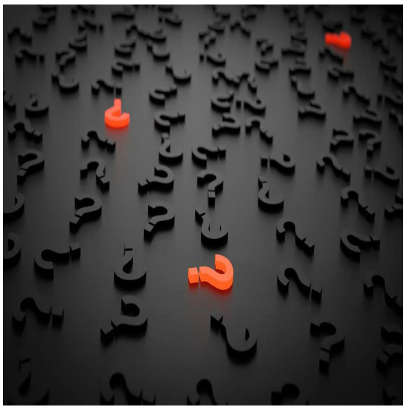

Is There More Upside Ahead for Teck Resources Ltd.?

Description

Canada's largest diversified miner **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK) continues to perform strongly; its stock surged by 10% over the last year. That can be attributed to commodities, notably steel-making coal, copper, and zinc, breaking out of their prolonged slump at the end of 2016 and rallying strongly because of greater demand sparked by an upswing in the globally economy. Much of that demand is being driven by the rapidly developing economies of India and China, where gross domestic product (GDP) is forecast to expand at a rapid clip during 2018 and into 2019.

This bodes well for Teck and should drive earnings, and hence the miner's share price, higher over coming months.

Now what?

About 60% of Teck's gross profit is generated by mining steel-making or coking coal, while the remainder comes from copper and zinc. For the first half of 2018, Teck reported some solid financial and operational results. Gross profit popped by a healthy 16%, and its bottom line rose by a remarkable 37% for the quarter. That strong earnings growth can be attributed to greater sales volumes of coking coal and copper as well as firmer copper and zinc prices. While coking coal prices deteriorated marginally compared to a year earlier, the average price for each pound of copper sold rose by 19%, and zinc rose by 23%.

Earnings from Teck's copper and zinc mining will continue to grow over the course of 2018 and into 2019.

You see, the outlook for both base metals is optimistic with a range of supply constraints and growing demand set to buoy prices.

In fact, copper prices are projected to rise by ~10% during 2018, while zinc is expected to firm by up to 27%, which would give Teck's earnings a solid lift. Much of that is being supported by tightening supplies, because during the prolonged commodity slump, miners slashed investment in exploration and mine development. Then there is increased demand from India and China, which are seeing their economies expand at a rapid clip.

During 2018, the International Monetary Fund has predicted that India's GDP is forecast will grow by 7.4%, while China's will expand by 6.6%. Growth in China will be further enhanced by Beijing's planned spending on infrastructure, as well as designs to roll out other fiscal stimulus and supportive monetary policies to boost growth and stabilize the economy.

The recent sustained rally in crude will also boost Teck's earnings, because of its 21% interest in the Fort Hills oil sands project. Fort Hills is forecast to reach full production capacity by the end of 2018, further expanding and diversifying Teck's earnings. Once the development is complete, it will also reduce Teck's capital expenditures, allowing it to allocate monies to other activities, such as developing its existing mining assets as well as reducing debt.

Importantly, Teck finished the first quarter 2018 with a solid balance sheet, which has considerable liquidity and no material debt repayments due until 2022. The miner's debt is quite manageable with a mere 1.1 times its EBITDA. This gives it considerable financial flexibility, which is enhanced by the growing cash flows from higher metals prices.

So what?

Despite appreciating considerably since the end of 2016, Teck is poised to keep unlocking value for investors, as it benefits from the optimistic outlook for commodities. As the miner's cash flow and profitability grows, it will more than likely reward investors with further supplemental dividends, such as the additional $0.4 per share paid for its December 2017 dividend payment.

CATEGORY

1. Dividend Stocks
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