

Teck Resources

2024 guidance: capex higher than expected; production light vs. consensus

Maintain Rating: BUY | PO: 59.00 CAD | Price: 51.07 CAD

The bad news the market was waiting for: clear to Buy

Earlier, Teck Resources (TECK) reported Q4'23 production and sales, 2024 guidance, and provided longer-term 2025-2027 production guidance. For 2024, production guidance in each segment was slightly better vs. BofAe but more mixed vs. consensus, net cash costs were roughly in line, and capex was broadly higher. Similar to First Quantum but in broader terms, TECK highlighted inflationary cost pressures. Net-net, we see the update as modestly negative. However, we think the market was anticipating a negative update, and this release in our view, clears the deck of potentially negative catalysts in the near-term. We maintain our Buy rating given TECK's peer-leading copper production growth (from the ramp-up of QB2) and material valuation discount vs. copper peers.

2024 QB2 copper guidance better than we had expected

For 2024, TECK's guidance calls for steel making coal, copper (including QB2), zinc in concentrate and refined zinc production of 24-26 million tonnes (Mt), 465-540 thousand tonnes (kt), 565-630kt and 275-290kt respectively. Steel making coal and copper production guidance are largely in line with BofAe while zinc was slightly lower. Copper production guidance for 2024 is below Bloomberg and Visible Alpha (VA) consensus estimates with every asset surprising on the low side. Versus us (at 205kt), QB2 at 230-275kt was a positive surprise while Highland Valley (BofAe at 140kt) and Andacollo (BofAe 53kt) surprised negatively at 112-125kt and 38-45kt respectively. On the cost side, 2024 net copper cash cost guidance (including QB2) of \$1.85-\$2.25 per pound (/lb) was slightly above BofAe (\$1.97/lb) and inline to Bloomberg (\$2.05/lb). Total capex guidance for 2024 at C\$3.98-C\$4.36 billion (vn) was well above BofAe (C\$3.2bn), Bloomberg (C\$3.2bn) and VA (C\$3.1bn). See exhibit 2 on page 2.

2025-2027 copper production guidance fine; zinc lower

Teck's 2025-2027 production guidance was in-line to slightly better than BofAe, with QB2 expected to operate at design, producing 280-310 kt (vs. prior guide of 285-315kt). However, 2025-2027 zinc production guidance was lower than BofAe, especially for 2026 and 2027, due to declining grades at Red Dog (later stages of mine life) and revised mine plan (more copper versus zinc) at Antamina. See exhibit 3 on page 2.

Q4'23 copper production soft but relatively in line

TECK reported Q4'23 steel making coal, copper, zinc in concentrate production, and refined zinc production of 6.4 Mt, 103.5kt, 164.1kt, and 68.1kt, respectively. Steel making coal production was significantly better due to improved plant performance (sales were previously reported). Q4'23 copper production was 2% lower than BofAe and 4% below VA: Highland Valley was slightly lower following the geotechnical event in August, offset by higher-than-expected production at Antamina. QB2 production was pre-released. Zinc production and sales were 5% and 3% below BofAe.

16 January 2024

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Stock Data

Price (TOR / NYS)	51.07 CAD / 38.05 USD
Price Objective	59.00 CAD / 43.00 USD
Date Established	20-Nov-2023 / 20-Nov-2023
Investment Opinion	B-1-7 / C-1-7
52-Week Range	44.66 CAD - 66.04 CAD
Market Value (mn)	26,164 CAD
Free Float	98.7%
Average Daily Value	74.87 USD
Shares Outstanding (mn)	512.3 / 512.3
BofA Ticker / Exchange	YTECK / TOR
BofA Ticker / Exchange	TECK / NYS
Bloomberg / Reuters	TECK/B CN / TECKb.TO
ROE (2023E)	10.0%
Net Dbt to Eqty (Dec-2022A)	22.1%
ESGMeter™	High

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Timestamp: 16 January 2024 09:08AM EST

Q4'23 Results

Exhibit 1: Q4 2023 production and sales results

TECK reported Q4'23 production and sales. Q4'23 copper and zinc production were 2% and 5% lower vs BofAe. Met coal numbers were pre-released.

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%	31.4	-5%	30.9	-4%	30.6	-3%
Antamina	27.1	24	12%	22.5	21%	23.4	16%	23.9	14%	24.0	13%
QB1	1.4	2	-39%	1.3	nm	4.8	nm				
QB2	35.0	0	nm	18.3	91%	35.0	0%	12.0	192%	42.0	-17%
Andacollo	10.2	11	-6%	9.3	10%	11.1	-8%	11.1	-8%	11.3	-9%
Other	0.0	0	nm	0.1	nm		nm	33.8		0.0	
Total	103.5	65	59%	72.0	44%	105.8	-2%	111.6	-7%	107.9	-4%
Sales	101.2	64	58%	69.0	47%	105.8	-4%	96.8	5%	102.6	-1%
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%	5.7	12%	6.0	7%	5.9	9%
Sales	6.1	4.3	42%	5.2	17%	6.1	0%	6.0	2%	6.0	2%
Realized coal price (US\$/t)	270	278	-3%	229	18%	270	0%	251	7%	273	-1%
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%	190.9	-5%	174.5	4%	252.5	-28%
Sales	164.1	164.7	0%	296.5	-45%	169.7	-3%	134.0	22%	244.2	-33%

Source: BofA Global Research, Bloomberg, Visible Alpha, Company Reports

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Exhibit 2: 2024 production and cost guidance for Teck Resources

Unit costs were across the board higher than expected

	2024 Guidance (New)	2023A	Var.	BofAe	Var.	Bloomberg	Var.	VA	Var.
Production									
Copper (kt)	465 - 540	297	69%	492	2%	527	-5%	535	-6%
QB2 copper (kt)	230 - 275	63	302%	205	23%	270	-6%	257	-2%
HVC copper (kt)	112 - 125	99	20%	140	-15%	126	-6%	127	-7%
Antamina copper (kt)	85 - 95	95	-6%	93	-4%	95	-6%	94	-4%
Andacollo copper (kt)	38 - 45	40	5%	53	-22%	50	-18%	53	-22%
Zinc in concentrate (kt)	565 - 630	644	-7%	610	-2%	592	1%	606	-1%
Refined zinc (kt)	275 - 290	267	6%	297	-5%	295	-4%	293	n/a
Steelmaking coal (Mt)	24 - 26	24	5%	25	0%	nm	nm	nm	nm
Net cash costs		2023G							
Copper (US\$/lb)	1.85 - 2.25	1.60-1.80	21%	1.97	4%	2.05	0%	nm	nm
Zinc (US\$/lb)	0.55 - 0.65	0.50-0.60	9%	0.49	24%	0.39	52%	0.46	30%
Steelmaking coal (C\$/t)	142 - 161	133-144	9%	142	7%	140	8%	144	5%
Capex (C\$mn)									
Sustaining (incl. stripping)	2,355 - 2,865	2,620	0%	1,870	40%	n/a	-	2,273	15%
Growth (incl. QB2)	1,200 - 1,490	2,560-2,760	-49%	1,394	-4%	n/a	-	817	65%
Total	3,555 - 4,355	3,980-4,180	-3%	3,264	21%	3,230	22%	3,137	26%

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

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Exhibit 3: 2025-2027 Guidance for Teck Resources

2025-2027 guidance for copper were in-line to slightly better than BofA estimates. However, zinc production guidance were lower (mainly 2026 and 2027).

	2025 Guidance (New)	BofAe	Var.	2026 Guidance (New)	BofAe	Var.	2027 Guidance (New)	BofAe	Var.
Production									
Copper (kt)	550 - 620	585	0%	550 - 620	580	1%	530 - 600	552	2%
Zinc (kt)	555 - 615	609	-4%	465 - 525	595	-17%	400 - 445	529	-20%
Refined zinc (kt)	270 - 300	297	-4%	270 - 300	297	-4%	270 - 300	308	-7%
Steelmaking coal (Mt)	24.0 - 26.0	25	0%	24.0 - 26.0	25	0%	24.0 - 26.0	27	-6%

Source: BofA Global Research, Company Reports

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Price objective basis & risk

Teck Resources (YTECK / TECK)

We set our price objective (PO) for TECK at \$43 per share (C\$59 per share). This is based on 6.5x 2024E EBITDA, 6.0x 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 6.5x EV/EBITDA target multiple is near the middle of the range of 4.0-9.0x used to value the copper producers, and in line to the copper producer median target EV/EBITDA multiple of around 6.5x. The lower than median target multiple is to reflect execution issues at its QB2 copper project in Chile, and some conservatism. 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.

Analyst Certification

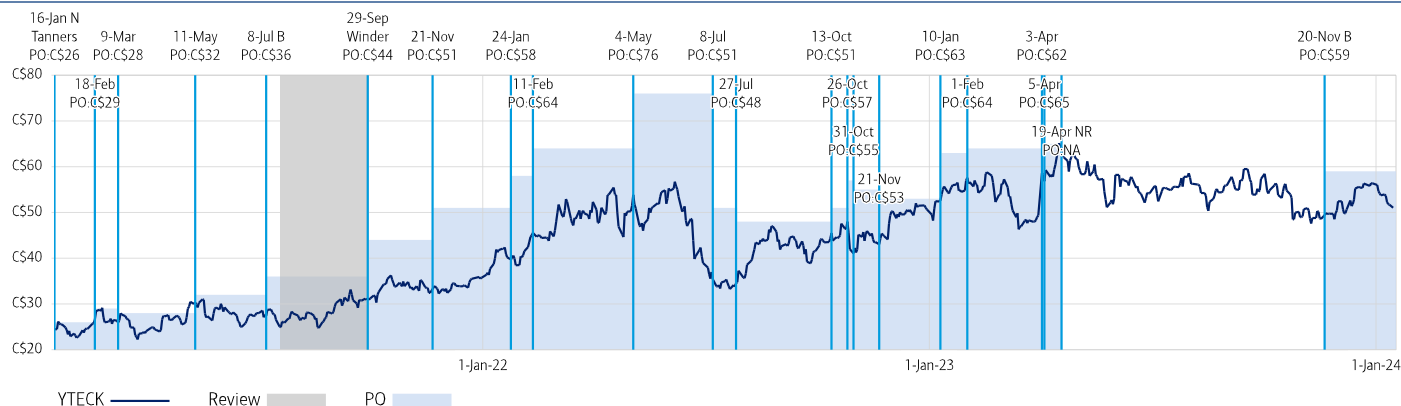
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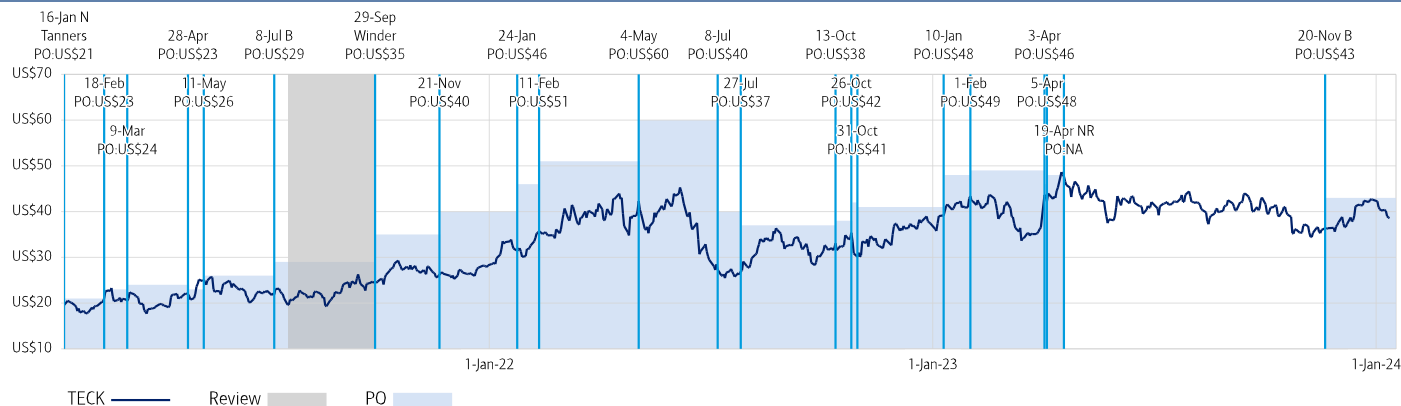
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Teck Resources Ltd (TECK) Price Chart



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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%

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