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Teck Resources Limited (TECK)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Teck's First Quarter 2024 Earnings Release Conference Call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] This conference call is being recorded on Thursday, April 25, 2024.

I would now like to turn the conference over to Fraser Phillips, Senior Vice President-Investor Relations and Strategic Analysis. Please go ahead.

H. Fraser Phillips

Senior Vice President-Investor Relations & Strategic Analysis, Teck Resources Limited

Thanks, Gillian. Good morning, everyone. Thank you for joining us for Teck's first quarter 2024 conference call. Please note today's call contains forward-looking statements. Various risks and uncertainties may cause the actual results to vary. Teck does not assume the obligation to update any forward-looking statements. Please refer to slide 2 for the assumptions underlying our forward-looking statements. In addition, we will reference various non-GAAP measures during this call. Explanations and reconciliations regarding these measures can be found in our MD&A and the latest press release on our website. Jonathan Price, our CEO, will begin today's call with highlights from our first quarter results. Crystal Prystai, our CFO, will follow with additional color on the quarter. Jonathan will then conclude today's session with an update on our key base metals markets and on our progress on copper growth in the quarter, followed by a Q&A session.

With that, let me turn the call over to Jonathan.

Jonathan Price

President, Chief Executive Officer & Director, Teck Resources Limited

Thank you, Fraser, and good morning, everyone. Starting on slide 4 with highlights from a strong first quarter across our business. We completed all major construction at QB, including the shiploader and the molybdenum plant. With our completed port facility, we marked the first shipment of concentrate. And I was at QB last week to see the second shipment being loaded and departing on time. It was a beautiful sight. We also continued to advance the ramp-up of the molybdenum plant. In January, we closed the minority sale of our steelmaking coal business or Elk Valley Resources to Nippon Steel Corporation and POSCO, and received $1.3 billion in cash from NSC. Regulatory approvals for the full sale of the Glencore are progressing as anticipated, with closing expected no later than the third quarter of this year.

Q1 was a strong quarter from both an operational and a financial perspective. The ramp-up at QB is reflected in our steadily increasing copper quarterly production and all our previously disclosed annual guidance is unchanged. We also continued to focus on sustainability leadership, including improved safety performance. Our High-Potential Incident Frequency Rate was lower than the same period last year at 0.06.

Together with global industry leaders, we launched the North Pacific Green Corridor Consortium, which will work together to decarbonize the value chain for commodities between North America and Asia. Activities will be focused on pathways to optimize energy efficiency, with the specific goal of advancing projects and infrastructure required to achieve meaningful emissions reductions in the near-term. And we released our 23rd annual Sustainability Report, which outlines our performance in 2023 in areas such as decarbonization, diversity, and working towards a nature-positive future.

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Looking now at the financial highlights from our first quarter on slide 5. We reported adjusted EBITDA of CAD 1.7 billion in the quarter compared to $2 billion a year ago, with lower copper and zinc prices and higher unit costs in steelmaking coal and our QB operation, partly offset by higher copper sales volumes and higher realized steelmaking coal prices compared to the same period last year. We continued to return cash to shareholders in the quarter, with CAD 80 million in share buybacks executed under the CAD 500 million return authorized by the board following the receipt of the NSC proceeds. We also paid $65 million in quarterly base dividends.

Turning to QB on slide 6. As I mentioned earlier, we completed all outstanding major construction in the first quarter. At the ports, we achieved construction and completion in Q1, consistent with our guidance and successfully loaded our first vessel of QB concentrate using the shiploader. The mobilization of the construction workforce is substantially advanced and the operational ramp-up is continuing. We are on track to complete ramp-up of the molybdenum plant in the second quarter. Our QB2 project capital cost guidance of $8.6 billion to $8.8 billion is unchanged. We produced higher QB copper in concentrate quarter-over-quarter at 43,300 tonnes and we continue to expect progressively stronger production in each quarter throughout the rest of the year. Our full-year copper in concentrate guidance for QB is unchanged at 230,000 tonnes to 275,000 tonnes. QB unit costs are expected to remain elevated this year, particularly in the first-half, consistent with our guidance. This is driven by the cost of alternative logistics, limited molybdenum production in the first-half of the year, continued ramp-up and inflationary pressures. Our full-year guidance for QB net cash unit cost is unchanged at $1.95 to $2.25 per pound.

With that, I'll now turn it over to Crystal for some additional color on the quarter.

Crystal Prystai

Senior Vice President & Chief Financial Officer, Teck Resources Limited

Thanks, Jonathan, and good morning, everyone. I'm going to start on slide 8 with our financial performance in the first quarter. There are a number of significant accounting and presentation items impacting our results compared to the same period last year. Following the minority sale of our steelmaking coal business in January, our financial statements now reflect the 23% minority interest in EVR by NSC and POSCO. With our controlling shareholding, we continue to consolidate 100% of EVR's production and sales volumes, revenue, gross profit, and EBITDA. Our profit attributable to shareholders is now based on our reduced 77% ownership of EVR, with 23% of EVR profit attributable to non-controlling interests. This has significantly reduced our profit attributable to shareholders and related EPS compared to the same period last year.

It is important to note that despite the non-controlling interest attribution of profit from EVR, we continue to receive 100% of the cash flows generated by EVR through closing of the transaction with Glencore. Our finance expense and depreciation and amortization expense have both increased significantly compared to the same period last year as construction is complete and ramp-up continues at QB. We are now depreciating most of the QB assets and we have stopped capitalizing interest on the QB2 project as anticipated. Our adjusted EBITDA declined in the quarter compared to the same period last year. This was primarily driven by higher operating costs at EVR and at QB operations, reflecting elevated costs at QB during ramp-up. It was also driven by negative pricing adjustments particularly for steelmaking coal. These items were partly offset by higher copper sales volumes and higher realized steelmaking coal prices compared to the same period last year.

Now, turning to each of our business units in greater detail and starting with copper on slide 9. Our realized copper price was $3.86 per pound, down 5% compared to the same period last year. We had strong quarterly copper production of 99,000 tonnes, an increase of 74% from the same period last year. This was driven by the ramp-up of QB operations adding 43,300 tonnes of copper in concentrate production, and higher copper production from Antamina due to increased copper-only ore being treated as expected in the mine plan. Our cost

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of sales was higher year-over-year, primarily due to the inclusion of QB operations. This is also the first full quarter of depreciation of QB's operating assets as I previously noted, with CAD 125 million recorded in Q1. Excluding QB, our net cash unit cost were $1.92 per pound or $0.09 per pound higher than the same period last year due to reduced zinc byproduct revenue at Antamina with significantly lower zinc prices. We were pleased that Antamina received approval of the MEIA for its mine life extension from 2028 to 2036 in the quarter. Looking ahead, as Jonathan said, QB's guidance is unchanged and we continue to expect QB production to increase each quarter through 2024. Our copper production guidance of 465,000 tonnes to 540,000 tonnes and our full-year net cash unit cost guidance of $1.85 to $2.25 per pound are also unchanged.

Turning now to our zinc business on slide 10. In Q1, zinc in concentrate production increased by 15% and lead in concentrate production increased by 10%, both of which were driven by higher mill throughput. At Red Dog, sales of 84,600 tonnes were within our guidance range. Net cash unit costs were lower than last year as a result of byproduct credits. At Trail Operations, production of refined zinc and refined lead both improved, although both quarters were impacted by severe weather events. Our gross profit before depreciation and amortization decreased 27%, primarily due to significantly lower zinc prices and lower contracted zinc premiums on refined zinc at Trail Operations as 2023 treatment charges applied through March 31. This was partially offset by lower NANA royalties, which are tied to Red Dog profitability. Looking forward, at Red Dog, we expect zinc in concentrate sales of 50,000 to 60,000 tonnes in the second quarter, reflecting normal seasonality of sales. Our full-year zinc in concentrate production guidance of 565,000 to 630,000 tonnes and our full-year net cash unit cost guidance of $0.55 to $0.65 per pound are both unchanged. At Trail Operations, our refined zinc production guidance is unchanged at 275,000 to 290,000 tonnes. We have begun replacing the KIVCET boiler at Trail, which will impact the lead circuit in the second quarter but is expected to have minimal impact on our zinc circuit.

Turning now to steelmaking coal on slide 11. Despite an extreme freezing event in January that affected both sales and production, we generated CAD 1.4 billion in gross profit before depreciation and amortization. The 8% decline from the same period last year was primarily due to higher unit operating costs and lower sales volumes, partially offset by higher steelmaking coal prices. Sales volumes of 5.9 million tonnes were within our guidance range and production recovered strongly later in the quarter. Adjusted site cash cost of sales per tonne of CAD 112 was higher than last year due to higher repair parts and maintenance spend. With the ongoing shortage of skilled trade labor, we also had increased reliance on contractors. In addition, weather-related productivity impacts and less favorable mining drivers were factors. Transportation costs were down CAD 2 per tonne from the same period last year, largely due to reduced demurrage charges. And we were pleased to achieve record throughput at the saturated rock fill at our Elkview Operations in February. As our 77.5 million liters per day of constructed water treatment capacity continues to ramp up, we are on track to achieve one of the primary objectives of the Elk Valley Water Quality Plan, which is to stabilize and reduce the selenium trend in the Elk Valley. Looking forward, second quarter steelmaking coal sales are expected to be 6 million to 6.4 million tonnes, reflecting planned maintenance shutdowns at Elkview and Greenhills. Our full-year production guidance of 24 million to 26 million tonnes is unchanged. And despite elevated adjusted site cash cost of sales in the first quarter, our full-year guidance of CAD 95 to CAD 110 per tonne is also unchanged.

Turning now to slide 12, our capital allocation framework continues to guide our approach and our priority is to have a disciplined approach to the deployment of capital. Overall, we aim to balance our growth with cash return to shareholders while maintaining a strong balance sheet through the cycle.

Looking at the considerations for the use of proceeds from the sale of EVR on slide 13. In total, we are expecting to receive $8.6 billion in cash proceeds, including the $1.3 billion already received from NSC. Our capital allocation framework guided the board in its decision on the use of proceeds from the minority sale of our steelmaking coal business. And as we've already noted, up to $500 million of the NSC proceeds or 30% are to be

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returned to shareholders via a share buyback. Our capital allocation framework will also guide the board's decision on the remainder of the proceeds. We aim to maintain investment-grade credit metrics through the cycle, targeting a net debt-to-adjusted EBITDA ratio of 1 times. We plan to reduce our gross debt and maintain or improve our credit metrics. We will also retain additional cash on our balance sheet to fund our near-term copper growth opportunities and to generate strong returns. We continue to expect to pay transaction-related taxes of approximately $750 million in early 2025. And, finally, we continue to expect a significant return to shareholders in addition to the CAD 500 million buyback previously authorized by the board in relation to the NSC proceeds. The Board will determine the amount, form, and timing of these returns. Overall, the significant cash proceeds from this transaction will ensure we are well-capitalized to unlock the full potential of our base metals business while maintaining a strong balance sheet and delivering significant cash returns to our shareholders.

Turning now to slide 14. We are in a strong financial position with CAD 7.1 billion in liquidity, including CAD 1.6 billion in cash as of April 24. We ended the quarter with a net debt-to-adjusted EBITDA ratio of 1.1 times and we remain focused on maintaining our investment-grade credit metrics as I noted. As mentioned earlier, the board authorized a share buyback of up to CAD 500 million, of which CAD 80 million has already been executed. We also paid CAD 65 million in quarterly base dividends in March, bringing our total cash return to shareholders to CAD 145 million in the first quarter. This extends our track record of strong cash returns to shareholders, with approximately CAD 4 billion returned since 2019.

With that, I'll turn it back over to Jonathan.

Jonathan Price

President, Chief Executive Officer & Director, Teck Resources Limited

Thanks, Crystal. Like some of you, I attended CESCO in Santiago last week and it's clear that we are at a turning point. It's an exciting time in the copper market, especially given that copper prices have gone up significantly since Q1 to about $4.40 per pound today. The world [ph] is fast-turning (00:16:11) from debating whether demand for copper would really rise so quickly to wondering where and how we're going to find more. And given that, I'll provide an update on our key base metals markets.

So, starting with the copper market on slide 16. Concentrate tightness has continued into the first quarter, with global mine production over 2 million tonnes below the original guidance for 2023 and almost 1 million tonnes lower year-to-date based on last year's projections for 2024. This comes at a time of increased investment in smelting capacity in Asia and India in preparation for stronger demand from the energy transition. Overcapacity of 3.7 million tonnes higher than three years ago. Spot TC/RCs have fallen 100% from [ph] $88 to $0.00 (00:16:59) in less than four months, which is now forcing cuts to refined production. Longer-term, we see the lack of investment in mining over the past decade as potentially being a constraint for the energy transition. The industry will need to invest around CAD 120 billion in the next five years. The energy transition could add 6.5 million to 7 million tonnes to demand in the next five years, including recognition of new demand from the AI and data centers. Importantly, an additional 4.5 million to 5 million tonnes of copper demand growth will flow from grid expansions and refurbishment, urbanization and a growing global middle-class.

Moving on to the zinc market on slide 17. Zinc prices have been under pressure for most of 2023 and into Q1 2024, with prices falling a further 2% over Q4 2023. These lower prices have forced the closure of around 500,000 tonnes of mine production which will continue through 2024, with an additional 120,000 to 130,000 tonnes lost due to fires, floods, and strikes. We expect that some mine production will return in 2024 but that net mine production will decrease to 12.6 million tonnes, which is about 1 million tonnes lower than projected last year. Similar to copper, [indiscernible] (00:18:27) in the zinc concentrate market has pushed TCs down $280 per DMT to a historic low of [ph] $30 to $15 (00:18:35) per DMT, which is now impacting the refined metal production.

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[indiscernible] (00:18:39) demand is improving in North America and Europe from a low base; and in Asia due to solid automotive production and strong energy transition infrastructure spending. While we expect mining production to return as prices improve, fundamental market tightness is expected to remain until 2027.

And turning to our progress in copper growth on slide 18. We continue to invest in our industry-leading copper growth portfolio in the quarter, reflecting our strategy to balance growth and return of capital to shareholders. At Highland Valley, we continue to respond to information requests from regulators on the permits application for the mine life extension. Engagement is ongoing with indigenous governments and organizations and key communities of interest. We expect to progress engineering and design, project execution planning, and construction planning for substantial completion in Q1 of 2025.

The team at San Nicolás submitted the MIA-R permit application in January, and they continue to engage governments and stakeholders in support of the permit review. They also continue to advance feasibility study work, with plans to initiate detailed engineering in the first-half of 2025.

On Zafranal, we continue to update capital and operating cost estimates from the 2020 feasibility study and we advanced our construction permits. The project is expected to enter detailed engineering in the second-half of this year and we advanced towards defining debottlenecking opportunities and low capital expansions at QB. We expect to finalize the project scope and advance permitting by the end of 2024. Although we do not expect to sanction any projects this year, we remain focused on advancing near-term projects for potential sanctioning in 2025. Importantly, all projects will be required to deliver an attractive risk-adjusted return and will compete for capital in-line with Teck's capital allocation framework.

Reviewing our priorities on slide 19, we set out several key priorities for 2024 to ensure we can continue to demonstrate our focus on value creation. Completion of the full sale of our steelmaking coal business, where Glencore will acquire a 77% controlling interest in EVR and become the operator of the Elk Valley steelmaking coal mines, is a key priority this year. As I mentioned, regulatory approvals continue to progress. Closing is expected no later than the third quarter. We are also driving safe operational performance across our portfolio. We have embedded known risks into our guidance to ensure we build confidence in our ability to deliver on our market commitments. At QB, we have now completed all major construction, including the shiploader and the molybdenum plant. We are working hard to achieve consistent operating performance at designed capacity. At the same time, we continue to advance the development projects in our industry-leading copper growth pipeline, which are foundational to our future growth. And we will advance that growth in a disciplined way while following our capital allocation framework to ensure that our capital decisions are value-maximizing for shareholders.

In conclusion on slide 20, our focus remains on value creation. Our priorities help us to do that and I'm excited for the opportunities ahead of us. We are committed to responsibly creating long-term value for our shareholders and stakeholders. We are in a unique position to deliver significant value through our strategy, centered on copper growth to capitalize on strong demand in the transition to a low-carbon economy. We have current production from a premium portfolio with long-life, high-quality assets in stable, well-understood jurisdictions. In the near-term, we are running to that production through the ramp-up of QB. Longer-term, we seek to unlock significant value from our copper growth portfolio. And we are pursuing that value-driven growth by employing a rigorous investment framework and continuing to balance growth with cash returns to our shareholders.

Thank you. Operator, please open the line for questions.

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QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Our first question is from Orest Wowkodaw with Scotiabank. Please go ahead.

Orest Wowkodaw
Analyst, Scotiabank

Q

Hi. Good morning. With the BHP bid for – or reported bid for Anglo American, I'm curious whether Teck is seeing any opportunities out there to add producing copper assets to the portfolio just given your balance sheet transformation post the coal sale that's going to close in Q3? I certainly think producing assets are a lot easier to add than building as we saw with QB2. But I'm curious how you see the landscape?

Jonathan Price
President, Chief Executive Officer & Director, Teck Resources Limited

A

Yeah. Hi, Orest. And thanks for that question. Look, I think, firstly, I would say that the proposed or potential takeover here of Anglo involving BHP just reinforces the attractiveness of the long-term fundamentals for copper markets and the long-term fundamentals around which we have centered our strategy in the years ahead. For us, this announcement, this news doesn't change anything. We remain very focused on completing the transaction over at EVR with Glencore and deploying those proceeds to strengthen the balance sheet to ensure long-term resilience of the company, coupled with investing in the high-quality projects that we have in our portfolio and making a significant return of capital to shareholders. So, no change, Orest. We're very focused on delivering that copper growth. I think the market fundamentals are compelling and we will continue to focus on those things that we can control to deliver value for our shareholders.

Orest Wowkodaw
Analyst, Scotiabank

Q

Thank you. As a quick follow-up, can you give us an update on QB2? From the Cochilco data, it looked like the monthly production was pretty flat in January, February and March. Can you maybe just speak to what the current challenges are or bottlenecks in terms of breaking through from a production standpoint?

Jonathan Price
President, Chief Executive Officer & Director, Teck Resources Limited

A

Yeah. I'll just make some high-level comments and then hand over to Shehzad Bharmal. Look, we are where we expected to be at this point in time. Our guidance for this year is unchanged. We expect to increase copper production quarter-over-quarter as the year unfolds.

And with that, I'll give – let Shehzad give you some further color on where we're up to.

Shehzad Bharmal
Senior Vice President-Base Metals, Teck Resources Limited

A

Thanks, Jonathan. Orest, we are addressing the challenges that we have encountered in the first three months. In April, we had a planned shutdown for liner changes and several modifications that we had identified to improve reliability and stability. That shutdown was executed on time, very safely, and as soon as we had started up and made those changes, we're seeing some very encouraging results. So, we fully expect to be within guidance at the end of the year.

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Operator: The next question is from Liam Fitzpatrick with Deutsche Bank. Please go ahead.

Liam Fitzpatrick
Analyst, Deutsche Bank AG

Q

Hi, Jonathan. I just wanted to ask a question about a few areas that you mentioned I think late last year and earlier this year, which was about conducting a full review of the QB2 project just to get learnings from that before you embark on your next phase of growth potentially for next year and also about bringing the right expertise and people onboard to ensure you've got the right sort of capabilities. That's the first question. Can you just give us an update on where those things stand?

Jonathan Price
President, Chief Executive Officer & Director, Teck Resources Limited

A

Yeah. Thanks. Thanks for the question, Liam. We do want to extract as many learnings as we can from the construction of QB2. That's going to be critical as we set ourselves up for future growth here. That review is ongoing. As we've referenced before, we are using external experts to support us with that and we expect to complete that review in the months ahead. Meanwhile, the project team, under Karla Mills, continues to build capacity and capability, including working on systems and processes that will be required to help us deliver those projects reliably in the future in terms of meeting the schedule and the capital budgets that we set out.

The findings from the QB review of course will be channeled into that team and will be reflected in the continued building of capacity and capability within that area of our business. So, we're very focused on that. As I said, we won't be sanctioning any projects until 2025. And of course we'll only sanction those projects, subject both to permits but also too to favorable economics and returns. But we are working hard now to ensure that we set ourselves up for success in the years ahead.

Liam Fitzpatrick
Analyst, Deutsche Bank AG

Q

Okay. Thank you. And as my one follow-up, I think it was partly addressed in the previous question. But just to be clear on QB2, could you maybe outline where the current kind of bottleneck or constraint is? And is there a point in the year, perhaps towards around the middle, where there should be more of a step-up in terms of the production rates?

Jonathan Price
President, Chief Executive Officer & Director, Teck Resources Limited

A

Look, I think, as I said, we expect to see a step-up quarter-over-quarter as we work our way through the year. There's not one particular bottleneck here that we would point to. It's just about establishing stability and consistency of operations day-in and day-out.

Operator: The next question is from Lucas Pipes with B. Riley Securities. Please go ahead.

Nick Giles
Analyst, B. Riley Securities, Inc.

Q

Yeah. Thank you, operator. Good morning, everyone. This is Nick Giles on for Lucas. I wanted to ask about the remaining net proceeds at EVR. There's the $6.9 billion from Glencore, $750 million tax payable in 2025. First, I wanted to confirm that that includes the Glencore proceeds. And can you remind us of the timing of the $400 million from EVR cash flows related to NSC, and lastly, overall closing costs? Thank you very much.

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Jonathan Price

President, Chief Executive Officer & Director, Teck Resources Limited

A

Sure. I'll hand you over to Crystal for an overview of our intended use of those proceeds and then to answer some of those more detailed questions.

Crystal Prystai

Senior Vice President & Chief Financial Officer, Teck Resources Limited

A

Hi, Nick. Thanks for the question. I think we've been pretty consistent with our messaging around our intended use of the proceeds that will come in from Glencore. Being very consistent with our capital allocation framework, we intend to reduce our debt levels and get to achieving that net debt-to-adjusted EBITDA of about sort of 1 times through the cycle. And obviously, we'll be in a net cash position on closing and see that trending down as we deploy cash towards our growth projects. So, secondly, having cash on the balance sheet earmarked for those near-term growth projects, being HVC mine life extension, San Nicolás, and Zafranal. And then, thirdly, returning a significant amount to shareholders. Obviously, the board authorized the CAD 500 million return to shareholders with the NSC proceeds received in January and I think that's a reasonable proxy to think about as we go forward.

And then I think just, lastly, in response to your question about the $400 million remaining proceeds from NSC, those proceeds come in through the receipt of 100% of the steelmaking coal cash flows through closing of the Glencore transaction. So, you won't see $400 million come in in one payment on the closing of that transaction, but rather you're seeing it come in now as we go through and achieve – or sorry, receive that 100% of cash flows through closing.

Nick Giles

Analyst, B. Riley Securities, Inc.

Q

Got it. Got it. Crystal, I really appreciate all that color. Maybe just one follow-up on that. I believe the prior estimate was cash flows of around $1 billion. Has that changed at all, especially in the face of kind of weaker met coal prices?

Crystal Prystai

Senior Vice President & Chief Financial Officer, Teck Resources Limited

A

Yeah. I think that's a fair point. And I think there is. You always have to consider the timing of sales and the operating cost as well as the coal prices. So, that number will be dynamic as we make our way through. But you've seen obviously the gross profit generated from the coal business in the first quarter was very strong at CAD 1.4 billion. So, I think we're making very good progress. But that number won't be a fixed number and it depends on those factors.

Operator: The next question is from Carlos de Alba with Morgan Stanley. Please go ahead.

Carlos F. de Alba

Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Thank you and good morning, everyone. On QB2, I think I read in the release that the operations, you had a negative gross profit. But I want to see in terms of EBITDA if the company – has the operation [ph] already broke even (00:32:44)? And, if not, if you can provide any color as to how do you see that obviously at a spot – let's say assuming the spot copper prices, how do you see the path for positive EBITDA in the operation?

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Crystal Prystai
Senior Vice President & Chief Financial Officer, Teck Resources Limited

A

Thanks, Carlos. I think that in answer to your question, we don't disclose a separate number for QB EBITDA but I think just in relation to where production levels were and costs were in the quarter, we were in a loss position from an EBITDA perspective. As we ramp up production through this year, we can expect that that should improve. If we look at the run rate projections we provided when we did the Investor Day at QB, using a range of [ph] $3.50 to $4.50 (00:33:27) for copper price, we got to CAD 1.7 billion to CAD 2.6 billion of EBITDA generation from QB once production rates were up to full steady-state.

Carlos F. de Alba
Analyst, Morgan Stanley & Co. LLC

Q

All right. Great. Thank you. And then the follow-up is on the cost – on the coal operation. You faced some difficulties in the quarter and your adjusted site cash cost of sales were elevated basically on some equipment failures. You retained your guidance for the year, which obviously assumes or suggests that things are going to improve. But I want to see if there is any color as to how things came out in March and April just to get a sense of the cadence on that improvement?

Jonathan Price
President, Chief Executive Officer & Director, Teck Resources Limited

A

Yeah. Thanks, Carlos. So, I'll hand you today to Robin Sheremeta, the President of the Coal Business.

Robin B. Sheremeta
President-Coal Business Unit, Teck Resources Limited

A

Hey, Carlos. Yeah. There was a few issues through Q1, probably exasperated by the cold snap we had. We did have a number of equipment failures that occurred. Nothing major. Pretty much temporary and resolved through that period. So, with regards to March and April, as we go into those months, [indiscernible] (00:34:43) quite strong. So, our availabilities are backed up, the equipment is backed up. But we had to get through that period of cold and then recovery from that. So, I think [ph] teams (00:34:51) are well on track. And I just reviewed our forecast this morning and we are well within guidance here through the rest of the year. So, things are looking much better.

Operator: The next question is from Bill Peterson with JP Morgan. Please go ahead.

Bill Peterson
Analyst, JPMorgan Securities LLC

Q

Yeah. Hi. Good morning and thanks for taking the questions. A little bit of follow-on to the earlier question about use of proceeds for some of your growth projects. I guess if you look at it today, how would you stack-rank between San Nicolás, Zafranal, and QB QB's expansion? And, additionally, for the even longer-term assets, given where we see positive trends in copper, any opportunity to pull this forward or even maybe conversely with the interest in M&A broadly, especially as we see today, would there be any interest to sell some of these assets that you may have?

Jonathan Price
President, Chief Executive Officer & Director, Teck Resources Limited

A

Yeah. Thanks for that question, Bill. Just picking up with some of the near-term projects here. We very much manage them as a portfolio. Of course, they all have different risk and return characteristics. HVC being a

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brownfield and a relatively simple project here in British Columbia, Canada is certainly at the lower risk end of that portfolio. San Nicolás in Mexico, a 50-50 JV with Agnico Eagle, a relatively simple greenfield project in terms of the scope with respect to us needing to do a very little ancillary infrastructure to that so that we can tap into available roads, power, port facilities, et cetera. And then Zafranal in Peru, a little more complex than San Nicolás, but again nothing like what we've undertaken at QB2. So, a portfolio, we think of both brownfield and greenfield projects, very manageable. One of those executed under a joint venture with Agnico. And we will progress all of those to complete studies, complete engineering, obtain permits. So, it will enable us to make decisions on sanctions, always with a primary view on optimizing shareholder value through the decisions that we take there.

To your question on the rest of the portfolio, of course we always evaluate the long-term value of these options to us and how we maximize value to shareholders, whether that's through the progression and derisking of those projects, whether ultimately through the development of those projects or whether there are other alternatives for those resources and projects as you alluded to with respect to capitalizing on strength in the copper market. So, again a portfolio approach to what we have here. The advantage we have of course is a fairly significant suite of options across different jurisdictions, which does give us choices and we'll make those choices very thoughtfully with a focus on creating value.

Bill Peterson
Analyst, JPMorgan Securities LLC

Q

Thanks for that, Jonathan. I want to ask about [ph] I guess (00:38:04) a lesser discussed segment, your zinc market. You discussed your views a little bit on the supply and demand. Zinc has recently just had a 52-week high on the LME spot, albeit well off 2022 levels. You discussed some of the supply issues. But I guess against the context of what you put in your slides where you certainly see a slight surplus over the next few years, how should we think about the supply-demand trends within zinc and expectations around the direction of travel in terms of pricing?

Jonathan Price
President, Chief Executive Officer & Director, Teck Resources Limited

A

Yeah. I'm always happy to answer questions on zinc. It is one of our favorite commodities. So, let me hand you over to Ian Anderson, our Chief Commercial Officer.

Ian K. Anderson
Chief Commercial Officer & Senior Vice President, Teck Resources Limited

A

Thank you very much for the question. As Jonathan had said, in terms of supply, we have seen mine production down over the course of this year. That of course is faced with a period of low pricing that we've seen. And as a result, we wouldn't expect that all of those mines would come on during the course of 2024 or 2025. So, we are expecting the market to be in deficit. Chinese concentrate imports last year were up about 14%, while at the same time, as we said, mine production balanced. So, Chinese smelters bought quite aggressively at the end of last year. That then contributed to the low TC/RCs that we're seeing. And I would describe the market as in tightness right now on that to reflect [indiscernible] (00:39:24). So, optimistic about that, though again very tight supply-demand balance and it depends both on the smelters and the air condition, and similarly mine production.

Operator: The next question is from Brian MacArthur with Raymond James. Please go ahead.

Brian MacArthur
Analyst, Raymond James Ltd.

Q

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Good morning and thank you for taking my question. It again goes back to the coal cash flows. Can you maybe just talk a little bit about your stripping over the next few quarters? Because again you give annual guidance but if this closes in Q3, you obviously won't get the annual numbers. But in the first quarter, your capitalized stripping was like at a run rate well above the high-end of your guidance for the year. Then, conversely, your capital spend is at the low-end. So, as we're trying to figure out the cash flows available to you, as this should close before year-end, is it all more weighted on the capital and the capital-light stripping? Is it heavily weighted to Q1, Q2 and therefore it's going to depress the cash relative to an annual number? Or can you just talk a little bit about how that goes throughout the year?

Jonathan Price
President, Chief Executive Officer & Director, Teck Resources Limited

A

Look, at the highest level, Brian, I would say that don't assume any major differences quarter-on-quarter here sort of the way that the business is operating. We expect it to be fairly consistent. But – and I will suggest you get hold of Fraser post the call and he can run you through that in a bit more detail.

Brian MacArthur
Analyst, Raymond James Ltd.

Q

Okay. Well, I'll maybe just ask a bigger, higher question though. If there's nothing you see then that really changes that original estimate of $1 billion cash flow over the time period from when you originally announced the deal in November for the 12 months. That's still as good a number as anything else other than maybe prices were higher. Is that a fair comment?

Jonathan Price
President, Chief Executive Officer & Director, Teck Resources Limited

A

Well, as Crystal said, prices will be a big variable in that. We have seen pressure in the unit's operating cost, at least in the first quarter of this year. And of course also looking at the timing of closing of the transaction will be a big determinant to what quantum of cash flows to Teck ultimately there. So, there are a few moving pieces there. But from an underlying operational perspective, including the key mining drivers here, nothing significantly different from what we had assumed in our plans.

Brian MacArthur
Analyst, Raymond James Ltd.

Q

Great. Thanks, Jonathan. That's what I was after. Thank you.

Jonathan Price
President, Chief Executive Officer & Director, Teck Resources Limited

A

Thanks, Brian.

Operator: The next question is from Dalton Baretto with Canaccord Genuity. Please go ahead.

Dalton Baretto
Analyst, Canaccord Genuity Corp.

Q

Thanks. Good morning, everybody. Most of my questions have been answered. But Jonathan, I just wanted to circle back to M&A again just for a quick second. I just wanted to get your thoughts on – I mean, you've allocated most of your further proceeds from the Glencore sale to your growth pipeline. But I want to get your thoughts on the buy versus build argument just given the valuations in the market today? Thank you.

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Jonathan Price

President, Chief Executive Officer & Director, Teck Resources Limited

A

I mean, just to sort of clarify on the allocation of those proceeds Dalton here. We're allocating a fair bit of buffers to debt reduction and we'll allocate a significant portion of that to returning cash to shareholders. You are right in that the balance then of those proceeds we will be using to invest in organic growth. Of course, we look at the – like everybody, you have to look at the buy versus build dynamics in the market. We think, in particular, with the projects we have ahead of us here, which are smaller in scope and complexity, that their capital intensities will be competitive and are likely to be more competitive than the acquisition of assets through M&A, and again which you can assess on a dollar per tonne of production basis. So, that's the reason that we are pursuing the strategy we are because of the quality of the projects we have in the portfolio, the capital intensity that they can offer, and therefore the returns that will be available with the value creation.

Dalton Baretto

Analyst, Canaccord Genuity Corp.

Q

Great. Thank you.

Operator: I will now hand the call back over to Jonathan Price for closing remarks.

Jonathan Price

President, Chief Executive Officer & Director, Teck Resources Limited

Yeah. Thank you. And thanks everyone for joining us today. Just to reiterate, we are operating well right now and we've maintained guidance across all areas of the business. We are very happy to have QB construction behind us and the ramp-up of that robust operation is proceeding to plan. We are focused on the completion of the EVR sale and the thoughtful allocation of proceeds with a focus on creating value for our shareholders. And we believe we have the right portfolio, the right people and the right opportunities to create significant long-term sustainable value for shareholders. As ever, any further questions, please reach out to Fraser or the IR team. And have a great day.

Operator: This brings to a close today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.

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