

Teck chugs along, amid weak coal prices

Teck Resources (TSX: TCK.B and NYSE: TCK) posted a decent second quarter. But analysts remain cautious about the diversified miner's path forward, amid weakening coal markets.

The senior producer of coal, copper and zinc reported a profit of $63 million on revenue of $2 billion. While revenue was flat year-over-year, earnings dropped 21%. However, adjusted earnings were $79 million, or 14¢ per share, up from $72 million, or 13¢ per share, a year ago. Analysts on averaged had expected adjusted earnings of 11¢ per share.

The beat came on the back of higher production and declining costs, coupled with lower energy prices and a weaker Canadian dollar.

"Production was up for all of our major products," Teck CEO Don Lindsay said on a conference call. "We also reduced unit cost in both copper and coal by 9% and 10%, respectively."

Quarterly coal production was 6.6 million tonnes, up 3% from a year ago, while sales dipped nearly 5% to 6.5 million tonnes. Unit costs were $83 per tonne, down from $92 per tonne, a year ago. This helped offset the 5% drop in the average realized price of $116 per tonne. (In U.S. dollars, the realized coal price fell 14% to US$95 per tonne.)

The company's total gross profit, before depreciation and amortization, was $676 million, up 6% from the second quarter last year. The coal division delivered $215 million in gross profit, while copper and zinc added $317 million and $143 million, respectively.

While applauding the decent quarterly results, Raymond James' analyst Alex Terentiew notes "commodity headwinds, the lack of company-specific catalysts, and growing questions over

potential future impairments have taken some steam out of the [second quarter] beat."

Coal spot prices continue to plunge, driven by an oversupplied market, primarily due to lower Chinese demand. As a result, Teck scaled back its third-quarter coal production by 22% to 5.7 million tonnes.

In June, it began rotating temporary shutdowns at its six Canadian steelmaking coal operations. During these staggered, three-week-long shutdowns, Teck aims to reduce inventories while maintaining its annual cost guidance between $86 and $93 per tonne.

For the third quarter, the miner anticipates quarterly sales of at least 6 million tonnes, including spot sales. Its annual coal guidance is 25 million to 26 million tonnes, which it reduced in May from 26.5 million to 27.5 million tonnes earlier.

If market conditions don't improve, Teck says it will implement more coal production cuts in the fourth quarter.

This may lead to potential impairments in it coal division, Terentiew writes. "Management noted that ultimately it is Teck's decision, and not its auditors, on whether or not to make an impairment," he says, estimating a "metallurgical coal price of $130 per tonne may be needed long term to avoid a write down."

Teck has also reduced its copper guidance by 5,000 to 10,000 tonnes in the second half of the year, following ground movement at its Quebrada Blanca mine in Chile. Annual copper guidance now stands at 340,000 to 350,000 tonnes, compared to 340,000 to 360,000 tonnes previously.

Desjardins analyst Jackie Przybylowski believes that Teck will continue to "struggle in the near term." She points out that management noted the company's investment-grade credit rating would be difficult to maintain in the current low-priced environment.

On the call, Lindsay said Teck “will not issue equity to buyback debt to defend the rating.”

The executive also dispelled any merger or acquisition rumours. “The odds of us being sort of involved at a point where we would actually make an acquisition are quite slim at the best of times,” he explained.

With no upcoming “acquisition or significant improvement to the balance sheet, we see few catalysts that are likely to boost the share price in the near term,” Przybylowski says. She has reduced her $18 target to $17 following the company’s reduced copper guidance, but recommends a “buy” on the stock.

Terentiew has a $14 target, and a “market perform” rating on the stock.

Source: **NorthernMiner.com** July 24, 2015.