



Teck Resources' (TSX:TECK.B) Stock Is on the Verge of Something Special

Description

Teck Resources ([TSX:TECK.B](#))([NYSE:TECK](#)) has been a household mining company for decades. The company is largely known for its focus on coal, copper and zinc. It has flagship mines worldwide and is one of the world's largest producers of copper and zinc. As such, its performance has been largely dependent on a growing global economy, China in particular.

However, the company has [also diversified into oil](#) with its stake in the Fort Hills oil sands project. The project reached full production in the fourth quarter of 2018 and will contribute significantly to the company's financials.

Last week, the company released fourth-quarter results and hinted at something special. Let's take a look.

Beat on top and bottom lines

In the first quarter of fiscal 2019, Teck Resources posted earnings of \$0.99 per share and revenue of \$3.11 billion. This topped estimates by \$0.06 per share and \$100 million. Along with earnings, the company maintained 2019 guidance.

There are a few catalysts that are driving significant benefits for the company. For starters, the price of coal is stabilizing after years of significant volatility, which allows for more predictable cash flows and planning. This is important because coal operations is underpinning growth in other areas of the company. Its coal business generated approximately \$6 billion in free cash flow over the last nine quarters.

Fort Hills is now at full production, and the company estimates that it will generate \$560 million in annual EBITDA based on its share of production. There is also the potential to increase production at Fort Hills by approximately 10-20% once the bottle neck issue has been resolved.

Finally, the company is proceeding well with its Quebrada Blanca Phase 2 (QB2) project. QB2 is one of the world's largest undeveloped copper resources. It is expected to be a low cost, high-grade mine

with an initial lifespan of 28 years. First production is planned for the second half of 2021. The QB2 project is expected to more than double the size of its copper business.

Speaking of QB2, the company will see a significant reduction in required capital spending once it finalizes a joint venture agreement with Sumitomo.

A special dividend on the horizon?

This leads in nicely to comments from Chief Executive Office Don Lindsay earlier this month. At its annual investor day, Don was quoted as saying, "The board indicated that given the significant reduction in our QB2 funding requirement it would consider an additional return of capital to shareholders."

The company is generating significant cash and the expectation is that the company will announce either a special dividend or an expanded buyback program. The company's current buyback program allows for the repurchase for 40 million shares through October of 2019. As of the end of the first quarter, the company has repurchased 11.9 million shares.

Foolish takeaway

Teck Resources management has all but telegraphed a big announcement for the end of May. The company is [flush with cash](#) and is committed to returning excess cash to shareholders. Regardless of whether it's a special dividend or buyback, shareholders stand to benefit in a big way.

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Date

2025/07/03

Date Created

2019/04/25

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