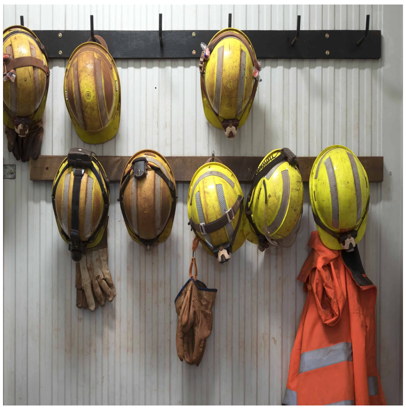

Teck Resources Ltd. (TSX:TECK.B): 3 Reasons Why My Favourite Mining Stock Is a Buy Today

Description

I wish I would have followed by own advice and loaded up on **Teck Resources** (TSX:TECK.B)(NYSE:TECK) shares back when they were languishing under $10 each.

Like many natural resource companies, Teck was feeling the pinch of declining commodity prices in 2015-16. Metallurgical coal prices had collapsed, and metal prices weren't doing much better. Teck's balance sheet was also in tatters, and it had big upcoming capital-expenditure commitments.

It all seems like a distant memory now. Teck's balance sheet is fine, commodity prices have largely recovered, and it was able to weather the storm. Shares shot up from under $5 each at the lows to nearly $40 each over the summer. The stock currently sits at approximately $30, and the future looks bright.

In fact, it's easy to argue the stock is significantly undervalued today. Here are three reasons why you might want to add this company to your portfolio.

Cheap valuation

Teck remains cheap when valued on a number of traditional valuation methods. To begin with, shares trade solidly under book value. They're also attractively valued based on a price-to-sales ratio, which sits at just 1.4. And the stock trades at a mere 4.9 times trailing earnings. You won't find many stocks trading at a cheaper valuation today.

Critics may argue Teck's equity appears cheap because it still has significant debt. But when factoring in the total enterprise value, the company is still a good buy. Teck's enterprise value is approximately $35 per share, while its 12-month trailing EBITDA is approximately $10 per share. This gives it a current EV-to-EBITDA ratio of 3.5. Historically, Teck's EV-to-EBITDA ratio has been anywhere between five and six times EBITDA.

If Teck shares traded at six times EBITDA today, we're looking at a $55 stock.

Growth potential

Teck has two growth paths that could increase earnings by 15-20% in the short to medium term.

The first is its Quebrada Blanca copper project in Chile. This project — which should begin construction sometime in 2019 — is projected to have a 25-year life. The next step is to take on a local partner. Teck's management projects the project could add $1.50 per share in EBITDA once production begins.

The other growth project will start to show results in 2019. Teck's Fort Hills oil sands project finally reached full production in late 2018. Note that Fort Hills is a partnership with **Suncor Energy**, with Teck only owning a 21% share. Still, a 21% share of some 200,000 barrels of bitumen per day is significant.

Teck's next step in the region is Frontier, a proposed oil sands development with potential to produce some 360,000 barrels of oil per day. This project still needs to be approved by government regulators, so it's years away from being a reality.

Shareholder-friendly management

Teck's management continues to give back to shareholders.

Management cut the annual dividend from $0.90 per share in 2015 to $0.20 per share. Management recently announced it would pay a $0.10 special dividend on top of the next scheduled $0.05 quarterly dividend.

The bigger deal is the share buyback. The company will repurchase $400 million worth of class B shares over the next year, adding to the $1.3 billion spent since 2003. Management is telling investors shares are undervalued today, which is usually a pretty powerful message.

The bottom line

A great deal has changed since Teck flirted with bankruptcy in 2016. The balance sheet is in much better shape, commodity prices have recovered, and earnings are strong. The future looks bright too. Investors might not be treated quite as well over the next three years as the previous three, but it's easy to see shares much higher over the long term.

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