



Commodity Prices Give Teck Resources Ltd. a Boost in Earnings Again

Description

Teck Resources Ltd. ([TSX:TECK.B](#))([NYSE:TECK](#)) released its quarterly earnings today which again showed it performing significantly better in 2017 than it did a year ago. Revenue of \$2.8 billion for the quarter was up over 61% from last year's sales of \$1.7 billion. Net income saw the biggest incline, rising from just \$15 million up to \$577 million, or 38 times its prior-year profits.

Teck Resources achieved record production levels of steel-making coal of 6.8 million tonnes and plans to increase that up to seven million in the next quarter. Second-quarter production was lower than planned as the company had done its annual maintenance during the quarter, which was initially planned for later in the year.

Steel-making coal's total revenue for the quarter was almost \$1.6 billion, up from \$678 million a year ago. Year-to-date sales from this business unit have more than doubled from a year ago in large part due to higher commodity prices. Steel-making coal prices averaged US\$169 per tonne this quarter, which is double the price it was a year ago.

Copper and zinc also saw increased sales, but on much smaller scales. Copper saw quarterly revenue rise by 8% from \$517 million a year ago to \$562 million in this quarter. Zinc had a larger increase, rising from \$544 million to \$660 million for an increase of over 21%.

The company's cash from operations was \$1.4 billion, more than four times the \$339 million it collected a year ago. Year to date, the company has collected almost an extra \$2 billion in cash from its operations than it did a year ago. The company continued to pay down its debt this quarter with repayments totaling \$382 million. Teck Resources was able to add to its cash total with \$310 million left over from all of its activities in the quarter.

As a result of the company's debt repayments, total long-term debt sits at \$6.3 billion this quarter and is down from \$8.2 billion at the end of 2016. The company's debt-to-equity ratio was 0.47 at the start of the year and has been reduced to just 0.34. Current liquidity levels are strong as well with current assets of over \$4 billion being double the company's current liabilities of \$2 billion.

Teck Resources's stock has seen an increase of over 2% in trading this morning as a result of the

positive earnings results. Year to date, the stock's returns have been flat, although the past 12 months have seen it yield a return of over 41%.

The uncertainty with Teck Resources is that a lot of the company's success is determined by commodity prices. A rising commodity can exponentially improve the company's earnings, and a falling commodity can certainly have the inverse effect. Steel-making coal prices, specifically, are going to dictate how well the company performs as this represents the vast majority of Teck Resources's revenue.

However, with good liquidity and very manageable debt levels, the company is in good position to handle fluctuating commodity prices. The stock is in good shape and is showing no cause for alarm. It would make for a good investment. If Teck Resources keeps having strong results, they may encourage it to increase its dividend. The company has suggested it might add a supplementary dividend in the fourth quarter of each year, but that is subject to review.

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