



Is This a Good Time to Buy Teck Resources Ltd. (TSX:TECK.B) Stock?

Description

Teck Resources ([TSX:TECK.B](#))([NYSE:TECK](#)) is back below \$30 per share, and investors are wondering if this is an attractive entry point for Canada's largest diversified mining company.

Let's take a look at the current situation to see if Teck deserves to be in your [portfolio](#).

Earnings

Teck reported solid Q2 2018 results. Revenue came in at \$3 billion compared to \$2.8 billion in the same period last year. Adjusted EBITDA was \$1.4 billion versus \$1.3 billion, and adjusted profit attributable to shareholders was \$653 million (\$1.14 per share) compared to \$580 million (\$1.00 per share) in Q2 2017.

Teck produces steel-making coal, copper, and zinc. The company is also a 20% partner in the Fort Hills oil sands facility that was completed in late 2017.

On the coal side, Q2 demand was strong, but the company took a hit from lost rail capacity due to strike preparations at the rail carrier. Sales slipped from 7.1 to 6.6 million tonnes. The average realized price for the quarter was US\$183 per tonne compared to US\$163 last year.

Copper fared better, with sales rising to 74,000 tonnes from 69,000 in Q2 2017. The average realized price was US\$3.12 compared to US\$2.57 per pound.

Zinc also had a good quarter on a year-over-year basis. Sales increased, and the company saw a huge jump in the average price, rising to US\$1.41 per pound compared to US\$1.18.

Overall, it was a very profitable quarter for Teck. The company declared a quarterly dividend of \$0.05 per share. That translates into an annualized [yield](#) of 0.7%.

Management has done a good job of using improved cash flow to reduce debt over the past couple of years. As a result, the balance sheet is in good shape, which is important if the commodity markets extend recent weakness.

Teck finished Q2 with \$1.7 billion in cash and has access to an additional US\$3 billion through an undrawn credit line. The closing of an asset sale in late July added another \$1.2 billion in cash. Teck has \$6.6 billion in debt, with no significant maturities coming before 2022. At the time of writing, the company has a market capitalization of about \$17 billion.

Should you buy?

Teck generated good Q2 results, but the stock is down from \$38 per share in June to \$29 today.

What's going on?

Commodity prices have tanked in the past couple of months, and there is no way of knowing when they will bottom. Copper and zinc, in particular, have really taken a beating. Copper currently trades for US\$2.65 per pound, compared to US\$3.30 in early June. Zinc is selling for close to US\$1.10 per pound compared to more than US\$1.40 less than three months ago.

Regarding oil, Fort Hills should hit full production capacity in Q4, but Western Canadian Select prices are down from the spring highs near US\$58 per barrel to US\$38.

The pullback in copper and zinc might be overdone, and a rebound would certainly bring investors back to Teck. However, there is no evidence at this point that the downturn has run its course. As such, I would look for other opportunities today.

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Date

2025/09/09

Date Created

2018/08/24

Author

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