# Why Teck Resources Ltd. Is Not a Genuine Turnaround Opportunity

## Description

It has been a tough year for commodities. Global macro-economic uncertainty and a slowing Chinese economy triggered a sharp collapse in commodity prices. As a result, metallurgical coal, copper, and zinc miner **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) has seen its share price plunge by a massive 63%. A number of market pundits are claiming that Teck is attractively priced with a book value of about $33 per share, which is more than three times its share price.



However, I believe that this is not the case because the commodity crash is set to have a sharp impact on the value of Teck's assets.

**Now what?**

Over the last decade Teck's share price soared ever higher on the back of China's insatiable demand for commodities. This demand was fueled by investments in the development of China's urban infrastructure and industry, which in turn was supported by a massive wave of urban migration.

It triggered the development of one of the most resource-intensive economies ever seen, creating a super-cycle that pushed commodities prices to record highs as China's demand for iron ore, copper, zinc, coal and other commodities remained rapacious. Then this boom came to a shuddering stop, with China's economic growth rapidly decelerating because of massive overdevelopment and the creation of excessive surplus capacity.

Now it is unlikely that China will ever return to such rates of stellar growth. Beijing is focused on transitioning the economy to a "new normal," boosting domestic consumption, and creating a slower, more sustainable rate of economic growth. This, coupled with a global commodity supply glut brought about by miners investing heavily in expanding productive capacity at the height of the boom, will continue to keep the prices of coal, copper, zinc, and other commodities low.

As a result, Teck's revenues and profitability are in decline. It is also likely that Teck will have to write-down the value of a significant portion of its mining assets because of sustained weakness in metallurgical coal, copper, and zinc. This will cause Teck's book value per share fall as it is adjusted to reflect the new normal for commodities.

Furthermore, Teck has already considered writing down the value of its share in the Fort Hills project because of the sustained weakness in crude, which is now trading well below the projects breakeven price of between US$82-90 per barrel. With a net carrying value of $2.3 billion on its balance sheet, any write-down of this asset will have a significant impact on Teck's book value per share.

Teck is also committed to investing another $1.8 billion in this project, which appears to be a poor use of capital in an operating environment dominated by weak oil prices and a deeply pessimistic outlook. This is even more apparent when we consider that Teck's revenues are declining and it has $1.1 billion in debt that is due between now and the end of 2017.

**So what?**

It is difficult to see Teck as being cheap or attractively priced. The collapse in commodities is causing its revenues and profitability to decline sharply. It will also eventually trigger a write-down of the carrying value of its assets, thereby sharply reducing its book value. For these reasons, investors seeking a genuine turnaround opportunity should look elsewhere.



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1. Investing
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1. Editor's Choice

**TICKERS GLOBAL**

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

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