3 Important Takeaways From Teck Resources Ltd. This Quarter

Description

The fourth quarter was another tough one for global commodities producers with the economic slowdown in China weighing down commodity prices. It was no surprise to see that those strong headwinds had a noticeable impact on **Teck Resources Ltd.'s** (TSX:TCK.B)(NYSE:TCK) fourth-quarter earnings; however, the company was still able to eke out a profit.

Here's how it did that and why it expects to make it through 2016 without any deterioration to its balance sheet even if commodity prices remain weak.

1. Headwinds for others were tailwinds for Teck Resources

Last year was marked by a significant change in global pricing of both commodity prices and currencies. As a commodities producer, the change in the price of copper, steel-making coal, and zinc had a negative impact on Teck Resources's financial results.

That said, other changes, namely oil prices and the strong U.S. dollar, actually acted as a tailwind for the company and helped offset some of the weakness from the prices of the commodities Teck Resources produces.

Because most of Teck Resources's expenses are in local currencies, especially the Canadian dollar, it benefited from the strong U.S. dollar last year because sales of its products are denominated in U.S. dollars. In fact, every $0.01 change in the Canadian/U.S. dollar exchange rate boosted its EBITDA by $34 million.

In addition to that, declining oil prices had a positive impact on its results because its mining operations use a significant amount of diesel fuel. So, changes that weighed heavily on other companies actually lifted Teck Resources's results.

2. Teck Resources is still operating cash flow positive

Thanks to lower diesel prices as well as cost-reduction efforts the company has undertaken, Teck Resources was able to knock down the unit-production costs across all of its mines last year. Because of that, all but two mines were able to remain cash positive last year.

In fact, cash flow from operations last quarter was $428 million, which wasn't all that far below the $491 million in cash Teck Resources generated in the year-ago quarter.

3. Teck Resources has plenty of liquidity to get the job done in 2016

Because Teck Resources is still generating a lot of cash, it believes that it has the financial resources to make it through another tough year in 2016 without adding any debt to its balance sheet. The company believes that its cash flow plus cash on hand of $1.8 billion will be enough to support its capex needs in 2016, which includes $960 million for its share of the Fort Hills oil sands mine.

Even with that large cash outlay, the company estimates that it will end the year with $500 million in cash, assuming commodity prices don't weaken further.

If commodity prices do weaken, Teck Resources does have US$3 billion remaining on its revolving credit facility to bridge any gap. That said, the company does not want to take on any additional debt, which is why it continues to evaluate alternative options to further strengthen its liquidity.

Investor takeaway

Teck Resources is doing a pretty decent job managing the downturn in commodity prices. The big key has been the company's ability to continue to generate cash flow to fund its financial commitments. While it does have substantial funding commitments in 2016, it expects to be able to fund these commitments with cash flow and cash on hand, which will protect its balance sheet.

In other words, unless commodity prices experience another steep drop in 2016, Teck Resources is well positioned to make it through what it expects will be a very tough year without any problems.

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