Teck Resources Ltd. Is Down 5%: Should You Buy the Dip?

Description

Teck Resources Ltd. (TSX:TECK.B)(NYSE:TECK) is down more than 5% in the past month, and it might be a great time to buy the high-flying stock. Despite the struggles we've seen on the TSX recently, Teck Resources's stock is up more than 27% in the past 12 months. It continues to be a high performer, as steel-making coal prices remain strong.

While there is a risk when it comes to investing in stocks that rely on commodity prices, Teck Resources could still be an attractive buy given that a fair amount of risk is already priced in to the share price. With a price-to-earnings multiple of just eight, and the stock trading barely above book value, it's an attractive option for investors that aren't looking to pay a big premium.

Disappointing Q4 still saw the company's bottom line rise

Teck Resources released its quarterly results in February, which failed to beat analyst expectations, and revenues were down 10% year over year. However, net income came in at $760 million and was up more than 9% from last year. A low price-to-earnings ratio makes profitability of utmost importance to investors since that is the main driver behind the share price.

In the past two years, Teck Resources has accumulated over $3.5 billion in profit, although in 2015 the company was hit with a net loss of $2.5 billion.

Guidance for Q1 down from original estimates

Last week, Teck Resources announced that it would be lowering its guidance for the upcoming quarter after damages to its coal-drying complex required repairs. Rather than 6.3-6.5 million tonnes of steel-making coal expected in Q1, the company now expects just six million tonnes to be sold. Despite the disappointing news, however, the share price was largely unaffected.

Is the stock worth the risk?

Teck Resources is doing very well amid rising commodity prices, but the danger is that sooner or later, that will slow down, and the company could see a reversal of fortunes. It's not hard to see the devastating effects that low commodity prices can have on a stock. **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) had to slash its dividend and reduce production amid a very low price of uranium, which has struggled to find any upward momentum.

Enbridge Inc. (TSX:ENB)(NYSE:ENB) is another example of a stock that has been hit hard by low commodity prices, as investors remain concerned that even at their current levels, oil prices cannot be sustained. Unfortunately, a lot of the times, it's what the markets think will happen that plays a bigger role in share prices rather than a company's actual performance.

In the case of Teck Resources, investors may instead be concerned of what happens when steel-making coal prices falter. However, with strong financials and a debt-to-equity ratio of less than 0.33, the company isn't overly leveraged and is in a good position to handle any adversity that may come its way. What's also encouraging is that Teck Resources is accumulating lots of cash, which is always crucial to have on hand, especially if things go south. In 2017, Teck Resources generated over $5 billion in cash from its operating activities, which is more than double the $1.9 billion it brought in just two years ago.

In the short term, Teck Resources looks to be a good buy, but it's not a stock I would buy and forget about.

CATEGORY

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2. Metals and Mining Stocks

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Date
2025/09/03
Date Created
2018/03/13

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