How Teck Resources Ltd. Just Bought Itself More Time

Description

Things seem about as bad as they can be for **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK). The company has recently entered into survival mode to protect its balance sheet and help it cope with the fact that coal prices are down 75% since 2011 and copper prices are down 62%.

Over the past year and half alone, Teck has cut its workforce by 2,000 jobs, with 1,000 of those job losses just being announced two weeks ago. In that same period Teck also slashed its dividend by 88%, with the most recent cut coming two weeks ago as Teck cut its semi-annual dividend from $0.15 per share to $0.05 per share.

There is good news, however. These cuts (along with other cuts that Teck has announced) will allow the company to fund its Fort Hills oil sands project as well as its other expenses for the next several years without needing to rely on any of its credit facilities.

The current situation with Teck

Teck needed to take several measures to reduce its cost-base, otherwise the company would have been in a deeply unsustainable situation. Metallurgical coal is Teck's key product and currently has unit costs of about US$64 per tonne. Currently, spot prices for coal are about US$73 per tonne, and those costs do not include any capital expenditures.

As a result, Teck was in a position where it was losing major amounts of cash. For the year so far, Teck has brought in about $1.26 billion of cash flow, and analysts estimate the company will end the year with $1.5 billion of cash flow. The problem is that Teck will also be spending about $2.2 billion in capital expenditures.

This leaves Teck with a shortfall of $700 million. When you factor in that Teck needed to pay out dividends of about $115 million as well as repay debt of $400 million, Teck is left with an even bigger cash shortfall of about $1.2 billion.

It is important to note that prices have fallen significantly since the beginning of the year, and this shortfall would be much lower if today's commodity prices were extended for the whole year.

How has Teck been paying for this shortfall? Fortunately, Teck started the year with about $2 billion of cash in the bank, and as a result the company has been able to pay for its shortfall with its available cash.

In addition to this, Teck has been able to raise about $1 billion through streaming agreements. These agreements will allow Teck to end the year with $1.8 billion in cash, but it is important to note that without these one-off payments, Teck would be very close to running out of cash, which means that major cuts are necessary.

Teck recently announced $765 million worth of cuts to help its shortfall

To help solve Teck's unsustainable cash flow situation, the company recently announced a huge range of cuts. Firstly, the company announced it would be reducing its 2016 capital expenditures by about $350 million. Although Teck has not announced specific 2016 numbers yet, analysts at **TD Bank** are estimating total capital expenditures of about $1.9 billion, a large portion of which is going towards its Fort Hills oil sands project that is due to begin production in 2017.

In addition to this, Teck is also reducing its operating expenses by $300 million. This will largely be accomplished through the elimination of 1,000 positions, and this cut represents about 10% of Teck's total workforce.

Finally, Teck announced another reduction in its dividend—the second this year. Teck started the year with a $0.45 per share semi-annual dividend, and after this second cut the dividend is sitting at about $0.05 per share. This will save Teck $115 million annually.

The end result? Teck saves about $765 million. This means that if Teck sees cash flow next year that is similar to this year, the company will only be slightly cash flow negative. This is not a problem, since the company also has $1.8 billion of cash in the bank. Teck should also be able to withstand even lower prices for several years.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Investing
2. Metals and Mining Stocks

Tags

1. Editor's Choice

Date
2025/07/30
Date Created
2015/12/01
Author
amancini