



## Teck Resources Ltd.: A Great Story to Avoid

### Description

With earnings for the first quarter of 2017 already released, investors now have a clearer picture of just what is happening with Canadian mining giant **Teck Resources Ltd.** ([TSX:TECK.B](#))(NYSE:TECK.B).

The mining company reported earnings per share of \$1.15 on a diluted basis with revenues totaling \$2,894 million. The same quarter one year ago saw the company make profit of only \$0.14 per share with revenues of \$1,698 million. Clearly, things have improved from one year to the next.

After the past two years, shareholders are finally reaching a point of normalcy; shares are now finding a trading range. Over the past two years, shares fluctuated from under \$5 to over \$35 as the miner experienced a significant amount of volatility based on the fluctuations of the price of coal.

The good news is, the new president is pro-business, and that could be good for Teck.

### The valuation

With shares currently trading near \$28.50, shareholders are pretty much getting what they pay for. As of March 31, 2017, we can calculate the tangible book value per share to be approximately \$29.31 per share. While this may seem attractive to some, let's not forget what kind of business we're looking at.

With almost any mining company, the quantity of any given resource to be mined is typically well known, along with the selling price. Revenues, profits, and the new tangible book value can be forecasted well in advance. Let's not forget that when the resource is sold, the tangible book value per share will decline to reflect the sale.

The way investors make money from a mine is if the underlying price increases. If this is the case, then what comes out of the mine can be sold for a higher price, and a higher profit will be obtained.

### Another way to increase the share price

Another opportunity at the disposal of company management is to take the available free cash and buy back shares. During the first quarter of the year, no shares were bought back. Instead, company

management chose to repay debt in the amount of \$1.5 billion.

For those who are wondering, the company pays a semi-annual dividend which totaled \$0.10 per share for 2016. Teck Resources is purchased by investors for capital appreciation, and not for the dividend yield.

While shares of Teck Resources are by no means overvalued, the reality is that at this time, buyers will need to see either an increase in the share buyback or an increase in the price of the underlying resource produced by the company to justify a higher share price. Investors are getting no more than what they pay for.

## **CATEGORY**

1. Investing
2. Metals and Mining Stocks

## **TICKERS GLOBAL**

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

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## **Date**

2025/07/28

## **Date Created**

2017/05/03

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