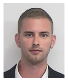
Teck Resources Research

BI Base Metals, Global Dashboard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1. Teck Resources: Company Outlook

(Bloomberg Intelligence) -- THESIS: Teck Resources' risk-reward remains balanced as we head into 2020. Base metal and coking-coal prices have fallen off their April highs, resulting in a 34% decline in share price over the same time-frame. Potential catalysts include technicals that point toward valuations that remain low to peers and have traded outside their historical range. However our outlook on Teck's underlying commodity exposure remains less than optimistic; as we see momentum in the met-coal market weighted toward the downside. (09/10/19)

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Earnings

2. Teck's Race21 Benefits Unlikely in 2019: Earnings Outlook

Post 2Q-Earnings Outlook: While Teck's fiscal-year production guidance is achievable, in our view, lower base-metal and coal prices could further dent profit margins. Investors will continue to focus on a realized $150 million in Ebitda benefits from the Race21 efficiency program, but the $45 million in implementation costs and lower metal prices will likely blunt these benefits for the year. Camp construction continues at QB2, while management reiterated planned production guidance for 4Q21. Teck's metallurgical coal segment will be watched closely as slowing Asian steel demand could hamper seaborne flows. (09/10/19)

Highlights From Recent Results:
- Copper Price Down 6% in 2019 to C$7,673 a Tonne
- QB2 Camp Construction Underway; 4Q21 Production Guidance Reiterated
- Trade War Continues to Weigh on Base Metals

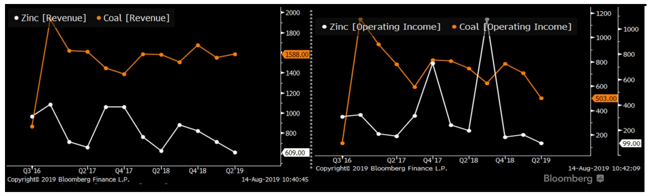
Additional Resources:
- Analyzer | BI »
- Earnings Release | DOCC »
- Earnings Call Transcript | DOCC »
- Company Presentation | DOCC »

Financial Trends

3. Base-Metals Breakdown Affecting Teck’s Margins in 2019

Despite the decline of base-metal and energy prices in 2H, we anticipate $4.6 billion in annual adjusted Ebitda for Teck in 2019 (consistent with consensus), representing a 26% drop from 2018 levels. Unit costs are likely to marginally pick up into the end of the fiscal year as transportation and idled capacity in the coal segment remain headwinds. In met-coal, management has guided toward a 2.5% increase in cost per unit, with production remaining flat for the year. Zinc unit costs are expected to increase 7%, largely the result of a 10% decline in anticipated production for the year, taking into account median management guidance. If spot prices hold into 2020, we anticipate $4.7 billion in Ebitda, on par with consensus. (09/10/19)

Teck Resources Revenue and Operating Income



Source: Bloomberg Intelligence

Key Research

Investment Thesis

Teck Resources' Risks Remain Balanced

Base metal prices, along with metallurgical coal, have fallen significantly throughout the year through a narrative of slowing economic growth and rising trade tensions. Our view remains neutral on Teck, with a balance of upside & downside risks over the next year. (09/10/19)

4. China Macro Bottom Would Represent Net Positive

Slower economic growth in China has remained a headwind for Teck throughout the year, however a floor on Chinese construction would represent a net positive over the next year. Macro-economic indiciators related to the bulk's sector have remained predonimately flat, while property financing indicators have accelerated over the last three months. Copper prices are likely to continue to see elevated volatility, however it is unlikely to result in significant estimate revisions unless major disruptions diverge pricing out of our range-bound forecasts. Coking coal production growth is expected to outpace demand growth, resulting in a 13M ton surplus into 2020.

Click on the "Data" button below the graphic to download the China bulk's indicator. (09/10/19)

China Macro Indicator

Index	Current Value	Previous Value	Sequential Rate of Change	SMA (3M)	Δ From Trend	SMA (6M)	Δ From Trend	SMA (12M)	Δ From Trend	Last Update
China Macroeconomic Indicators										
Bloomberg Economics China Credit Impulse	23	25	Decelerating	24	(0.61)	24	(0.42)	23	0.13	7/31/2019
China Outstanding Corporate and Social Borrowing	0.091	0.094	Decelerating	0.093	(0.00)	0.092	(0.00)	0.091	(0.00)	7/31/2019
China Manufacturing PMI SA	49.70	49.40	Accelerating	49.50	0.20	49.72	(0.02)	49.96	(0.26)	7/31/2019
China Required Deposit Reserve Ratio for Major Banks	13.50	13.50	Flat	13.500	0.00	13.500	0.00	14.049	(0.55)	8/22/2019
China Required Reserve Ratio for Smaller Banks	11.50	11.50	Flat	11.50	0.00	11.50	0.00	11.66	(0.16)	8/22/2019
China Monetary Conditions Index (Base = 2007)	90.79	96.57	Decelerating	94.65	(3.86)	91.96	(1.17)	89.55	1.24	7/31/2019
Property Financing & Supply Indicators										
China Real Estate Source of Funds - Total Funds YoY	7.0	7.2	Decelerating	7.27	(0.27)	6.45	0.55	6.79	0.21	7/31/2019
China Real Estate Source of Funds in Development -- Domestic Loan YoY	9.5	8.4	Accelerating	7.80	1.70	4.85	4.65	-0.28	9.78	7/31/2019
China Real Estate Source of Funds in Development -- Foreign Investment YoY	83.6	51.8	Accelerating	58.07	25.53	119.05	(35.45)	34.37	49.23	7/31/2019
China Real Estate Source of Funds in Development - Self-raising YoY	2.8	4.7	Decelerating	3.87	(1.07)	3.07	(0.27)	6.83	(4.03)	7/31/2019
China Areas of Commercialized Buildings Newly Built (Cumu)YoY-Business Used	-3.5	-3.7	Accelerating	-3.97	0.47	-3.70	0.20	-4.41	0.91	7/31/2019
China Areas of Commercialized Buildings Newly Built (Cumu)YoY-Office Buildings	21.6	19.3	Accelerating	19.47	2.13	23.40	(1.80)	10.03	11.58	7/31/2019
China Property - Floor Space of Houses Newly Started Residential Bldgs Cum YoY	9.6	10.5	Decelerating	10.50	(0.90)	10.18	(0.58)	14.68	(5.08)	7/31/2019
China Areas of Commercialized Bldgs under Construction (Cumu)YoY-Business Used	-1.5	-1.7	Accelerating	-1.63	0.13	-1.87	0.37	-2.46	0.96	7/31/2019
China Areas of Commercialized Bldgs under Construction (Cumu)YoY-Office Bldgs	4.3	3.3	Accelerating	3.40	0.90	2.48	1.82	0.93	3.38	7/31/2019
China Property - Floor Space under Construction Residential Buildings YoY	10.4	10.3	Accelerating	10.37	0.03	9.92	0.48	7.51	2.89	7/31/2019
China Areas of Commercialized Buildings Completed (Cumu)YoY-Business Used	-17.3	-17.4	Accelerating	-16.83	(0.47)	-16.88	(0.42)	-14.52	(2.78)	7/31/2019
China Areas of Commercialized Buildings Completed (Cumu)YoY-Office Buildings	-15.7	-19.8	Accelerating	-21.00	5.30	-25.68	9.98	-18.72	3.02	7/31/2019
China Property - Floor Space of Completed Residential Buildings YoY	-10.5	-11.7	Accelerating	-11.03	0.53	-9.42	(1.08)	-10.63	0.13	7/31/2019
China Land Areas Purchased for Real Estate YTD YoY	-29.4	-27.5	Decelerating	-30.03	0.63	-31.85	2.45	-8.73	(20.68)	7/31/2019
Property Demand Indicators										
China Total Sale of Commercialized Buildings (Cumu) YoY - Business Used	-10.9	-10.0	Decelerating	-10.20	(0.70)	-8.00	(2.90)	-2.64	(8.26)	7/31/2019
China Total Sale of Commercialized Buildings (Cumu) YoY - Office Buildings	-13.3	-12.5	Decelerating	-12.70	(0.60)	-11.50	(1.80)	-7.91	(5.39)	7/31/2019
China Total Sale of Commercialized Buildings (Cumu) YoY - Residential Bldgs	8.4	8.9	Decelerating	9.30	(0.90)	9.10	(0.70)	12.28	(3.88)	6/30/2019
China Areas of Commercialized Buildings Sold (Cumu) YoY - Business Used	-13.1	-12.3	Decelerating	-12.77	(0.33)	-11.27	(1.83)	-6.61	(6.49)	7/31/2019
China Areas of Commercialized Buildings Sold (Cumu) YoY - Office Buildings	-10.8	-10.0	Decelerating	-11.00	0.20	-12.03	1.23	-10.29	(0.51)	7/31/2019
China Property - Floor of Space of Residential Buildings YoY	-0.4	-1.0	Flat	-0.70	0.30	-0.92	0.52	1.10	(1.50)	7/31/2019
Property Pricing & Climate Indicators										
China 1st Tier Cities Newly Built Commercial Residential Bldgs Price YoY Avg	4.3	4.4	Decelerating	4.50	(0.17)	4.41	(0.08)	3.10	1.23	7/31/2019
China 2nd Tier Cities Newly Built Commercial Residential Bldgs Price YoY Avg	10.2	11.0	Decelerating	10.96	(0.73)	11.32	(1.09)	10.72	(0.49)	7/31/2019
China 3rd Tier Cities Newly Built Commercial Residential Bldgs Price YoY Average	10.7	11.3	Decelerating	11.21	(0.56)	11.43	(0.78)	10.80	(0.15)	7/31/2019
China Real Estate Climate	101	101	Flat	100.88	0.02	100.82	0.08	101.28	(0.38)	7/31/2019
Auto Output										
China Industrial Output (Cumulative) YoY - Automobiles	-12.8	-14.2	Accelerating	-13.70	0.90	-13.07	0.27	-6.58	(6.23)	7/31/2019
White Goods Output										
China Industrial Output YoY (Cumulative) - Air Conditioner	8.7	10.2	Decelerating	9.97	(1.27)	10.32	(1.62)	10.78	(2.08)	7/31/2019
China Industrial Output YoY (Cumulative) - Household Refrigerator	4.2	4.5	Decelerating	4.13	0.07	4.60	(0.40)	3.41	0.79	7/31/2019
China Industrial Output (Cumulative) - Freezers	14	13	Accelerating	11.43	2.61	7.98	6.06	-2.24	16.28	7/31/2019
China Industrial Output (Cumulative) - Household Washing Machine	7	9	Decelerating	7.80	(0.50)	4.83	2.47	2.54	4.76	7/31/2019

Source: Bloomberg Intelligence

5. Sensitivity Analysis Points Toward Met Coal Outlook

Sensitivity analysis, using our median range-bound forecast for copper and zinc (CAD $8,500 & $2,996 respectively) shows the company's highest exposure is to metallurgical coal pricing. Our estimates point toward an average coal price of CAD $210 per metric ton currently priced into consensus estimates for 2020. Price risk for coking coal, in our view, remains skewed to the downside as additional capacity ramps and slower Asian demand increases the seaborne surplus over the next year. However, risks to our analysis remain higher-than-anticipated steel demand in China or Australian disruptions curbing supplies. (09/10/19)

Consensus Ebitda 2020 Sensitivity

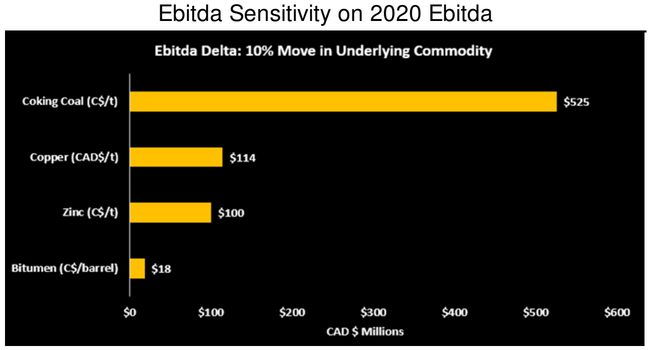
	CAD $170	CAD $180	CAD $190	CAD $200	CAD $210	CAD $220	CAD $230	CAD $240
CAD $6,000	$3,445	$3,708	$3,970	$4,233	$4,495	$4,758	$5,020	$5,283
CAD $6,250	$3,479	$3,741	$4,004	$4,266	$4,529	$4,791	$5,054	$5,316
CAD $6,500	$3,512	$3,775	$4,037	$4,300	$4,562	$4,825	$5,087	$5,350
CAD $6,750	$3,546	$3,808	$4,071	$4,333	$4,596	$4,858	$5,121	$5,383
CAD $7,000	$3,579	$3,842	$4,104	$4,367	$4,629	$4,892	$5,154	$5,417
CAD $7,250	$3,613	$3,875	$4,138	$4,400	$4,663	$4,925	$5,188	$5,450
CAD $7,500	$3,646	$3,909	$4,171	$4,434	$4,696	$4,959	$5,221	$5,484
CAD $7,750	$3,680	$3,942	$4,205	$4,467	$4,730	$4,992	$5,255	$5,517
CAD $8,000	$3,713	$3,976	$4,238	$4,501	$4,763	$5,026	$5,288	$5,551
CAD $8,250	$3,747	$4,009	$4,272	$4,534	$4,797	$5,059	$5,322	$5,584
CAD $8,500	$3,780	$4,043	$4,305	$4,568	$4,830	$5,093	$5,355	$5,618
CAD $8,750	$3,814	$4,076	$4,339	$4,601	$4,864	$5,126	$5,389	$5,651
CAD $9,000	$3,847	$4,110	$4,372	$4,635	$4,897	$5,160	$5,422	$5,685

Source: Bloomberg Intelligence

6. Increasing Volatility to Weigh on Earnings Revisions

Earnings are most sensitive to metallurgical coal prices, followed by copper, zinc and bitumen prices. Every 10% move in metallurgical coal prices results in a $525 million Ebitda differential followed by coppers $114 million. Given the company's exposure, metallurgical coal prices should be tracked closely. Price volatility for the steel-making material has increased 2.5x its trailing 12-month average. We feel pricing risk remains skewed to the downside, until proven otherwise. (09/10/19)

Ebitda Sensitivity on 2020 Ebitda

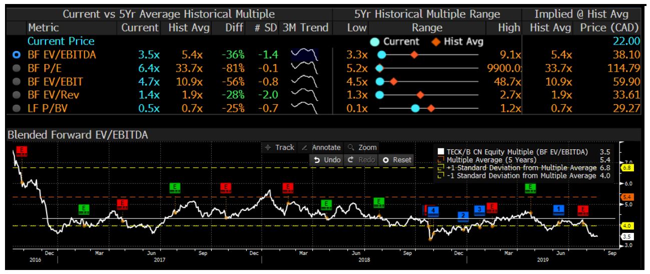


Source: Bloomberg Intelligence

7. Breaking Down the Multiples Shows Upside

Teck's blended forward-12-month EV/Ebitda multiples are trading at 3.5x, representing a 19% discount to the prior two year average; additionally the stock is trading well below its one standard deviation range. Breaking apart the company's multiples, we estimate the enterprise value of the coal business is CAD $10.45 Billion (assuming a 4x multiple), and therefore value the rest of the business at $6.1 billion (at a 2.9x EV/Ebitda multiple). This implied multiple, in our view, remains low compared to pure-play producers. Assuming a slight discount to the copper pure-plays to account for the zinc operations the base-metal business should trade at a 4x multiple. This implies a 37% upside on the enterprise value of the ex-coal business, assuming the multiples begin to trade more in-line with pure-play producers. (09/10/19)

Teck Equity Valuations



Source: Bloomberg Intelligence

Key Background

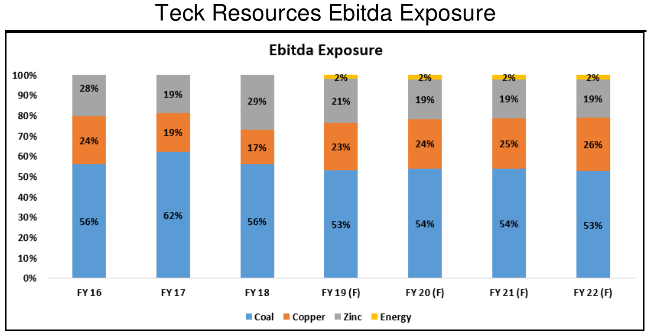
Teck Resources Background: China Steel Exposure; Capex Revisions

Teck Resources remains heavily exposed to Asia steel demand through its metallurgical coal business, with volatile pricing and rising foreign capacity presenting market risks. Capital spending for development will focus on growth in the copper segment, while we think upward revisions in project financing guidance are likely. (09/10/19)

8. Elevated Exposure to Coking Coal

Teck remains heavily reliant on the coal sector, at 53% of total anticipated Ebitda exposure in 2019. Inherent risks, including volatile pricing, tariffs and logistical issues idling capacity, will remain headwinds. Sensitivity analysis, taking into account the 14% decline in coal prices from their 1H average, indicates a $910 million decline in expected Ebitda. Copper's Ebitda contribution is expected to increase steadily over the next four years through various projects as the company looks to de-risk from a met-coal focus. (09/10/19)

Teck Resources Ebitda Exposure

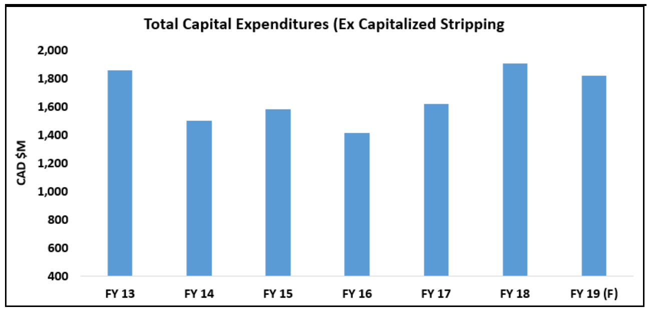


Source: Bloomberg Intelligence

9. Capital Likely to Be Extended for QB2 Mine

Capital spending is likely to decline this year to $1.8 billion, excluding capitalized stripping costs. We expect minimal development spending throughout the coal sector, as plenty of capacity already exists in the pipeline despite the closure of Coal Mountain. Total costs of the QB2 mine are likely to increase from the $4.7 billion dollar estimate, as First Quantum's Cobre Panama paid $6.3 billion for similar capacity. QB2 represents Teck's attempt to increase exposure in copper and de-risk its portfolio. (09/10/19)

Total Capex (Excluding Capitalized Stripping)



Source: Bloomberg Intelligence

10. Mine Life Remains a Non-Issue for Coal Segment

Steelmaking coking coal represents Teck's largest commodity exposure, taking up 57% of the company's gross profit. The mines are primarily based out of Elk Valley, Canada, with products shipped via rail and loaded at the port of Vancouver to steel mills. Geographically, end-users are primarily in the Asia-Pacific region, representing significant exposure to global macroeconomic trends and Asia's domestic output. Rising labor and transportation costs, at a respective 42% and 20% of cost of sales, are additional headwinds within the segment, while a historically weak Canadian dollar remains a support. Mine life isn't a potential issue for the company, despite Coal Mountain's closing, as 85% of the segment's production will last 33 years. (09/10/19)

Key Points:

- Coal Segment Heavily Exposed to Vancouver Port Terminal
- End-users Primarily in Asia Pacific Region; APAC Macroeconomic Trends & Ramp-up of Foreign Capacity Remain Risk
- Every CAD $1 / Metric Ton Change in Coal Prices Represents $32 Million Dollar Change in Ebitda

11. Copper Segment: Revised Project Costs Would Dent Cash Flow

Copper production is comprised of concentrate and cathode production and was 17% of 2019 gross profit. Teck Resources has four copper-producing assets positioned in the mining-friendly jurisdictions of Canada, Peru and Chile, as well as various projects throughout the pipeline. Concentrate is sold to smelters for further refining around the world. The majority of Teck's portfolio consists of joint ventures and majority-owned stakes, representative of ways to de-risk project exposure. Major projects in the pipeline include QB2 (under construction with production expected in 4Q21) and NuevaUnion (feasibility study results expected in late 2019).

Risks remain skewed toward slower demand growth and higher project financing costs. (09/10/19)

Key Points:

- Anticipating 6.7% per Year Growth in Copper Output into 2022
- Labor Agreement (3-Years) Signed at Antamina in Peru in 2Q 2019
- QB2 Cost: $4.7 Billion Versus Cobre Panama's $6 Billion for Same Output; Revision Likely

12. Zinc Projects to Counter Falling Grades

Zinc output is 23.5% of Teck's gross profit for 2019 and consists of one mine and a lone refinery. The Red Dog mine in Canada is expected to produce 545,000 metric tons of concentrate in 2019. Concentrates are shipped to the refinery, Trail Operations, as well as to customers in Asia and Europe. Mill upgrades are in progress at the mine, with plans to start up in 1H20, yet the 15% increase in throughput will be used to counter falling grades and unfavorable ore blends.

Trail Operations produces a variety of precious and specialty metals, as well as chemical and fertilizer products. Additionally, a second acid plant has recently been developed and is operational. This will allow for the refining of lower grade ore stockpiles. (09/10/19)

Key Points:

- Pend Orielle Moved to Care & Maintenance with Concentrate Production Suspended on 8/31/19.
- Red Dog VIP2 Mill Upgrade in Progress: Start-up 1H 2020
- Waneta Dam Provides Low-Cost Power to Trail Operations

Supply & Demand Outlook

Teck's Supply and Demand Commodity Exposure

The outlook for Teck Resource's key commodities -- copper, zinc and met coal -- remains largely neutral for the rest of 2019. Copper has the most relative support, given a thinly balanced supply outlook, while zinc and metallurgical coal should keep trading in new ranges coming off elevated 2Q prices. (09/10/19)

13. Another Tight Met-Coal Market in 2019, Yet Prices Should Slide

The seaborne met-coal market will loosen ever so slightly in 2H, in our view,which should keep price rallies capped and momentum tilted to the downside. While the 1H average price of $204 a metric ton is above the $180 figure laid out in our January outlook, it's likely that a weaker 2H will pull the annual average toward our target by year's end. Stronger 2H export volume from Australia, Russia and Mongolia, coupled with a cooling of Chinese import demand growth, underpin our view on softness percolating into and through 3Q-4Q. (09/10/19)

2019 Seaborne Met Coal Outlook:

- Click Any Links Below to Access Our S&D Model and Analysis
- Met-Coal Curve, Consensus at Odds With Respect to 2019 View
- Met Coal Tight on Weak Aussie, U.S. Exports, Better China
- Met Coal Supply Coming From All Angles in 2019 and Beyond
- Strong Support Level for Met Coal Comes in at $130-$140 a Ton
- India, China, Southeast Asia Key Met-Coal Demand Drivers in 2019

14. Copper Capped for Now, to Remain Consistent

Copper will ultimately stay within the $5,500-$7,200/mt band it's been in since early 2017 over the next few years, in our view. A relatively balanced supply-demand backdrop, coupled with a slowing global economy, are the two drivers of our range-bound view. In the near term (3Q), copper is likely to struggle as the trade war drags on and macroeconomic data disappoint further. By late 2019 and early 2020, easier comparables on the macro front (mainly from low base effects) could provide a more encouraging backdrop for the red metal. With monetary stimulus losing its luster, we don't see the speculative fervor that helped push copper above $7,000/mt in late 2017 returning, unless a coordinated fiscal response permeates through the global economy. (09/10/19)

Copper S&D Balance Progression

Bloomberg Intelligence	2016	2017	2018e	2019e	2020e	2021e
Global Copper Mine Supply	20.358	20.029	20.450	20.900	21.039	21.678
New Copper Mine Supply	-	-		0.299	0.739	0.930
- Disruption allowance (4%)	-	-	(0.450)	(0.846)	(0.871)	(0.904)
- Mine Closures	-	-		0.000	0.000	0.000
- Base Decline (WoodMac)	-	-		(0.100)	(0.100)	(0.100)
BI Global Copper Mine Supply	20.358	20.029	20.450	20.193	20.807	21.604
Yoy %	6.3%	-1.6%	2.1%	-1.3%	3.0%	3.8%
Primary Refined Production	19.792	19.436	19.805	19.939	20.807	21.007
Yoy %	4.0%	-1.8%	1.9%	0.7%	4.4%	1.0%
Secondary Refined Production	3.866	4.064	4.050	4.131	4.193	4.256
Yoy %	-2.0%	5.1%	-0.3%	2.0%	1.5%	1.5%
Total Refined Production	23.325	23.500	23.855	24.070	25.000	25.263
Yoy %	1.6%	0.8%	1.5%	0.9%	3.9%	1.1%
Total Refined Demand	23.452	23.759	24.200	24.442	24.809	25.181
Yoy %	2.1%	1.3%	1.9%	1.0%	1.5%	1.5%
Surplus/Deficit (BI)	(0.127)	(0.259)	(0.345)	(0.372)	0.192	0.082

Source: Bloomberg Intelligence

15. Zinc's Best Days in Rear View as Market Tightness Slowly Fades

After hitting our upside target of $2,900 put forth back in January, zinc is trending toward our downside range of $2,200-$2,300. While the market isn't loosening as quickly as we had expected, new mine supply is making its way to the market and the Chinese smelter bottleneck is receding. Domestic refined production is up 2.3% through June and likely to head higher as elevated treatment charges improve smelter profitability in 2H. While a 2H pickup in infrastructure spending could lift sentiment and real demand in China, we doubt it will increase more than supply in 2H. (09/10/19)

2019 Zinc Outlook:
- Click Any Links Below to Access Our S&D Model and Analysis
- Zinc Market May Start to Thaw in 2019, With Surpluses to Follow
- Time to Declare the Zinc Rally Over? Signs Show Room to Run
- China's Supply Side Holds Key for Zinc Fundamentals in 2019

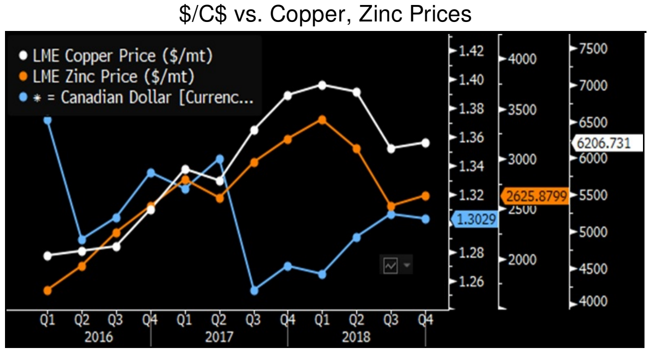
Currency Sensitivity on Ebitda

16. Canadian Dollar Weakening Could Boost Teck's Commodity Profit

Contributing Analysts Eily Ong (Metals & Mining)

Teck Resources' earnings could benefit from any weakness in the Canadian dollar against the U.S. dollar. In 2017, a stronger Canadian dollar partly offset higher prices for steelmaking coal, copper and zinc, which are sold in U.S. dollars. Yet the appreciation of the Canadian currency has a favorable impact on Teck's U.S. dollar-denominated debt, reducing financing costs. The company estimated on Oct. 2 that each one-cent depreciation in the Canadian dollar vs. the U.S. dollar could boost 2018 Ebitda by C$66 million. (09/10/19)

$/C$ vs. Copper, Zinc Prices



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