Teck Resources Ltd.: Is a Dividend Hike Around the Corner?

Description

The stunning increase in commodity prices over the last few months has taken many pundits by surprise. Iron ore, steel-making coal, copper, and zinc have all rallied quite strongly to now be trading close to their highest prices in months.

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This has been a boon for beaten-down mining stocks.

Many at the peak of the commodities slump were priced for failure by the market, but in recent months, companies such as **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK) have surged to multi-year highs.

While there is increasing speculation that commodity prices will cool over the course of 2017, there are signs that the renewed financial health of the mining industry could cause a round of dividend increases.

Already, mining giants **Glencore Plc** and **Vale SA** have signaled that they intend to loosen their purse strings and boost dividend payments. It now appears that Teck could be the next to do so.

Now what?

Over the course of 2015, Teck cut its dividend twice as it battled to rein in costs and maintain cash flow as the commodities slump bit deeper. Now that steel-making coal, copper, and zinc have recovered significantly in recent months, the company is talking about rewarding loyal investors with a dividend hike.

CEO Don Lindsay flagged the likelihood of an April 2017 dividend hike back in early December 2016. This should occur once the company has completed its plans to reduce its $5 billion pile of debt to a more manageable level.

Because of the marked increase in steel-making coal, copper and zinc prices, investors in Teck have already enjoyed a more than six-fold increase in the value of its stock. There are signs that Teck's cash flow should continue to grow, even with steel-making coal prices having softened in recent weeks from their 2016 highs.

You see, copper has continued to firm, and zinc prices remain close to their six-month high. Both metals are responsible for generating 62% of Teck's gross profit.

Meanwhile, Teck has been able to lock in prices among major buyers of its steel-making coal that are roughly 40% higher than the average basket price received per tonne over the course of 2016.

For these reasons, I expect Teck's cash flow to continue growing, paving the way for a dividend hike during 2017. It should also be considered that Teck has also been able to significantly reduce costs, fattening its margins. Along with moves to cut debt, this will increase the likelihood of a dividend hike and ensure the sustainability of its dividend.

So what?

The massive ramp-up in Teck's share price saw a number of pundits claim that it was time to sell Teck and take profits, but thus far that advice has been incorrect. It is clear that higher steel-making coal and metals prices are here to stay, for at least the foreseeable future, and these will continue to act as a powerful tailwind for Teck's earnings. When coupled with an impending dividend hike, it is likely that Teck's share price will continue to climb in the short term.

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