



Rising Commodity Prices Make Teck Resources Ltd. a Good Buy

Description

Teck Resources Ltd. ([TSX:TECK.B](#))([NYSE:TECK](#)) has seen its stock price decline over 8% year to date, but in the past 12 months it is up over 32%. The share price went as high as \$35 in November, only to come back down to current levels. There has been a fair amount of fluctuation over the past 12 months in the share price, which makes it difficult to predict the direction it will go in next.

The company is dependent on commodity prices as it primarily acquires and sells steel-making coal, copper, and zinc. In its most recent quarter, Q1, the company saw tremendous year-over-year revenue growth of over 70%. Although this was a decline from Q4, the winter months are typically slowest for Teck Resources. Net earnings also jumped from \$94 million in Q1 2016 all the way up to \$572 million in the company's latest quarter.

Teck Resources credits the impressive results primarily to the big improvement in steel-making coal prices, which almost tripled from a year ago. Copper also increased by 25%, and zinc was up over 65% during the same period.

Since the strong Q1 results, however, Teck Resources announced last month it expected to see a price for steel-making coal to be between \$160 and \$165 per tonne, significantly down from the \$213 per tonne it had for Q1. However, these prices would still be higher than the average a year ago. Meanwhile, copper and zinc prices also saw declines after Q1 followed by modest recoveries.

Ultimately, it will depend on sales and product mix, but based on the commodity price improvement year over year, I would expect Teck Resources to have a good Q2 compared to its previous year. Whether or not that beats forecasts is another issue, but I would expect it to see positive results overall.

From a valuation standpoint, Teck Resources currently trades at a multiple of nine times its earnings and less than 0.8 times its book value. Although the company doesn't offer much for a dividend at only a 0.82% return, from a valuation standpoint, there is plenty of opportunity here. The one thing I like about the company is, after a strong Q1, it decided to use that extra money and pay down \$1.5 billion in debt. That to me looks like a company that has good governance and discipline.

With a stock that has been down so far this year, improving commodity prices, and what appears to be

sound management, I think there is a lot of upside to the stock in both the short and long term.

Goldcorp Inc. (TSX:G)(NYSE:GG) also relies on commodity prices — specifically, gold prices. However, the company also produces silver, copper, zinc, and lead. The sales mix for its last quarter had gold making up 75% of total revenue for the quarter, followed by silver and zinc, which both made up 11%, lead at 2%, and copper at 1%.

Although Goldcorp has many different commodities impacting it, it is still largely dependent on gold. The company has also decided to not hedge this risk and is entirely exposed to the fluctuations in gold prices. However, changing gold prices over the years have not had significant impacts on the company's revenues, which have even increased during downtrends.

What concerns me more is that for three of the past four fiscal years, Goldcorp has recognized impairment losses of over \$2 billion dollars, and almost \$5 billion for 2015. In 2016, Teck Resources did not see a write-down, but instead saw an impairment reversal.

I have concerns going forward about whether or not these "unusual" expenses will continue and what other surprises might still be in store.

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