being a huge winner.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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Date

2025/08/01

Date Created

2015/09/02

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