# Is Teck Resources Ltd. Wildly Undervalued After Crashing to $6 Per Share?

## Description

**Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) shares have been in absolute free fall, hitting yet another 52-week low on Monday. As of this writing, the Canadian-listed shares are trading right around $6, down more than 70% over the past 12 months.



We all know what the problems are. Commodity prices have been crushed, mainly due to weakness in the Chinese economy, but also due to persistent oversupply. Meanwhile, Teck has a very overstretched balance sheet. And the Fort Hills oil sands project is looking more and more like a losing project.

With that in mind, is $6 too cheap a price for Teck?

**A back-of-the-envelope calculation**

Teck's value can be broken down into four segments: coal, copper, zinc, and energy.

To start, Teck is the second-largest exporter of metallurgical coal, expecting to produce ~25 million tonnes of the material this year. Unfortunately for Teck, the price for coal has fallen substantially, with the company realizing a price of $116 per tonne last quarter. This compares to a cost of ~$90 per tonne, including sustaining capital expenditures. So, when applying a 10 times multiple to after-tax profits, this unit is worth roughly $4.5 billion, or $8 per share.

A similar analysis on the copper unit implies a value of $5 per share. And given the state of world zinc markets, that unit's worth is relatively minimal. Regarding the energy unit, **Suncor** just bought a stake in the Fort Hills oil sands project. Using that valuation, Teck is worth just over $1 per share.

From there, one must subtract Teck's $13 per share in net debt, and this leaves an equity value of $1 per share.

**Does this make Teck wildly overvalued?**

Not necessarily. In the analysis above, commodity prices are assumed to remain fairly constant. This is very pessimistic by most standards, especially regarding the coal unit, where prices are seen as unsustainably low. And given Teck's high debt balance, even a slight change in assumptions has a massive impact on the implied equity value.

But it does mean that investors are assuming at least a modest recovery, and this is far from certain. The news from China could easily get a lot worse, and many observers don't trust the country's official figures.

Furthermore, Teck is not the most investor-friendly company. It has an atrocious balance sheet, and its debt has recently been downgraded into junk status. It has a history of unwise capital allocation moves, with the same CEO still in charge. Worst of all, the company is very capital intensive, which makes growing earnings very costly.

So for now, there are far better options for your portfolio, even though Teck's share price may seem depressed.

**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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