You Must Have Nerves of Steel to Buy Teck Resources Ltd.

Description

Natural resources are required to produce the goods you consume. But to get those resources, you need to extract them from nature. That's what **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK) is doing. To be more precise, this company is engaged in mining and related activities, including exploration, development, processing, smelting, refining, and reclamation. Its products include steel-making coal, copper, zinc, and lead.

When you look at Teck Resources's share price performance, it looks like a roller coaster. The very high beta of 3.98 says that it's indeed a volatile stock. This is the case because this stock is cyclical, as it operates in the metals and mining sector.

Teck Resources's returns had been in the red for three consecutive years before a big jump in price happened in 2016, giving an impressive return of 405.06% for that year. However, the share price has gone down 26.20% since the beginning of 2017.

Teck Resources's forward P/E is very low, standing at only 4.79. However, the forward PEG of 0.67 means that you're not paying too much for growth. With a net margin of 14.54%, Teck Resources is very effective at turning revenues into profits.

Higher commodity prices boost first-quarter 2017 profits

For the first quarter of 2017, Teck Resources reported profit of $572 million ($0.99 per share) compared with $94 million ($0.16 per share) for the same quarter last year. This boost of 507.14% in profit is largely due to significantly higher steel-making coal prices, which almost tripled from 2016 first quarter, while copper and zinc prices rose by 25% and 66%, respectively.

However, these higher prices were partially offset by lower production and sales volumes in the company's steel-making coal and copper business units.

With the additional profits and cash flows generated from higher commodity prices, Teck Resources took the opportunity to further improve its balance sheet by repurchasing debt. After having repurchased US$1 billion principal amount of its outstanding notes in March, the company now only has US$122 million of debt due before 2021.

Many strengths, but also many risks

The relative scarcity of high-grade metallurgical coal deposits and an increasing demand for steel coming from emerging markets should support pricing.

Teck Resources has the capacity to expand its annual metallurgical coal production to 31 million metric tonnes in the next couple of years if prices warrant it. The production last year was 27.6 million metric tonnes.

Teck Resources's core operations are located in stable, developed countries like Canada and the U.S., so it's less risky than competitors who have most of their operations in developing countries.

However, despite its appeal, Teck Resources has a few downsides. First, the steel industry is growing slower in China, which will put downward pressure on metallurgical coal prices.

Second, on the whole, Teck's copper business is not particularly advantageous in terms of cost, and during periods of weak copper prices, some operations might have difficulty generating positive margins.

Third, like many miners, Teck has seen costs rise incredibly quickly over the past several years, threatening a big margin compression if prices were to go down.

Investing in a mining and metals company like Teck Resources is at your own risk. However, if you want to invest in the metals and mining sector, Teck Resources seems to be one of the best choices. You have to be able to tolerate a lot of volatility, though, and not become too emotional when the stock goes down.

CATEGORY

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2. Metals and Mining Stocks

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sbchateauneuf