



Fairly Valued at Last: Teck Resources Ltd.

Description

After reporting earnings last week, shares of **Teck Resources Ltd.** ([TSX:TECK.B](#))([NYSE:TECK](#)) fell approximately 10% in the day following the announcement and a total of approximately 13.5% for the entire week. Shares of the company were trading at a premium to tangible book value, creating downside risk for new investors.

The current share price is approximately \$28; shares are trading directly in line with the tangible book value as reported on the balance sheet. As of the December 31, 2016, the assets minus liabilities, minus goodwill, divided by the number of shares outstanding equates to \$28.29 per share. The tangible book value per share is \$28.29.

The good news from the last quarter is, company management has been successful in righting the ship and increasing revenues from \$2.1 billion to \$3.5 billion — an increase of 66%, while cost of goods sold have increased from \$1.854 billion to \$1.980 billion — an increase of only 6.8%. The large change in revenues have successfully translated to the bottom line. What last year was a loss of \$459 million for the quarter became a profit of \$705 million for the final quarter of 2016. The tide has clearly turned.

The problem investors faced with the most current earnings report was not the difference between profit or loss, but, instead, the expectations were simply too high. Knowing the company was trading at a premium tangible book value, investors needed to see fantastic earnings and potentially even feedback from management regarding the value of their “inventory,” or mines.

Let's not forget, in order for a mining company to make a profit, there must be something coming out of a mine which is in turn sold to a willing buyer. The problem is, every time revenue is generated, the inventory declines in value. Inventory is a significant aspect of a mining company's tangible book value. In the case of Teck, the share price is only now in line with the tangible book value of the company.

As an investor, it is important to ask this question: “What am I giving (paying) and what am I getting?”

At current levels, shares of Teck are trading very close to the true value of the shares. The thing investors now have to wonder about is if the resources owned by the company will be appreciating or depreciating in value in the future. Looking at the company's financial statements, there are a number

of assets listed that are driven by the value of coal — a fossil fuel which is quickly going out of style. At times during 2016, coal seemed to be hated as much as a banker during the 2008 financial crisis.

Although risk-seeking investors will be tempted by Teck after last week's sell-off, those seeking the "easy money" need to keep looking elsewhere.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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