



Is Teck Resources Ltd. a Buy After its Earnings Beat?

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK), the largest diversified resource company in Canada and the largest producer of steel-making coal in North America, announced third-quarter earnings results before the market opened on October 22, and its stock has responded by rising over 7% in the trading sessions since.

Even after this rally, the company's stock still sits more than 56% below its 52-week high of \$20.58 reached back on March 2, so let's take a closer look at the results to determine if the rally is warranted and if it can continue from here.

The results that ignited the rally

Here's a summary of Teck's third-quarter earnings results compared with what analysts had expected and its results in the same period a year ago.

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Adjusted earnings per share	\$0.05	\$0.01	\$0.28
Revenue	\$2.10 billion	\$1.96 billion	\$2.25 billion

Source: Thomson Reuters Corp.

Teck's adjusted earnings per share decreased 82.1% and its revenue decreased 6.6% compared with the third quarter of fiscal 2014.

These very weak results can be attributed to the steep decline in commodity prices compared with the year-ago period, which led to the company's average realized price of steel-making coal decreasing 20% to US\$88 per tonne, its average realized price of copper decreasing 24.6% to US\$2.39 per pound, and its average realized price of zinc decreasing 20% to US\$0.84 per pound.

These lower realized prices resulted in lower revenues in all three of Teck's major business segments, including a 9.9% decline to \$719 million in its steel-making coal segment, a 2.2% decline to \$805

million in its zinc segment, and an 8.3% decline to \$576 million in its copper segment.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Production of steel-making coal decreased 19.1% to 5.5 million tonnes and sales decreased 7.5% to 6.2 million tonnes
2. Production of copper increased 12.8% to 88,000 tonnes and sales increased 2.4% to 84,000 tonnes
3. Production of refined zinc increased 11.4% to 78,000 tonnes and sales increased 11.4% to 78,000 tonnes
4. Production of zinc in concentrate decreased 6.8% to 138,000 tonnes and sales increased 6% to 194,000 tonnes
5. Adjusted net profit decreased 81.8% to \$29 million
6. Gross profit before depreciation and amortization decreased 10.9% to \$670 million
7. Adjusted earnings before interest, taxes, depreciation, and amortization decreased 40.2% to \$389 million
8. Cash flow from operating activities increased 1.1% to \$560 million

Is the post-earnings rally warranted?

It was a very weak quarter overall for Teck, but I think the post-earnings rally is warranted for two primary reasons. First, the company's top- and bottom-line results surpassed analysts' expectations, which is always positive. Second, its stock had been so severely beaten down in 2015, including a year-to-date decline of over 47% before the earnings release, so I think its shares had bottomed and any shred of positive news would have ignited a rally.

Can the rally continue?

I think the bulk of the rally in Teck's stock has already taken place and it will trade sideways until its next earnings release, because its stock is now trading at very expensive valuations compared with its historical averages.

Its stock now trades at 21.3 times fiscal 2015's estimated earnings per share of \$0.42 and 21.9 times fiscal 2016's estimated earnings per share of \$0.41, both of which are well above its trailing 12-month price-to-earnings multiple of 15.2 and its five-year average multiple of 16.5. It is also not a good sign that analysts expect negative earnings growth in fiscal 2016 compared with fiscal 2015.

With all of the information provided above in mind, I think the post-earnings pop in Teck Resources's stock is warranted, but I do not see significant upside from here. Therefore, I think Foolish investors should avoid initiating positions today and only revisit the idea of an investment if commodity prices recover or if the company announces a legitimate plan to get it back on a path of positive growth.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/07/31

Date Created

2015/10/26

Author

jsolitro

default watermark

default watermark