Is Teck Resources Ltd. Worth a Shot for Contrarian Investors?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) has one of the ugliest stock charts in Canada.

The shares are down more than 80% over the past five years, and weak commodity prices in all of the core business operations have investors wondering if the company will survive the bottom of the cycle.

Let's take a look at the current situation to see if there is reason to be optimistic about the future.

Earnings

Teck just took a massive $2.2 billion write-down in its Q3 earnings report. This included a $1.5 billion hit on the coal business as prices for the company's steel-making coal continue to remain under pressure.

The write-downs are scary numbers, but they are non-cash revaluations of the company's assets based on expected market values for commodity prices. That doesn't mean it's good news, but the hit isn't a cash loss.

Once you strip away all the nasty headline news on the write-downs, the company actually had a respectable quarter, considering how bad the market is for its coal, copper, and zinc operations.

Adjusted profit for the quarter came in at $29 million, or $0.05 per share.

Teck said its average realized steel-making coal price in the third quarter was US$88 per tonne, down 20% from the same period last year. Production costs fell 10% over the same time period. Gross profit in the steel-making coal division was $27 million, up from $10 million in Q3 2014.

Copper prices are also weak. The company had an averaged realized price of US$2.39 per pound in the latest quarter, down from US$3.17 in the same period last year. Gross profit in the copper unit came in at $82 million, less than half the $169 million it earned in the third quarter last year.

Zinc gross profits came in at $231 million, about flat compared with Q3 2014.

While the numbers are certainly ugly, the company remains profitable, and that is important for investors to consider when deciding if the stock is worth buying.

Fort Hills

The other big blow to Teck has been its 20% ownership in the Fort Hills oil sands development. Teck is on the hook for $1.5 billion to get Fort Hills completed over the next two years. The project is on schedule and is expected to start production by late 2017. Once Fort Hills hits full production in 2018, Teck's share of the output will be about 36,000 barrels per day.

Teck finished Q3 2015 with $1.8 billion in cash on the balance sheet, so the company should be able to cover its commitments on the project.

Should you buy Teck?

This is a true contrarian pick. If you believe oil, copper, zinc, and steel-making coal prices will recover over the next two years, Teck is an interesting bet and the upside potential is significant.

However, there's no guarantee that things are going to pan out, and the company's $8.2 billion in net debt is a big concern.

Teck is a well-run company, and investors could even see it become a takeout target, but any investment at this point is risky.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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