



## Teck Resources Ltd.: A Cheap Price Doesn't Imply Value

### Description

We're all in the stock market intending to make money. However, with news and emotions causing erratic price movements, we sometimes forget that there are real people behind these businesses and that how well a stock does depends on its earnings.

#### A cheap price doesn't imply value

Investors may be attracted to the cheap price of **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK). It costs only \$5.80 per share, but is it really cheap? You might think that it is because it has fallen from 2011's high of \$60, a 90% drop. However, its earnings per share fell from \$4.18 in 2011 to 78 cents in 2014, an 81% drop.

Teck Resources is not a good business to own. Its earnings have fallen for four years in a row, including this year. And next year, it's expected to fall some more.

#### Look for consistent earnings for consistent dividends

If you're looking for dividends, Teck Resources is an even worse investment. It cut its dividend from 45 cents to 15 cents, then again from 15 cents to five cents just in the last year. So, the original dividend of 45 cents was cut 89% in total.

Of course, investors shouldn't buy Teck Resources for its dividend. The business performance is highly dependent on the commodity prices of copper and coal, which are dictated by supply and demand. And demand has been diminishing, causing the commodity prices to go down.

#### Lower earnings means a falling stock price and slashed dividends.

If you're looking for consistent dividends, look for consistent earnings first.

#### How should you invest in Teck Resources?

Teck Resources may be a good turnaround opportunity at some point, but it looks like it has further

downside. Its S&P credit rating has recently been reduced to BB from BBB-.

For whatever reason, if you really must buy its shares, here are several ways investors can play Teck Resources:

- You could dollar-cost average in and wait for the ultimate turnaround when commodity prices pick up again.
- Wait for Teck Resources to post positive earnings before buying. This way, you'll likely lose the first leg up, but at least you won't be stuck in a losing business for an extended period of time.
- Look at Teck Resources's technical chart and trade on the ups and downs. I wouldn't call that investing, but trading.

## Conclusion

I like to buy businesses for the long term. There are so many good businesses out there. Do you really need to risk your hard-earned money with Teck Resources? After all, you're buying a piece of the business when you buy shares in a stock.

## CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

## TICKERS GLOBAL

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

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