Teck Resources Ltd.: Strong Quarter and Yet Not the Expected Reaction

Description

Teck Resources Ltd. (TSX:TECK.B)(NYSE:TECK) released its third-quarter results on Thursday to much acclaim, delivering strong operating results that, in many cases, should have pushed the stock to new heights. Yet the reaction the market got was anything but exciting.

Teck reported an adjusted profit of $621 million, which is a little over three times higher than the $152 million in Q3 2016. This was on the back of its second-highest quarterly sales of steel-making coal on record at 7.54 million tonnes.

On the production front, there's solid news as well. Teck's Antamina zinc mine produced 102,300 tonnes, the second consecutive record quarter. Teck's Red Dog operation has an updated guidance with the expectation that it will produce 525,000-550,000 tonnes of zinc from the original 475,000-500,000.

The reality is, Teck is doing pretty very well. You'd think the market would have reacted to all of this news in a positive way, but there was something hidden in the announcement. And when the market found it, the stock dropped hard, ending Thursday down by 8.44%.

Fourth-quarter sales of steel-making coal are expected to be 6.5 million tonnes, which is obviously down a lot from the third quarter. Teck also expects that the average realized price for coal will be 85% of the quarterly contract price, because it's forced to export lower-quality coal. Under normal circumstances, Teck realizes 945% of the quarterly contract price.

So, what should've been an amazing quarter was overshadowed by the bad news expected in the fourth quarter. Teck is not taking this lightly, though.

Teck is going to be closing its Coal Mountain operation in southeastern British Columbia by the end of 2017. This operation accounts for much of the lower-quality coal, so by getting rid of it, Teck should be able to keep its realized price for coal much closer to the contract price point.

Fortunately, there was other good news in the report that should have investors excited. It expects to ship one million tonnes of zinc concentrate and 210,000 tonnes of lead concentrate in the first week of

November, which represents all available concentrates.

Another bit of exciting news, considering where oil prices are, is that the Fort Hills oil sands project has surpassed 96% construction completion. Teck owns 20% of this operation, and Fort Hills is expected to achieve 90% of its planned production capacity of 194,000 barrels per day within a year of launch.

And finally, the company has received regulatory approval to start buying back shares. It will look to acquire up to 20 million shares by October 9, 2018. It may ultimately not buy any shares, but with the stock pulling back the way it did, Teck may look to retire quite a few shares in the coming weeks.

So, should you buy? Personally, I think Teck has demonstrated its ability to continue operating efficiently. When I last wrote about Teck, shares had pulled back by 18% and were trading around $20. They're far higher now, despite the pullback, but I still believe that the strong profit growth is indicative of a company that is moving away from its lows at the end of 2015 and beginning of 2016.

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