Teck Resources

Materials
TSX: TECK.B | NYSE: TECK
Market Outperform | Buy

December 31, 2021
Jack Morgan, Portfolio Manager

Return on Investment

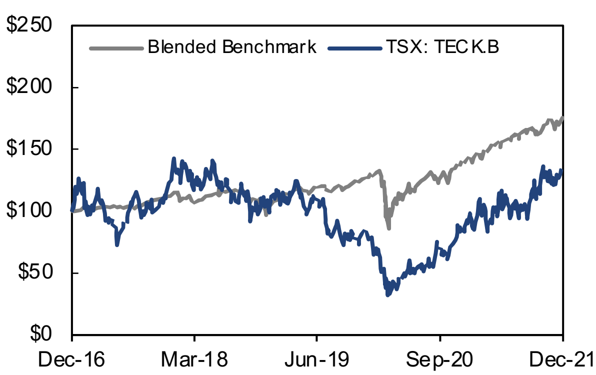
Current Share Price	$36.43
Target Price	$47.00
Dividend Yield	0.46%
Implied Return	29%
Conviction Rating	2

Market Profile

52-Week Range	$21.86 - $43.34
Market Capitalization ($mm)	$20,257
Net Debt ($mm)	$7,431
Enterprise Value ($mm)	$27,688
Beta (5-Year Monthly)	1.17

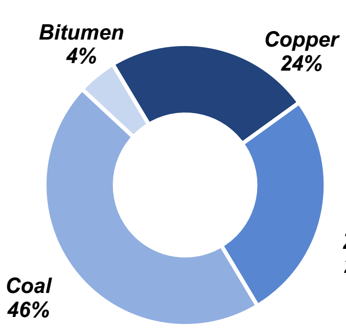
Metrics	2021E	2022E	2023E
Revenue ($mm)	$11,685	$12,152	$12,492
EBITDA ($mm)	$4,457	$4,701	$4,787
EPS	$4.27	$4.51	$4.59
EV/EBITDA	6.2x	5.9x	5.8x

Historical Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: Q3 2021 Principal Product Revenue Segments



Source: Company Filings

Business Description

Teck Resources (TSX: TECK.B) is a Vancouver-based diversified mining company operating primarily throughout North America with several major South American projects. Founded in 1906, TECK specializes in the production of steelmaking coal, copper, zinc, and bitumen, in addition to non-principal products such as lead, gold, silver, and molybdenum.

The Company is the world's second-largest seaborne exporter of metallurgical coal deriving from its high-quality reserves in British Columbia and Alaska. TECK also operates one of the world's largest fully integrated zinc and lead refining facilities. The Company distributes raw and refined materials globally to a wide variety of clientele domestically and overseas.

Industry Overview

Minerals and Metals contribute nearly $50B annually to the Canadian economy, composing roughly 5% of national GDP. Canada's mining sector is predominantly composed of potash amongst precious metals and gemstones. TECK's competitive peers include First Quantum Minerals (TSX: FM), Agnico Eagle Mines (TSX: AEM), Kinross Gold (TSX: K), and Yamana Gold (TSX: YRI). Access to large resource deposits is a key contributor to market share expansion and product development across various provinces; Ontario currently maintains the highest production by mineral revenue. The Canadian mining industry is highly regulated; all mining corporations are susceptible to adaptations in mineral rights legislation and the Environmental Impact Protection Act.

Key Commodities Overview

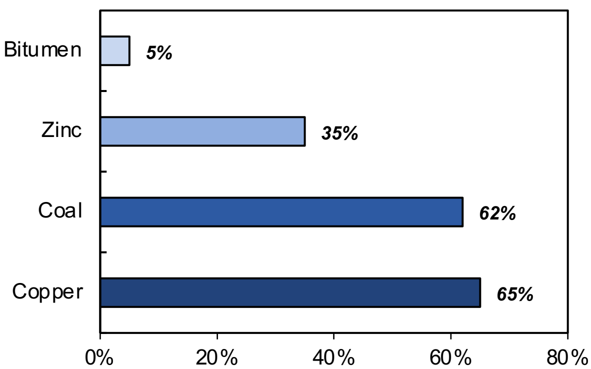
Copper prices experienced a strong lift due to high demand from various sectors in addition to low inventories. As of Q3 2021, TECK realized a 95% YoY increase in copper-related EBITDA with an average price of $4.28/lb, 61% above 2020's Q3 price of $2.66/lb. Demand for the metal is expected to remain elevated amidst semiconductor and automobile manufacturing shortages.

Usage and congruent demand have bolstered zinc prices over the past 18 months, raising spot prices to 4-year highs. Global demand for refined zinc is expected to increase by 6.2% in 2022 as China and Europe cut output to compensate for extreme energy prices. In Q3, TECK saw zinc priced at $1.38/lb compared to $1.06/lb in 2020.

Coking coal prices saw immense growth in Q3 before pulling back toward the end of the year. Demand for steel and power in China combined with a lack of supply drove the seaborne metallurgical market to record prices. The surge eased in Q4 as spot cargo supply levels recovered. TECK realized an average price of $237/tonne of steelmaking coal in Q3, a 132% increase YoY.

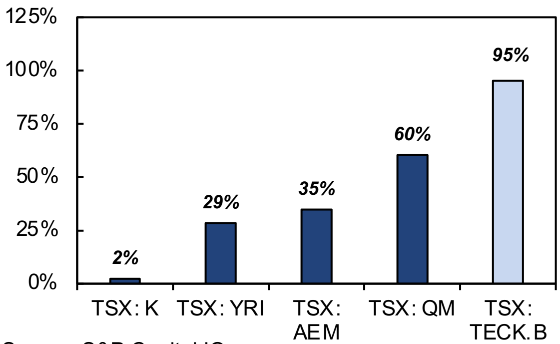
TECK's energy interests in Alberta's Oil Sands benefitted from surging demand in North America and Europe last year. American reserves nudge toward depletion as global supply is constricted by OPEC's refusal to significantly raise production. Brent Crude is expected to remain at ~$80 if trends continue. TECK realized a Q3 2021 price of $61.10/bbl in sold bitumen, an 85% increase from $33.10/bbl in the same quarter last year.

Figure 2: Q3 2021 Profit Margin by Product



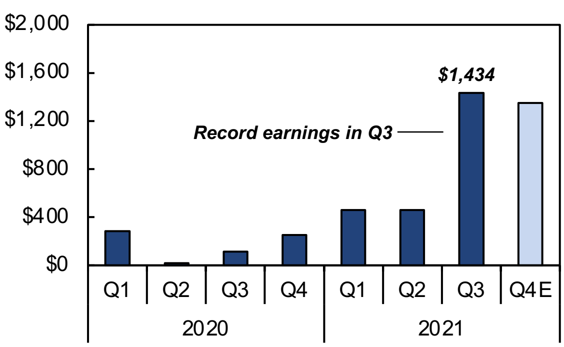
Source: Company Filings

Figure 3: LTM EBITDA Growth vs Peers



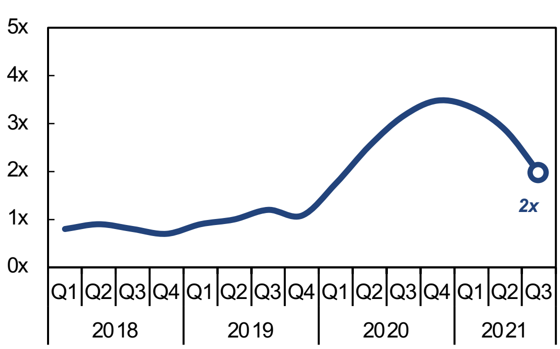
Source: S&P Capital IQ

Figure 4: Quarterly Operating Profit ($mm)



Source: Company Filings, CPMT Estimates

Figure 5: Quarterly Net Debt/EBITDA



Source: Company Filings

Mandate Fit

Quality Management: Donald Lindsay has been the President and CEO of TECK since 2005, joining the Company after 20 years of experience in investment banking. TECK's management has consistently exhibited devotion to the exploration and development of opportune mining projects without jeopardizing balance sheet strength. Strides in sustainability, global exploration, and community growth have constructed an exemplary reputation for the Company.

Competitive Advantage: TECK exercises an advantage over its peers through its proven long-life assets, industry-leading operating standards, and diversification of high-demand products. TECK is known for its responsible development and was named one of Canada's top 100 employers in 2021. The Company overcame pandemic-induced operational challenges on a strong note, posting superior bottom-line growth versus peers. MSCI recently upgraded TECK's ESG rating from AA to A, placing the Company in the top 10% of mining companies globally.

Strong Balance Sheet: Despite the expenditure-heavy nature of Canada's mining sector, TECK has emerged from the pandemic with strong solvency. Liquidity stands at $5.4B as of Q3 2021 with no significant note maturities prior to 2030. The Company maintains investment-grade ratings from all four major rating agencies and a 4.5x interest coverage ratio, comfortably covering current liabilities. Price environments are likely to further fortify balance sheet strength.

Growing Free Cash Flow: TECK's top line has seen considerable growth surpassing 2019's pre-pandemic levels, rising to $4B in revenue in Q3 2021, achieving a 73% increase YoY. Due to high Capex, FCF remains negative; however, this is common in the capital-intensive mining industry. TECK's EBITDA has reached record highs and earnings growth is expected to continue into FY2022. Mining projects such as Elkview, QB2, and Galore Creek offer long-term growth and production expansion on high-margin products such as copper and coking coal.

Risks and Catalysts

As a diversified producer, TECK holds powerful exposure to the commodity price movement and macroeconomic events. Catalysts for positive markets could include the continued lifting of COVID-19 restrictions, Canadian Dollar strength, product supply challenges, and inflation as TECK is likely to retain pricing power.

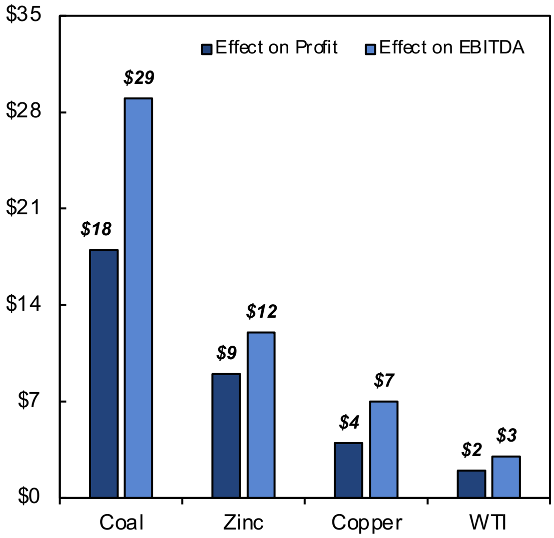
Operational risks include government regulation, strikes and/or unionization of workers, product demand challenges, and natural disasters such as the recent flooding in British Columbia.

Major Projects and Exploration

One of the world's largest undeveloped copper resources is TECK's Quebrada Blanca Phase 2 (QB2) in Chile. QB2 is a long-life, low-cost operation with major expansion potential for copper production. QB2 is expected to be a significant contributor to TECK's profitability, given the favorable outlook on global copper demand and production in the area expected to profit for at least 30 years. Galore Creek is another major precious-metals project located in northwestern British Columbia. Funding was recently increased to the project to begin development and upgrade camp facilities in anticipation of improved copper and gold prices.

The Company is actively exploring development opportunities in over a dozen countries worldwide. Exploration is primarily focused on four commodities: copper, zinc, metallurgical coal, and gold as all four offer high margins in addition to robust long-term demand projection.

Figure 6: Effects of $0.01 Product Price Change ($mm)



Source: Company Filings

Valuation

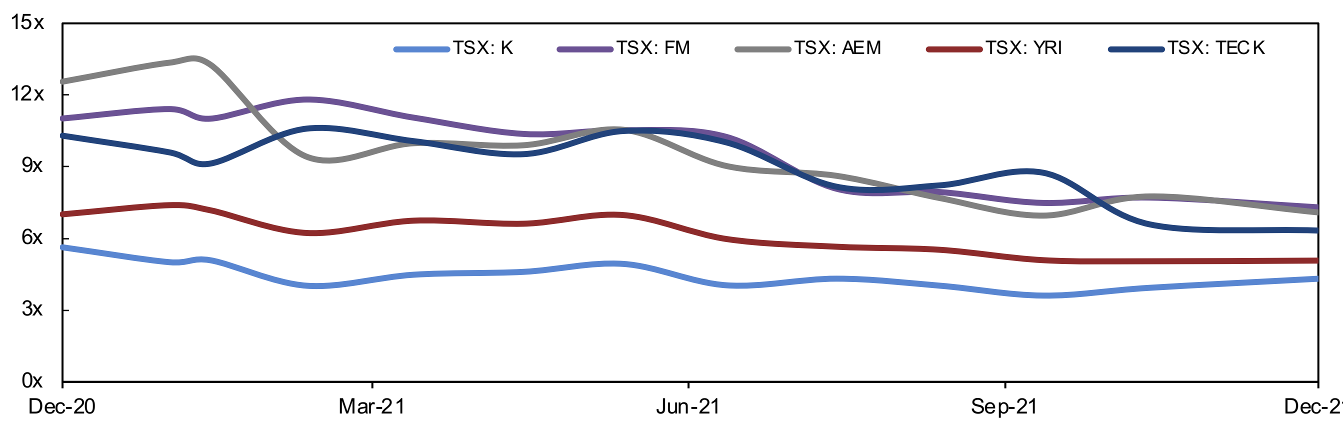
The target price of $47 was determined through a 50/50 blend of (1) a NAV model forecasting production of principal commodity reserves and (2) an EV/EBITDA exit multiple of 8.2x applied to model forecasts. The present value was derived using a calculated WACC of 6.67% and an industry-standard decline rate of 10%. Commodity price forecasts were guided by the EIA and Street estimates.

Investment Thesis

The CPMT views TECK as an industry leader in North American mining rooted in low-cost, long-life reserves of desirable commodities. Principal product demand growth presents tailwinds in the face of inflation and federal reserve rate hikes, while TECK's diversified operations limit single product dependence. The CPMT believes TECK's bottom-line will continue to benefit from favorable price environments and high-margin project development.

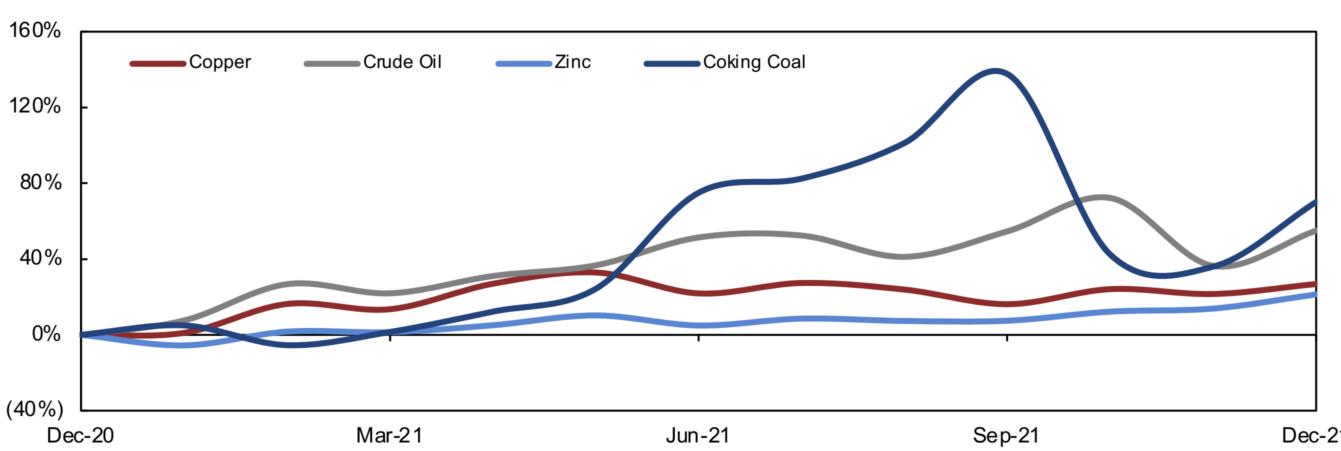
TECK meets all CPMT mandate points and provides desirable exposure to commodities currently not possessed by the portfolio. The Company offers increased exposure to Canadian business and pricing power in the mining sector in the face of macroeconomic uncertainty. The CPMT will continue to evaluate an investment opportunity in TECK pending further due diligence into the Company.

Figure 7: Historical NTM EV/EBITDA vs Peers



Source: S&P Capital IQ

Figure 8: LTM Principal Commodity Price Growth



Source: CPMT Estimates, S&P Capital IQ, Street Research