

Teck Resources

Q4'23 results solid, capital return in focus with C\$500mn buyback announced

Reiterate Rating: BUY | PO: 67.00 CAD | Price: 51.44 CAD

Copper growth + coal sale to drive capital return

Teck Resources (TECK) reported Q4'23 earnings that were better vs. BofAe and skewed better than consensus. Previously provided 2024 guidance was reiterated (link: [Teck 2024 guidance 16-Jan-24](#)). Return of capital surprised positively with the announcement of a C\$500 million (mn) share buyback. The Quebrada Blanca II (QB2) project is on-track. With transformational copper growth from the ramp-up of QB2 set to drive strong free cash flow (complemented by the US\$8.6 billion (bn) coal sale) and an attractive valuation, TECK is a 2024 top pick. Reiterate Buy rating.

C\$500mn buy back announced; dividend level maintained

TECK announced a C\$500mn (US\$372mn) Class B share buyback that represents 30% of the cash received from the sale of a minority interesting in steelmaking coal to Nippon Steel (NSC). We think this is above market expectations that roughly ranged from US\$200mn to US\$300mn and roughly in line to BofAe. This provides additional clarity on how TECK might address capital return once the US\$6.9bn sale of the remaining interest in the steelmaking business closes (i.e. potentially at least US\$2.07bn of return, which we think is within the range of market expectations (and is in line to BofAe)). TECK also announced a Q1'24 quarterly dividend of C\$0.125 per share, in-line to the prior quarter. In Q4'23, TECK repurchased C\$165mn of its Class B shares. As of 31-Dec-23, TECK's net debt stood at C\$6.85bn, 11% from 30-Sep-23 and higher than expected given a Q4'23 free cash outflow of negative C\$193mn versus BofAe at +C\$31mn.

QB2 ramp-up tracking well to the latest guidance

TECK's transformational QB2 project is tracking well to guidance provided on 15-Jan-23. The molybdenum plant ramp-up continues to track to completion by the end of Q2'24 and port offshore facilities continue to track to completion by the end of Q1'24 (with all in-water works now complete). The total project capex budget is unchanged from US\$8.6-US\$8.8bn at the last update. Looking to other copper growth options, TECK expects to complete QB expansion studies by the end of 2024. For the Highland Valley Copper (HVC) extension project, engineering/design, construction planning and permitting is ongoing. TECK continues to expect a San Nicolás feasibility study in H1'24 and a Galore Creek prefeasibility study in H2'24. Zafranal engineering to start in Q2'24.

Q4'23 EBITDA beat vs. BofAe, in-line to consensus

Q4'23 adjusted EBITDA of C\$1.7bn was 1% better than BofAe and in-line to Bloomberg and Visible Alpha (VA) consensus. Adjusted EPS of C\$1.41 was above BofAe at C\$1.20 and Bloomberg/VA at C\$1.35/C\$1.24. Versus BofAe, the positive earnings variance was driven by lower-than-expected copper unit cash costs, ex-QB2 and lower depreciation. (See Exhibit 1, page 2).

22 February 2024

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Stock Data

Price (TOR / NYS)	51.44 CAD / 38.11 USD
Price Objective	67.00 CAD / 49.00 USD
Date Established	1-Feb-2024 / 1-Feb-2024
Investment Opinion	B-1-7 / C-1-7
52-Week Range	44.66 CAD - 66.04 CAD
Market Value (mn)	26,217 CAD
Free Float	98.7%
Average Daily Value	59.17 USD
Shares Outstanding (mn)	509.7 / 509.7
BofA Ticker / Exchange	YTECK / TOR
BofA Ticker / Exchange	TECK / NYS
Bloomberg / Reuters	TECK/B CN / TECKb.TO
ROE (2023E)	9.8%
Net Dbt to Eqty (Dec-2022A)	22.1%
ESGMeter™	High

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Refer to important disclosures on page 4 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.

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Timestamp: 22 February 2024 06:12AM EST

Q4'23 results summary

Exhibit 1: TECK Q4'23 results (Q4 2023A not shaded were previously reported)

Versus us, Q4'23 earnings beat was driven by lower-than-expected copper unit cash costs, ex-QB2 and lower depreciation.

Quarterly Results (C\$mn, C\$/sh)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	BofA Q4'23E	Var.	Bloomberg	Var.	VA	Var.
Sales	4,108	3,140	31%	3,599	14%	4,055	1%	4,138	-1%	4,164	-1%
Adjusted EBITDA	1,703	1,333	28%	1,213	40%	1,694	1%	1,702	0%	1,701	0%
Depreciation	548	384	43%	529	4%	649	-16%	540	2%	616	-11%
Adjusted earnings	735	558	32%	399	84%	626	17%	699	5%	NA	NM
Adjusted EPS	1.41	1.09	30%	0.77	84%	1.20	18%	1.35	5%	1.24	14%
Cash flow from ops	1,127.0	930.0	21%	737	53%	1,730	-35%	1,330	-15%	na	nm
Capex	1,320.0	1,761.0	-25%	1,382	-4%	1,699	-22%	1,300	2%	na	nm
FCF	(193)	(831)	nm	(645)	nm	31	nm	31	nm	(202)	nm
Net (cash) / debt	6,851	5,855	17%	6,153	11%	6,179	11%	5,932	15%	6,597	4%
Copper Production (kt)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	BofA Q4'23E	Var.	Bloomberg	Var.	VA	Var.
HVC	29.8	28	7%	20.5	45%	29.8	0%	29.8	0%	30.8	-3%
Antamina	27.1	24	12%	22.5	21%	27.1	0%	26.3	3%	26.8	1%
QB1	1.4	2	-39%	1.3	nm	1.4	nm				
QB2	35.0	0	nm	18.3	91%	35.0	0%	16.4	113%	36.9	-5%
Andacollo	10.2	11	-6%	9.3	10%	10.2	0%	10.5	-3%	10.2	0%
Other	0.0	0	nm	0.1	nm	0.0	nm	23.5		0.0	
Total	103.5	65	59%	72.0	44%	103.5	0%	106.5	-3%	104.6	-1%
Sales	101.2	64	58%	69.0	47%	101.2	0%	98.2	3%	100.8	0%
Met coal (Mt)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	BofA Q4'23E	Var.	Bloomberg	Var.	VA	Var.
Production	6.4	4.9	31%	5.5	16%	6.4	0%	6.3	2%	6.3	1%
Sales	6.1	4.3	42%	5.2	17%	6.1	0%	6.1	1%	6.1	0%
Realized coal price (US\$/t)	270	278	-3%	229	18%	270	0%	254	6%	269	0%
Zinc in concentrate (kt)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	BofA Q4'23E	Var.	Bloomberg	Var.	VA	Var.
Production	181.8	143.7	27%	152.8	19%	181.8	0%	177.7	2%	257.0	-29%
Sales	164.1	164.7	0%	296.5	-45%	164.1	0%	134.4	22%	235.8	-30%
Net cash costs	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	BofA Q4'23E	Var.	Bloomberg	Var.	VA	Var.
Copper (US\$/lb)	\$1.84	\$1.75	5%	\$1.86	-1%	\$2.51	-27%	1.76	4%	1.91	-4%
Met coal (C\$/t)	\$150	\$147	2%	\$152	-1%	\$149	1%	na	nm	150	0%
Zinc (US\$/lb)	\$0.63	\$0.31	105%	\$0.31	100%	\$0.58	8%	na	nm	0.69	-9%

Source: Company reports, BofA Global Research, Bloomberg, Visible Alpha.

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Price objective basis & risk

Teck Resources (YTECK / TECK)

We set our price objective (PO) for TECK at \$49 per share (C\$67 per share). This is based on 8.0x 2024E EBITDA, 7.5x 2025E EV/EBITDA and 1.0x NAV for the base metals business, plus 1x cash price offered for the Elk Valley Resources segment by Glencore. The 8.0 EV/EBITDA target multiple is near the middle of the range of 4.0-9.0x used to value the copper producers. Given TECK's copper volume growth, its suite of additional organic copper production growth options, and relatively attractive jurisdictional exposure, the market could assign a higher multiple to the base metal business. We assume CADUSD = 1.37.

Downside risks to our price objective are: 1) global economic weakness, specifically in China and India, 2) excess supply given China's position and recent elevated prices, 3) unplanned Teck operating disruptions, 4) stricter regulatory or environmental measures, 5) other factors pressuring prices of the commodities it produces.

Upside risks to our price objective are: the potential to monetize its copper projects, especially if copper prices exceed our expectations, and potentially greater success in its cost-savings/efficiency initiatives.

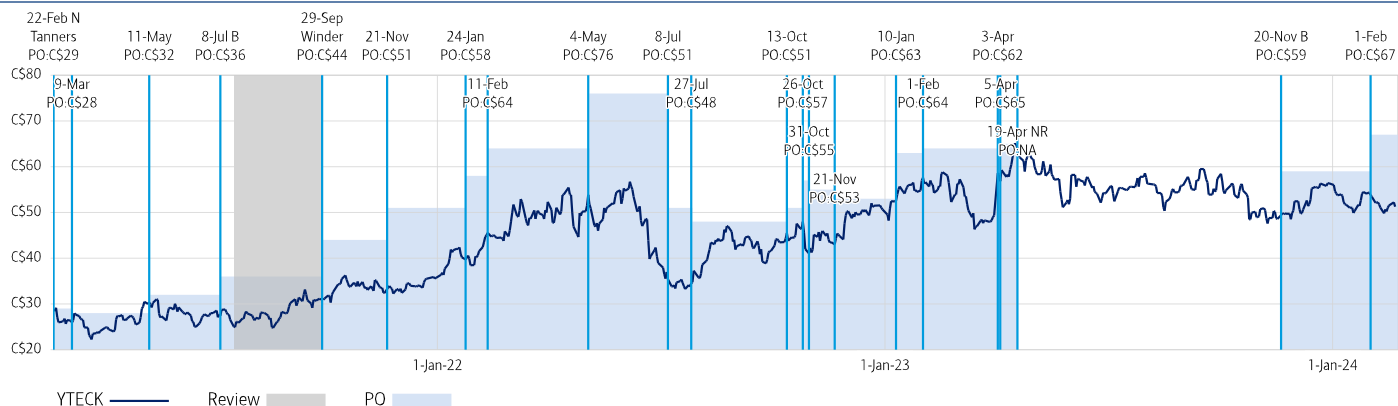
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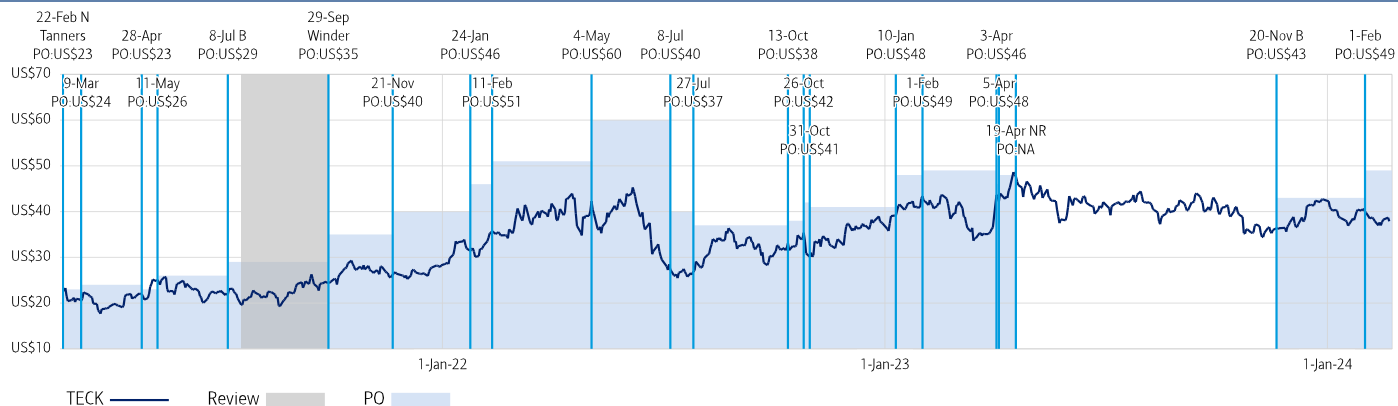
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Teck Resources (YTECK) Price Chart



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Teck Resources Ltd (TECK) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	58	53.70%	Buy	26	44.83%
Hold	24	22.22%	Hold	10	41.67%
Sell	26	24.07%	Sell	13	50.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Underperform	N/A	≥ 20%

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