RESEARCH REPORT

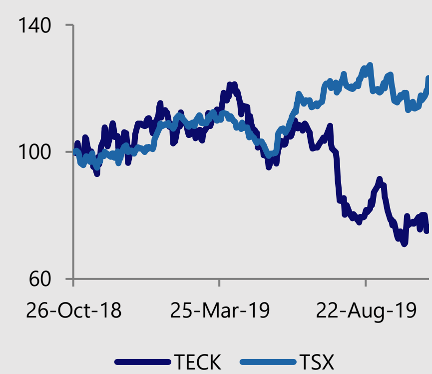
November 4, 2019

Stock Rating	BUY
Price Target	CAD $36.68
Current Price	CAD $21.19

Bear Case	Price Target	Bull Case
$23.16	$36.68	$44.81

Ticker	TECK.B
Market Cap (MM)	$11,743
P/CF 2019E	3.2x
P/NAV	0.47x

52 Week Performance



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Teck Resources

A Strong Base-s for Investment

Teck Resources is Canada's largest diversified resource and mining company, producing steelmaking coal, copper, zinc, and energy (primarily bitumen). As with any commodity-driven company, Teck has seen fluctuations in its stock price due to cyclical downturn in the base metals and diversified metals industry. Despite this, the M&M team believes that recent underperformance in its share price may offer an attractive buying opportunity.

In this report, the M&M team presents that Teck Resources has several merits for investment including:

I. Strong growth runway and pipeline of expansion opportunities particularly in copper as well as increased focus on optimizing financial position for future projects

II. Low-risk, diversified mining portfolio, allowing for minimized risk during commodity downturns

III. Company-wide cost cutting program through the RACE21 initiative, offering increased resilience throughout cyclical downturns

However, given the recent changes in management as well as predicted continuous declines in commodity pricing which may offer greater value, the M&M team finds that it may be best to hold off on entering the name. As such, we will conduct further due diligence on Teck Resources and the diversified metals industry and look to enter the name in the near future.

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Company Overview

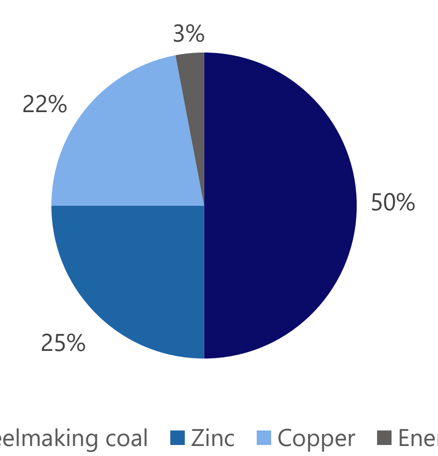
Teck Resources Limited (TSE: TECK.B) was founded in 1906 and became Canada's largest diversified resource company when Teck and Cominco merged in 2001 to become Teck Cominco. In October 2008, the company rebranded as Teck. It is headquartered in Vancouver, British Columbia and owns 13 operating mines, a large metallurgical complex, and several major projects in the Americas. The metallurgical complex is used to smelt and refine lead and zinc ore. Teck's production, development, and exploration activities are in relatively low risk jurisdictions. In 2018, Teck's revenue totalled $12.5B and an EBITDA of $4.8B. Teck's mining and processing operations span across North and South America and revenue is highly diversified globally (Exhibit II).

Teck produces steelmaking coal, copper, zinc, and energy (primarily bitumen), as broken down by revenue contribution in Exhibit I. Within the copper sector, Teck has a strong pipeline for growth. This includes projects in construction such as QB2 and HVC D3, medium-term growth projects such as QB3, Zafranal, HVC Brownfield, NuevaUnion and San Nicolas, and future options including Galore Creek, Schaft Creek and Mesaba. Within the zinc sector, Teck has premier resources with integrated assets and has growth projects in the pipeline for the long-run and short-run.

Teck is making company-wide changes that allow for heavy cost reduction. Race21 is a new technology that Teck is using to reinvent its business operations. It believes that the implementation will result in reduced costs, increased safety, increased productivity, and opportunity for future innovation. In Q2 2019, Teck estimated the project would lead to an EBITDA increase of $150M by the end of 2019 and reduce $500M of costs by the end of 2020.

EXHIBIT I

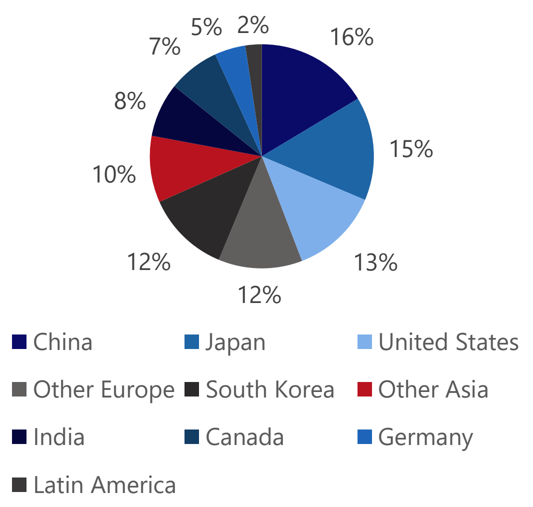
Revenue Segmented by Business Unit, 2018



Source: S&P Capital IQ

EXHIBIT II

Revenue Segmented by Geography, 2018



Source: S&P Capital IQ

Industry Overview – Metallurgical Coal

Intro to Metallurgical Coal

Metallurgical coal, which is also known as coking or steelmaking coal, is used to produce coke, which is the primary carbon source in the deoxidization of iron ore to make steel. This method of steel production is called the blast furnace process and accounts for ~90% of steel production in China but only ~55% of steel production in the rest of the world, where emerging electric arc furnaces that recycle steel scraps are more widely adopted. China is the largest demand source for seaborne metallurgical coal, driven by its scale of manufacturing, cost-inefficiencies of local coal producers, and high proportional usage of blast furnace steel production.

Outlook

Over the majority of 2019, metallurgical coal faced headwinds impacting price amidst a range of factors including uncertainty regarding China's growth due to the US-China trade war, signs of China's maturing economy heading towards service-based growth, and sufficient export supply. Nevertheless, this price downturn was still well-above the cyclical trough of 2016.

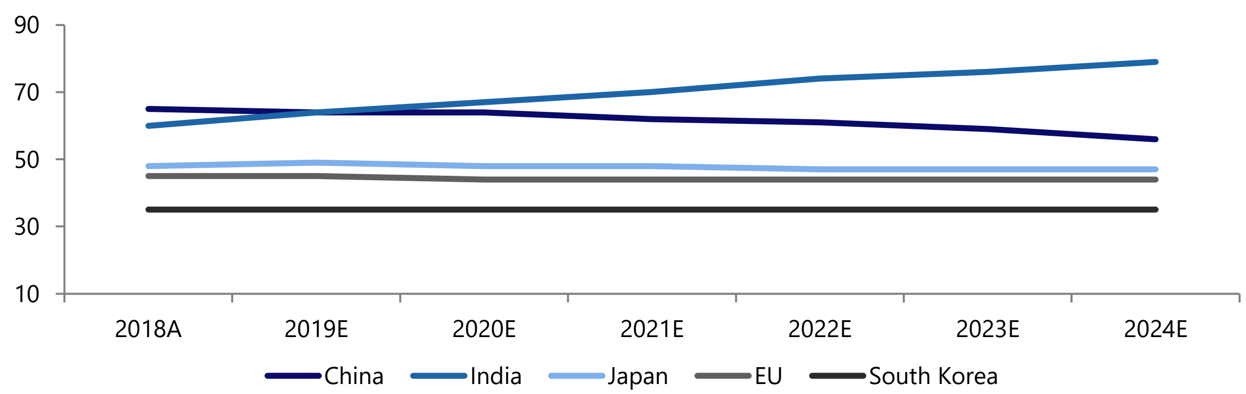
Moving forward, the new capacity that is expected to come online amidst the current short-term oversupply implies that some producers foresee a favourable long-term outlook. However, there it is still high uncertainty surrounding demand due to the difficult nature of predicting Chinese demand drivers such as their import policies, economic growth, and pace of adoption of scrap steel usage. Thus our sector holds a conservative view of long-term price outlook for this commodity.

Demand for higher grade metallurgical coal in China rose over the last year as environmental reforms led to the closing of less efficient steel producers which used lower grade coal as an input. As there is a shortage of higher grade domestic production, international producers with high grades are expected to see more stable demand than those with lower grades.

Furthermore, India is expected to exceed China's metallurgical coal import demands by 2020, largely as a result of its comparatively low domestic metallurgica coal supply compared to China.

EXHIBIT III

5-Year Global Metallurgical Coal Import Forecast (Mt)



Source(s): Australian Government – Office of the Chief Economist

Industry Overview – Copper and Zinc

Zinc

About half of the zinc that is produced is used for zinc galvanization, the process of adding thin layers of zinc to either iron or steel to prevent these metals from rusting. Zinc is highly effective for this as it has strong anticorrosive properties and bonds easily with other metals. Aside from galvanization, zinc is commonly used as an alloy with copper to form brass or to produce zinc oxide used in rubber manufacturing.

Since mine closures and production cuts followed the 2016 price crash in commodities, zinc supply has been in a severe deficit to its growing demand. However, the gap is closing, and analyst estimates range widely from an acute deficit expected in the next three to five years to a surplus by 2022.

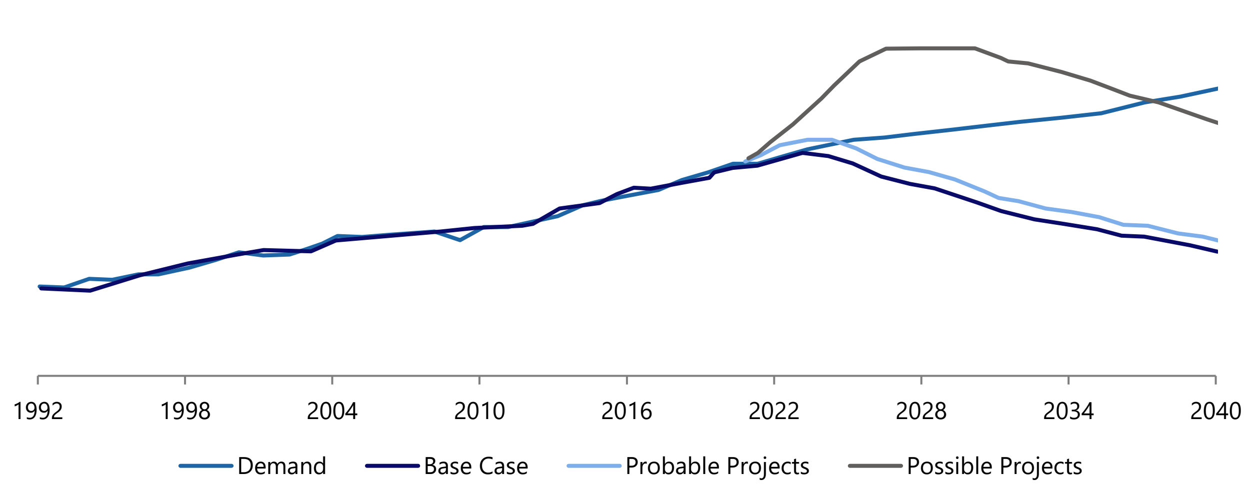
Copper

Copper has a wide range of uses from construction and industrial applications to its primary use in electrical components and wiring. It is applied in greater quantities in emerging technologies such as renewables and electric cars more heavily than their predecessors. Furthermore, as emerging economies develop, historically they experience substantial increase in copper consumption through electrification. This is has yet to occur in Asia, particularly in China and India. China already accounts for 50% of copper demand before its peak.

While structural challenges such as mine grade declines are expected to hinder supply, analyst forecasts of the future of copper vary widely with many expecting tight supply in the years ahead while few forecast a surplus from speculative new projects that may come online drive prices down.

EXHIBIT IV

Global Copper Production and Primary Demand Estimates (Mt) as of Q2 2019



Source: Wood Mackenzie

Risks and Conclusions

Risks

The greatest risk impacting our outlook on Teck remains the base metals commodity pricing environment. As aforementioned, analysts have widely varying outlooks for the commodities that Teck produces given the uncertainty and diversity in demand drivers and variable future supply capacity. We believe negative market sentiment and the current low price environment and uncertain outlook for the commodities with which Teck operates, in addition to negative sentiment around environmental impacts of coal, are driving the market to currently underprice Teck.

Conclusions

Amidst increasing uncertainty and recent headwinds in the diversified metals sector including commodities such as metallurgic goal, copper, and zinc, the M&M team finds that Teck Resources presents an enticing opportunity with several merits for investment.

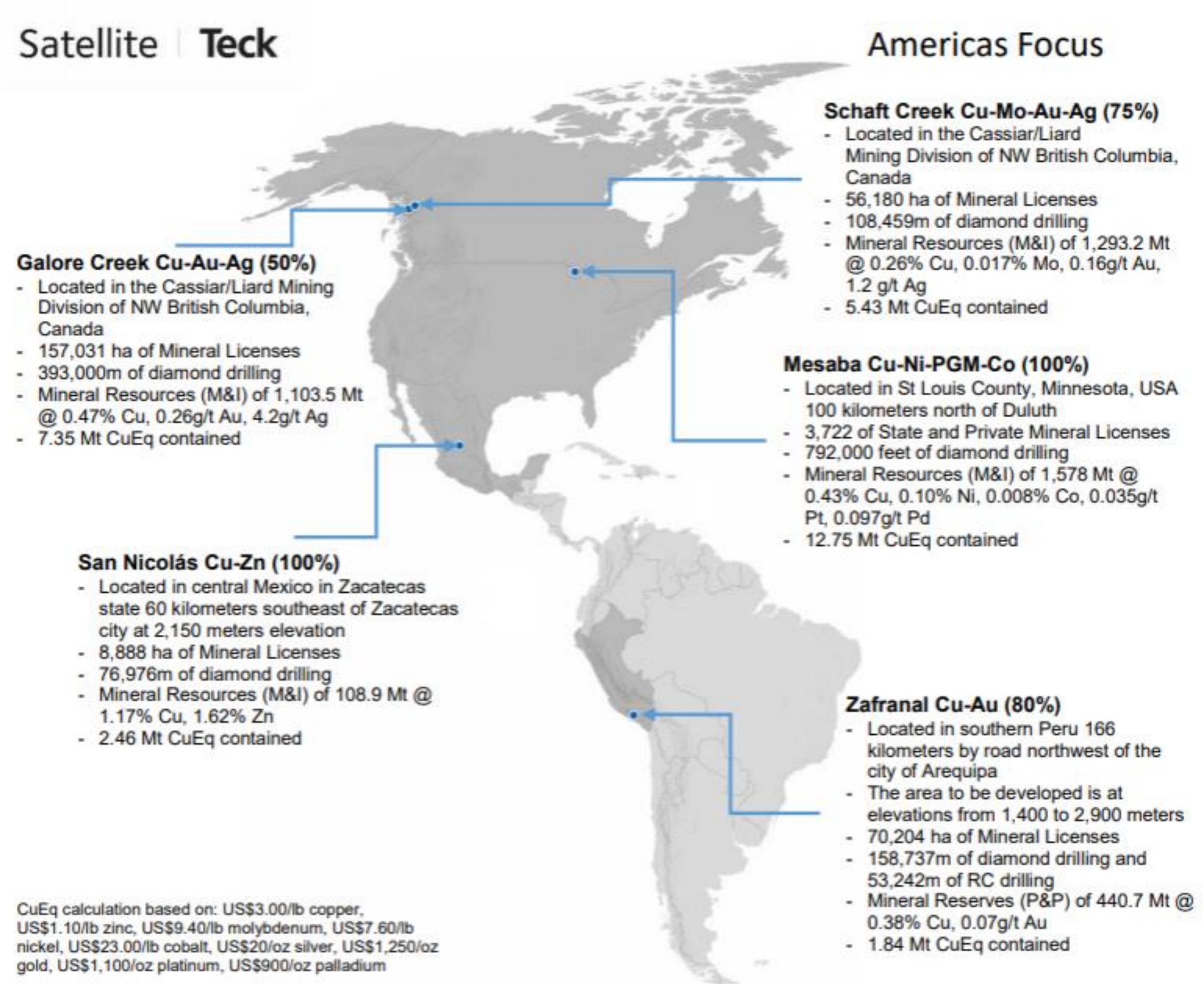
In recent years, Teck Resources has focused on paving a strong growth runway by increasing its investments in physical infrastructure and exploration, particularly with the introduction of the QB2 copper mine initiative and Project Satellite. Simultaneously, the company seems to remain committed to shareholder interests through deploying capital prudently. For example, the QB2 project has been structured in a way so as to reduce necessary upfront investment and the company has significantly payed down debt in recent years to strengthen the company's balance sheet ahead of major expansions at several mining projects. Additionally, Teck has made the strategic, long-term decision to diversify its mining portfolio, while continuing to operate in low-risk jurisdictions. Resultantly, ranked against peers, Teck's has operations in less-politically risky jurisdictions and a less concentrated portfolio to minimize risk during commodity downturns. Consistent among its mines is the favourable positioning on the cost curve. Finally, through its Race21 company-wide cost cutting program, Teck has focused efforts on renewing, automating, connecting and empowering the company to reduce costs and increase efficiency. The predicted benefit of such undertakings is cumulative savings of $500M through to 2020.

In addition to being a qualitatively strong business, Teck offers a very attractive return profile from a valuation perspective. We see significant upside in the share price from both an intrinsic and relative valuation perspective. At the same time, we believe that there is little downside in Teck's share price even in a continued poor commodity pricing environment, providing a very attractive risk-return profile. Additionally, given currently depressed resource pricing, Teck offers an opportunity to buy a company that could offer considerably higher earnings if commodity prices return to historically normal levels.

The findings in our analysis suggest that Teck is a generally favourable company into which the M&M team should conduct further due diligence. Given fairly recent changes in management, we would like to conduct further research and due diligence on the management team. We also plan to discuss both Teck's management team and the base metals pricing environment with our sector mentor in the near future. Additionally, Teck fits very well with the M&M portfolio from a portfolio management perspective. The QUIC M&M portfolio is currently very overweight precious metals, with no holdings in base metals. Teck would allow the team to diversify our holdings and return to being closer to market-weight in all subsectors.

Appendix I

Project Satellite Overview



Source(s): QUIC Standards

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