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TCK.B.TO - Q4 2017 Teck Resources Ltd Earnings Call

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OVERVIEW:

Co. reported 4Q17 revenues of CAD3.2b and bottom line profit attributable to shareholders of CAD700m.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Teck Resources' Q4 2017 Earnings Call. (Operator Instructions) This conference call is being recorded on Wednesday, February 14, 2018.

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

Fraser Phillips - *Teck Resources Limited - SVP of IR & Strategic Analysis*

Thanks very much, Patrick. Good morning, everyone, and thank you for joining us for Teck's Fourth Quarter Full Year 2017 Results Conference Call. Before we begin, I'd like to draw your attention to the forward-looking information on Slide 2. This presentation contains forward-looking statements regarding our business. However, various risks and uncertainties may cause actual results to vary. Teck does not assume the obligation to update any forward-looking statement.

With that, I'd like to turn the call over to Don Lindsay, our President and CEO.

Donald R. Lindsay Teck Resources Limited - President & CEO

Thank you, Fraser, and good morning, everyone. I will begin on Slide 3 with some highlights from our fourth quarter and our year-end results, followed by Ron Millos, our CFO, who will provide additional color on our financial results. We will conclude with a Q&A session, where Ron and I and several additional members of our senior team will be happy to answer any questions.

Based on our solid operating results, we had record revenues and record cash flow from operations in 2017, and we are returning significant cash to shareholders. We paid $260 million in dividends in Q4, including our first supplemental dividend. We also committed to $230 million in buybacks through Q1 of 2018, of which $175 million was completed by year-end, back in the 20s. Having achieved our debt reduction targets and with our substantial cash generation, our financial position is very strong. Our current liquidity is almost $5 billion, including $1 billion in cash and our unused $3 billion U.S. credit facility, which we had extended by 2 years to October 2022, more than a year after the construction period for QB2.

Importantly, first oil was achieved at Fort Hills on January 27. It's going very well. This is the culmination of the hard work of thousands of people since the project was sanctioned by the Fort Hills partners in 2013. We look forward to the ramp-up to full production and to the continued growth of our energy business. Fort Hills is a long-life asset that will generate significant value for our company for decades to come, and I have to give a shout out to Suncor, first oil on January 27th, just 4 weeks after the original target date that was established back in October 2013 when we sanctioned the project. To be able to achieve that when, along the way, we had the effects of the wildfires that shut the project down for several weeks, it's a pretty impressive accomplishment on Suncor's part.

In addition, we are pleased to be named as one of Canada's Top 100 Employers for the first time in 2017.

Turning to our financial results on Slide 4. In the fourth quarter, revenues were $3.2 billion, and gross profit before depreciation and amortization was $1.7 billion. After adjusting for unusual items, adjusted EBITDA was $1.5 billion, and bottom line adjusted profit attributed to shareholders was $700 million or $1.21 per share.

For the full year, we achieved record revenues of $12 billion and record cash flow from operations of $5.1 billion, thanks to continued strong prices for our products and to solid operating results despite some challenges during the year. This exceeds the record that we set in 2011, when commodity prices for both steelmaking coal and copper were significantly higher. It serves to reinforce the results of our ongoing focus on cost control and on optimizing production from our core assets. Most importantly, we set this record while also significantly improving our safety and environmental performance.

As I mentioned earlier, our adjusted profit attributable to shareholders was $700 million or $1.21 per share in the fourth quarter, and details of the adjustments are on Slide 5. For the full year, adjusted profit attributable to shareholders was $2.6 billion or $4.45 a share.

I'll now run through highlights by business units, starting with Copper on Slide 6. In the fourth quarter, production was higher than the same quarter last year, as production improved at Highland Valley. For the full year, copper production was towards the top end of our guidance range.

Cash costs, net of byproduct credits, were down US$0.18 per pound from Q4 last year, driven by strong cash credits for byproducts. For the full year, we came in at the low end of our recent guidance range for net cash costs and below our original guidance range. Overall, we generated a significant increase in gross profit before depreciation and amortization in Q4. Also, in the quarter, we settled the last of three labor agreements at Quebrada Blanca.

Looking forward to 2018, we expect copper production to be slightly lower than last year, primarily due to lower grades at Carmen de Andacollo. We're working on options to improve throughput at Carmen de Andacollo to help offset those lower grades. For the following three years, from 2019 to 2021, we expect copper production to average 270,000 to 300,000 tonnes. We expect our net cash costs to be slightly higher in 2018 than last year in the range of US$1.35 to US$1.45 per pound.

Please note that at Highland Valley, we are on track for continued recovery from the low-grade phase of the mine plan. We expect higher grades in production in 2018, but not at the level mined in Q4 2017 which will not be repeated this year. We'd be happy to address any questions you may have on this during the Q&A.

Our Zinc business unit results are summarized on Slide 7 and as a reminder, Antamina's zinc-related financial results are reported in our Copper business unit. Mined zinc sales at Red Dog were slightly ahead of our guidance for the quarter and are indicative of the ongoing tightness in the zinc concentrate market. We had shipped all the available concentrate out of Red Dog before the end of the shipping season, so we are well-positioned for sales in the first half of the year. Our mined zinc production was up 19,000 tonnes in the quarter. We increased the amount of Qanaiyaq ore on Red Dog's mill feed blend to our original target of 20% in the quarter, and we expect to maintain that level through 2018. For the full year, we achieved our revised production guidance range. We're also pleased to note that Antamina set a new record for annual zinc production, which is particularly valuable in a tight market. Overall, gross profit before depreciation and amortization was up 4% from Q4 of 2016.

Looking forward, we expect mined zinc production, including co-products from our copper business unit, to be at a similar level in 2018 at 645,000 to 670,000 tonnes. For the following three years, we expect mined zinc production in a range of 575,000 to 625,000 tonnes, excluding any potential life extension at Pend Oreille. We also expect to produce 305,000 to 310,000 tonnes of refined zinc at Trail Operations in 2018, and then an average of 310,000 to 315,000 tonnes in the following three years. Please note that we have introduced guidance for net cash cost for mined zinc, which we expect to increase from US$0.28 per pound in 2017 to US$0.30 to US$0.35 per pound this year, as we anticipate lower lead production in 2018. I would like to remind everyone of the significant seasonality of our quarterly zinc operating costs, as discussed during our Red Dog site visit last September.

Turning to steelmaking coal on Slide 8. Steelmaking coal prices remained strong, as synchronized global growth is shifting the market from a supply-driven to a demand-driven market. Demand for seaborne coal is growing, especially in India as well as in Europe, Vietnam and Brazil. For the fourth quarter, our average realized price came in at US$170 per tonne, which was at the top end of our guidance range. As we had flagged in Q3 and in our steelmaking coal guidance press release in December, we had a onetime shift in our product mix to a higher proportion of non-premium steelmaking coal products in Q4. We had record material movement for the full year and have now restored operational flexibility, and we have returned to our traditional product mix in Q1 2018.

Q4 sales were down compared with the record quarterly sales in Q4 of 2016. They were negatively impacted by two CP mainline derailments in November and underperformance at Westshore. For the full year, production came in below our guidance range at 26.6 million tonnes. Costs were in line with guidance and with site costs of $52 per tonne and transportation costs of $37 per tonne.

We are generating significant cash flow from our steelmaking coal operations. Full year gross profit before depreciation and amortization was $1.8 billion higher than in 2016.

Looking forward, steelmaking coal sales are expected to be 6.3 million to 6.5 million tonnes in Q1, reflecting underperformance at Westshore in January. It is worth noting that the outlook for Q1 pricing is strong, and the current rolling average for the quarterly index at US$238 per tonne with only 2 weeks left in the quarterly pricing period. We expect production to stay at a similar level to last year in 2016 at 26 million to 27 million tonnes.

We expect higher site costs in 2018 at $56 to $60 per tonne, reflecting additional mining development activity with the closure of Coal Mountain, and we expect lower transport costs at $35 to $37 per tonne.

Looking at our energy business unit on Slide 9. I mentioned earlier that Fort Hills achieved first oil on January 27th. The first of three trains from secondary extraction is producing and ramping up production. The second and third trains are mechanically complete and are expected to be commissioned in the first half of 2018. Overall, Fort Hills is on track to reach 90% of nameplate capacity of 194,000 barrels per day by the end of 2018.

The partners also resolved a previously announced commercial dispute. Suncor and Teck have each acquired an additional working interest in Fort Hills from Total. Depending on the final project cost and our funding elections, we expect our interest will ultimately increase to approximately 21.3%.

Looking forward, 2018 is a commissioning and ramp-up year. Based on our estimated working interest and Suncor's guidance for Fort Hills, we expect our share of production to be between 7.5 million and 9 million barrels of bitumen in 2018. And of note, from an environmental perspective, is that the life-cycle carbon intensity for the Fort Hills product is projected to be lower than approximately half of all the oil currently refined in North America.

Suncor also expects an average cash operating cost of $35 to $40 per barrel in 2018, with a declining trend throughout the year to $20 to $30 per barrel in the fourth quarter.

As we have outlined on Slide 10, we have a strong track record of returns to shareholders, with $4.1 billion in dividends and $1.2 billion in buybacks from 2003 to 2017. We have paid out 27% of our free cash flow in dividends over the past 15 years.

In December, we paid our first supplemental dividend under our new dividend policy of $230 million. This is in addition to our annual base dividend of $0.05 per quarter. We also committed an additional $230 million to the repurchase of Class B shares through March 31, of which $175 million was completed in the fourth quarter, and this reflects Teck's strong free cash flow generation over the last 12 months and a strong outlook for our business. It also reflects disciplined capital allocation, balancing shareholder returns and CapEx with prudent balance sheet management.

In addition to returning capital to shareholders, we are pursuing a number of growth opportunities, as outlined in Slide 11. We are focused on advancing our growth projects in 2018 to create additional value for shareholders.

In energy, as I just mentioned, Fort Hills has achieved first oil and is ramping up production through 2018. Milestones will be reached in the first half of 2018 when the two remaining trains at secondary extractions start up.

In copper, our 50-50 joint venture with Goldcorp, called NuevaUnion is advancing that project's pre-feasibility study, which we expect to complete this quarter.

QB2 is our most advanced project, and we are currently focused on completing the regulatory approval process, advancing detailed engineering, early procurement contracts and construction planning. The permit is expected in the first half of the year and a sanctioning decision is now not expected before the second half of 2018.

We're also making progress on Project Satellite, the two most advanced of the five projects are Zafranal and San Nicolás. At Zafranal, the feasibility and the SEIA studies are underway in support of development permit application and completion of a feasibility study in Q4 2018. A substantial field program, including extensive community engagement activity is well underway.

At San Nicolás, environmental and social baseline studies were initiated in Q3 2017, and we also have a drill program starting this quarter. We aim to complete the pre-feasibility study and submit an SEIA in the second half of 2019.

2018 looks to be an exciting year with a number of catalysts for value creation over the next 12 to 18 months.

And now I'd like to turn it over to Ron.

Ronald A. Millos *Teck Resources Limited - SVP of Finance & CFO*

Thanks, Don. I'm moving on to Slide 12, and we summarize our fourth quarter changes in cash here. And as Don mentioned earlier, we set a new record for cash flow from operations for the full year, and that was reflected in the numbers for Q4 with $1.5 million in cash flow from operations.

We spent $546 million on capital projects, including Fort Hills. We paid out $257 million in dividends to shareholders, including the first supplemental dividend of $0.40 per share in December, and that was on top of the regular base dividend of $0.05 per share. Our capitalized stripping costs were $178 million. We repurchased $175 million in Class B shares and purchases are expected to continue in Q1. We paid $160 million in expenditures on our financial investments, and we paid $95 million in interest and finance charges.

And after these and other minor items, we ended the quarter with cash and short-term investments of around $952 million. And as noted on an earlier slides and in previous quarters, we had settlement pricing adjustments of $39 million and share-based compensation expense of $51 million on an after-tax basis. These items are included in other operating income expense, and we've included the simplified models for estimating them in the appendix to this presentation.

Looking at our liquidity on Slide 13. We now have close to $5 billion in liquidity, and that includes about $1 billion in cash and our undrawn US$3 billion committed credit facility. We also expect to receive another $1.2 billion in cash proceeds from the Waneta transaction, which is progressing but is now not expected to close before the third quarter of this year.

And including the Waneta transaction, our strong credit metrics compare favorably to our diversified and North American peers on a pro forma basis.

Moving onto the next slide. We've summarized our capital expenditures. Overall, our 2018 CapEx is expected to be slightly below last year. Sustaining capital is expected to be higher in 2018, with increases across the business unit. However, the increase is in part a one-time event and sustaining capital is expected to decline again in 2019 and beyond, particularly in coal and processing and in zinc. The largest increase is in steelmaking coal, which is expected to have $275 million sustaining capital, $185 million is for the mining and processing equipment, largely related to reinvestment in our equipment fleets. Approximately $86 million is related to the water treatment, consistent with the guidance we provided last quarter. And we've provided additional detail on the Elk Valley Water Quality Plan spending in this quarter's MD&A. For zinc, sustaining capital is higher as well, as we're advancing the #2 acid plan at Trail Operations, and we're doing a rebuild of the KIVCET smelter, which is required every 4 years.

Major enhancement capital is also expected to be higher. Coal largely relates to the development cost of new mining areas in the Elk Valley. Copper is primarily the additional ball mill at Highland Valley to increase the grinding circuit capacity. And zinc is mainly the mill upgrade project at Red Dog, which is expected to increase average mill throughput both by about 15% over the remaining life. Energy includes items such as tailing management, new mining equipment and autonomous haul systems at Fort Hills.

The new mine development is expected to fall by more than half, as Fort Hills is completed and enters commercial production later this year. Energy includes expected spending at Fort Hills at our estimated interest of 21.3%, and it excludes any capitalized revenue or cost prior to commercial production, which we expect to achieve sometime in the first half of 2018.

Copper includes spending on QB2 to get us to a position to make a sanctioning decision, with further guidance provided as the year progresses, as well as full year spending for San Nicolás and our share of Zafranal. Capitalized stripping is expected to be lower, primarily driven by coal. You may recall that we were playing catch-up with stripping in 2017, as permits for new mining areas had been delayed, resulting in stripping work that we had originally planned to do in 2016 being delayed into 2017.

And with that, I'll turn it back to Don for closing comments.

Donald R. Lindsay Teck Resources Limited - President & CEO

Well, thanks, Ron. And just wrapping up on Slide 15. 2017 was a pretty good year. It was an excellent year, really. And we're feeling pretty good about 2018. It's certainly off to a good start. We talk about synchronized global growth, and we've all heard a lot about that. But if you dig down at a different level, you see that we have actually over 45 countries growing above trend, so this is very widespread growth. Most of us forget what this feels like, but it's certainly very good for commodity markets, and they are now demand driven rather than supply driven, which is a good thing. So we see continued strength in commodity prices, and Teck is certainly well positioned to take advantage of that attractive market backdrop.

We executed on our plan during the severe downturn. We have very good solid operating assets, a proven track record of execution, and we're now enhancing profitability at all our operations. We have a very strong financial position, with significant liquidity and record cash flow from operations. Our approach to capital allocation is certainly balancing returns to shareholders and capital spending with prudent balance sheet management. We are completely focused on generating shareholder value. And we believe that Teck offers a compelling value proposition to investors.

So with that, we'd be happy to answer any of your questions. I would like to note that we have management team members calling in from different locations, so if there's a brief pause after you ask your question, it's just while we're figuring out who's going to answer it.

So I'll turn it back to you, operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Chris Terry from Deutsche Bank.

Christopher Michael Terry - *Deutsche Bank AG, Research Division - Research Analyst*

I just wanted to talk about the link between the balance sheet and where it's at now, and how you think about QB2. Just maybe an update on how you're thinking about the ownership structure of QB2, now that your balance sheet's become significantly stronger, and you originally said, perhaps, that you would look to have a JV partner? Are you still looking to do that on the JV side? And then just around the balance sheet, you've obviously said before, I think you want to get debt below US$5 billion. What's the update there, just so that we can think about further share buybacks, or how the capital return story might look throughout 2018?

Donald R. Lindsay Teck Resources Limited - President & CEO

Okay. Well, starting with the last question first, we did target to get below US$5 billion of bonds outstanding, and we achieved that earlier last year. So we're at US$4.8 billion outstanding now. Tthis is very important, we have nothing due the rest of this year or 2019 or 2020. And then roughly, US$220 matures in 2021. So very clear runway during the period when we anticipate building QB2. With respect to QB2, it's a fairly complex answer, so nothing definitive. First, we haven't got the permit yet. So we need to get to that point. While we are aware that the smaller shareholder private company in Chile is likely to sell. And so I suspect something will happen between now and year-end. But that's the kind of thing that you can't say anything definitive until you actually see it. It's a 13.5% position. Thereafter, we are going to go more slowly on QB2 in terms of sanctioning and take our time. There's three good reasons for that. The first is that it allows us to continue to build cash on the balance sheet and certainly, at these prices, we're going to build cash, it looks like a very good environment. It also allows us to get Waneta closed, the $1.2 billion coming from that, and we anticipate that happening in Q3, hopefully at the beginning of Q3. So we really want to be past that and be able to demonstrate to the market that in terms of any sort of financial risk related to QB2 that we'd be starting with over $3 billion in cash, is quite likely that we'd have US$3 billion credit line that's already been extended to October 2022. We've had lots of interest from banks, like an awful lot of interest from banks in terms of project financing. So if we waited to -- our September board meeting or later, we'd be able to show a really, really strong financial situation before sanctioning QB2. The second reason would be, it would allow the engineering completion to get to a higher level. Currently, I think we're in the high 50s, and we'd like to get that to 75% or even 80%. So that makes a big difference in terms of level of certainty and completion of engineering drawings when you go out for bids on different aspects of the project. And that reduces execution risk, so that's an important part of it. Also, allows us to continue working with Bechtel, our EPCM manager, and putting together our execution team. We're very fortunate in terms of the timing of this project. QB2 is the largest, most-advanced project in Chile, and there are a lot of really good people available. So sometimes you get lucky. And then the third reason is that we anticipate, as we get closer to the end of 2018, that we'll get that much closer to when a significant structural deficit in copper opens up, and we'll see strong performance. And so I think that will demonstrate to the world that this is a project that's really needed. When we get to that point, we anticipate putting a couple of teams of people with a range of skills in each team to gloat and speak to all of our shareholders in great detail about why this project makes sense and would be very competitive on the global cost curve, particularly at AISC, all-in sustaining cost, which is a key factor because QB2 will have very, very low sustaining capital relative to the major well-known mines out there. So I know it's a long answer, but hopefully I addressed the question.

Christopher Michael Terry - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. And just one last one for me. The CapEx profile you provided in 2018, I guess, you've gone through some one-off items here on equipment and the move to coal -- or the move away from Coal Mountain and so the CapEx has come back up. How do we think about some of those one-off items, or how would 2019 to 2020 shape up on the sustaining CapEx front? Is -- do we look at 2018 as being a high-level year and 2019 would normalize? Or is 2018 sort of a baseload that we should think about for '19 and beyond?

Donald R. Lindsay Teck Resources Limited - President & CEO

Yes, I'm glad you asked that question. It's a good one, I'm going to turn it over to Robin Sheremeta because most of it belongs to coal. But then Dale will comment on copper and zinc after.

Robin B. Sheremeta - *Teck Resources Limited - SVP of Coal*

Thanks, Don. The sustained capital on operating equipment will peak in 2018. So you'll see that decline over the next 5 years. So we're about $185 million that we plan on spending primarily on shovels and trucks, some plant upgrades. And as I say, that'll decline over the 5-year period to around $70 million. So you could look at an average across 5 years of around $125 million for sustaining capital on equipment. And then the sustaining capital on water is pretty much what we talked about in the previous guidance. So it's the $86 million here in 2018 and then the $850 million to $900 million across the 5-year period. So roughly, $200 million a year, 2019 out for the remaining four years of that stretch.

Donald R. Lindsay Teck Resources Limited - President & CEO

And Dale, on copper and zinc?

Dale E. Andres - *Teck Resources Limited - SVP of Base Metals*

Yes, I'll start with copper. Copper is really being driven this year primarily by one-off items, including equipment replacement as well as the D3 ball mill project at HVC. A more normalized sustaining capital range for copper would be in the $150 million range, and we expect that basically from 2019 out.

And on the zinc side, it's really being driven by the asset plant. It's a very abnormal year, 2018. It's being driven by the acid plant completion as well as the KIVCET rebuild, which is once every 4 years, as Ron mentioned. So a more sustaining long-term run rate for capital for zinc would be in the $125 million range. We would expect that in 2019 going forward, at least in the second half of 2019 once the acid plant is done.

Operator

The next question is from Orest Wowkodaw from Scotiabank.

Orest Wowkodaw - *Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals*

I was looking for -- if we could get some more color on the coal business. First of all, in terms of your coal guidance for cost this year of $91 to $97 a tonne. Obviously, that's up from '17 levels. Should we think about that as the new run rate going forward beyond 2018? Or is the reason to think that could come down in the future '19, '20, with higher volumes and I guess, lower transition cost around Coal Mountain and I guess, net of water treatment costs? How should we think about that?

Donald R. Lindsay Teck Resources Limited - President & CEO

Back to Robin.

Robin B. Sheremeta - *Teck Resources Limited - SVP of Coal*

You bet. And I'll walk you through a little bit of the detail, because there's a number of different factors at play. As you mentioned, Coal Mountain will shut down, and Coal Mountain is a very low strip ratio, very low operating cost mine. And it will be replaced by the other 4 operations in the valley, the tonnage associated with that. So Fording River, Greenhills, Line Creek and Elkview. And as you know, we've been developing the new areas that will make up that tonnage. Those areas are higher strip ratio. They've got longer wasting coal hauls. And so if you look at the combined effect of the strip ratio and haul distance, it's going to add around $2 a tonne to our cost. That strip ratio, though, over the next 5 years, will come back down. So 2018 is a peak at about 10.5. That's versus the 10.2 we saw in 2017. But it comes back down to about 10.1 over the next 5 years. So that's one thing that will off -- that will mitigate some of those costs.

I guess, the other factor in 2018, we've got a cycle peak in maintenance cost. So we purchased much of our truck fleet in the 2010 to 2012 period. And because you've got around 50 haul trucks that were all purchased around the same time, they're all about the same age. And with a fleet like that, you have major components, and engines is one significant component that comes due for replacement around this time. So we'll see that cycle kind of flow through this year. We'll do the work we need to do on that fleet, and then those costs will come back down to something more normal forward. I think a couple things to kind of take note of, productivities are at their highest levels ever now. So we're seeing, through December, January, record productivity. So that plays well for our cost. As I said, strip ratio does come down. The equipment fleet is actually still relatively young. So we haven't even reached midlife on the majority of our equipment fleet. So as soon as this cycle kind of flows through, we should be in good shape on the -- on equipment fleet. And then the other key point is, as we transition from Coal Mountain to the other operations, the average coal quality should shift higher in terms of marginal shift towards a harder coking coal-type quality, and that's going to affect the revenue in a positive way. So there is offsets to the costs. So hopefully, that helps.

Orest Wowkodaw - *Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals*

But it sounds like they might trend down to more just the bottom end of that range for '18. It doesn't sound like they're going materially below kind of the $90 level. Is that the right way to think about it?

Robin B. Sheremeta - *Teck Resources Limited - SVP of Coal*

No, not at all. That's the right way to think about it.

Orest Wowkodaw - *Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals*

Okay, and then...

Robin B. Sheremeta - *Teck Resources Limited - SVP of Coal*

I'll just give you another positive. As I said, we are transitioning from Coal Mountain, and we will see our production start to strengthen. So that's going to help with cost as well.

Orest Wowkodaw - *Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals*

Okay. And in terms of the coal realization, I mean, we're I guess halfway through Q1. As Don mentioned, the index price is only two weeks away from being set. it's been a high-price environment for three months. Should we anticipate Teck realizing something close to its, sort of, historical realization percentage in the, kind of, 92%, 93%? Or could this be a unusually low quarter, just given the high-price environment?

Donald R. Lindsay Teck Resources Limited - President & CEO

So I'm going that turn over to Réal in a minute. But I just wanted to make 2 points. One is to emphasize something that Robin said at both the transition from Coal Mountain to the other mines in the valley. As we go to the other four mines with higher-quality product, while there will be higher costs relative to Coal Mountain, Robin mentioned the $2 related to all-distances strip ratio, the increase in price realization we get for the higher-quality coal will be significantly higher than that couple of bucks. We can't give you an actual number because there's a range of products, and the spread is between the highest-quality products and other products, has been changing quite significantly, which Réal will talk about. But we know for sure that the increase in price that we receive will be significantly higher than the increase in cost. So to the extent that people still care about our financial results, this should be positive. And with that, back to Réal.

Réal Foley - *Teck Resources Limited - VP of Coal Marketing*

All right. Thanks, Don. So [first], it's a bit early in the quarter to provide any guidance on our realized price. Again, in reality, we've seen a lot of volatility in the market in the past year-plus. So at this point, we don't need to be guessing at what the realized price might be. And to put it in perspective, you may have noticed that since Q2 2010 to now, our realized price has ranged anywhere from the low of 75% to a high of 104%. And it's averaged 92% in that period. So the realized price is really a function of a number of factors, including mine production and sequencing, the timing of vessel arrivals, the performance of the logistics chain. So there is a number of factors that do impact. And as our mines -- the four main mines are going into new mining areas, it could be releasing slightly different product mix in the short term. So we need to be aware of that. And again, there is a big range in a volatile market.

Orest Wowkodaw - *Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals*

Okay. And just quickly finally for me. The $81 million of cost that you cited at Trail related to these new soil standards, is that a one-time event, or is there implications for higher cost that are moving forward?

Donald R. Lindsay Teck Resources Limited - President & CEO

Dale?

Dale E. Andres - *Teck Resources Limited - SVP of Base Metals*

Yes, I think, that's an allowance, and that'll be executed over the next 5 to 10 years. That's something that we'll address with the health authority and work with a community-wide soil remediation plan. But that's not something that will happen immediately. That's something that's longer term.

Operator

The next question is from Matt Murphy from Macquarie.

Matthew Murphy - *Macquarie Research - Analyst*

Just had a question on Highland Valley. If you can share some color about 2018 guidance, I guess it's a bit below the lower end of what you'd envisaged for the three-year forward guidance at this time last year. So just some thoughts around that.

Donald R. Lindsay Teck Resources Limited - President & CEO

Yes, sure. For Highland Valley in 2018, we're continuing to focus on stripping efforts in the Lornex pit and the Valley pit. So although at times, we enter into higher-grade phases in the pit, like we did in the fourth quarter of 2017, we still have to drive some of those pushbacks deeper, and that is the game plan for 2018. We do expect a relatively even quarterly performance, based on the current mine plan throughout 2018 and for us to enter into those higher-grade zones, starting in early 2019. One of the other things that has affected our production plans is the recovery side, as we're into this lower-grade feed, both in 2017 and 2018. Our recoveries have dropped, and we do expect those recoveries to pick up with higher grades and better processing material as we dive deeper into those pits. So that's something that we're working through, and it's progressing as per our plans in 2018 and going forward. And you'll see the three-year guidance that we've given for 2019 and beyond, that will be a continual increase with that range, and we're quite confident in that going forward.

Matthew Murphy - *Macquarie Research - Analyst*

Okay. So in terms of a recovery assumption beyond 2018, I mean, is it fair to use like an 85% type of -- something in that range?

Donald R. Lindsay Teck Resources Limited - President & CEO

Yes. At times, when we get into the very high-grade zones and higher bornite softer material, it can be even higher than that. But in that range would be more normal for the longer term, going forward. That's correct.

Operator

The next question is from Greg Barnes from TD Securities.

Greg Barnes - *TD Securities Equity Research - MD and Head of Mining Research*

Réal, I know you don't want to be held to a coal realization range, but the coal pricing so far in the current quarter has been pretty flat, and if your coal split between spot and benchmark remains the same, you should be getting a very good realization in Q1, I would think.

Réal Foley - *Teck Resources Limited - VP of Coal Marketing*

Yes. So Greg, I guess, it depends on product mix, as I've said. And this is trending back to normal for 2018. The main issue about Q4 is that we have much higher thermal production than usual. Thermal production for us is usually couple percent of our total production. We're now back to normal levels. This was a onetime event in Q4. So through 2018, we will be back to around 75% of our production as hard coking coals will have the same level as previous two years. The balance of the production is semihard, semisoft PCI and that little bit of thermal that I referred to. Now things that we need to watch is not only the price level, it's the volatility. And it's also the price differential between those various products. So for instance, if you look at the price differential right now between semihard, semisoft and the premium hard coking coals, those differentials are at record levels. And they have been now for -- probably, since December. So as opposed to an average of about $10 to $12 previous to the big spikes that we've seen in the last year-plus, we're now looking at $40-plus. So that has an impact also on overall realization. So there is a lot of moving pieces.

Greg Barnes - *TD Securities Equity Research - MD and Head of Mining Research*

Got you. Okay, that's helpful. And just to focus on Neptune, you're going to spend $85 million there this year. Is that a capacity expansion that you're undertaking?

Donald R. Lindsay Teck Resources Limited - President & CEO

Yes.

Greg Barnes - *TD Securities Equity Research - MD and Head of Mining Research*

By how much?

Donald R. Lindsay Teck Resources Limited - President & CEO

You want to take that, Andrew?

Andrew Golding *Teck Resources Limited – SVP of Corporate Development*

Yes, the target is in excess of 18.5 million tonnes per annum, we are aiming for something around 20 million tonne when the last few months' expansion is finished.

Greg Barnes - *TD Securities Equity Research - MD and Head of Mining Research*

So how is that going to impact how you direct your coal transport then? How much will go through Westshore, and how much will go through Neptune?

Donald R. Lindsay Teck Resources Limited - President & CEO

Well, we have our contract with Westshore until March of 2021 at 19 million tonnes. So we'll clearly honor the contract.

Operator

The next question is from Oscar Cabrera from CIBC World Markets.

Oscar M. Cabrera - *CIBC Capital Markets, Research Division - Research Analyst*

So first question on your coal operations. Just want to reconcile your higher strip for 2019 and the capitalized stripping that we have in 2018. Should we expect those levels to persist? So $390 million in 2018 persist over the next 5 years, or is that declining as well?

Donald R. Lindsay Teck Resources Limited - President & CEO

I mean -- yes, I can speak to the strip ratio side of it. So that -- the strip ratio in 2018 peaks at 10.5 and then declines and will average out to 10.1 across the 5 years.

Oscar M. Cabrera - *CIBC Capital Markets, Research Division - Research Analyst*

Yes, but what does the profile look like? Is it front-end loaded, I'm assuming, or...

Donald R. Lindsay Teck Resources Limited - President & CEO

Well, 2018 is the peak, and then lower after that.

Oscar M. Cabrera - *CIBC Capital Markets, Research Division - Research Analyst*

But averaging 10.1 over the 5 years, that's what you said?

Donald R. Lindsay Teck Resources Limited - President & CEO

That's right.

Oscar M. Cabrera - *CIBC Capital Markets, Research Division - Research Analyst*

And thank you for providing all the other detail on the CapEx. Now staying with coal. And let's forget about 2018. But going forward after Coal Mountain is closed, how do you see your coal mix? And you talked about 40% of the sales that are now indexed. I'm assuming the rest is on the spot market. So how do -- can you help us just put context around your sales mix and what do you expect in terms of realizations?

Donald R. Lindsay Teck Resources Limited - President & CEO

Yes, I think it's a good question. We should have Réal just talk through the 40-60 mix, and how that breaks out, and how to use the word index.

Réal Foley - *Teck Resources Limited - VP of Coal Marketing*

Thanks, Oscar. So when you look at our contracts, the proportions have not changed. We still have around 40% of our sales that are priced on a quarterly basis, and that quarterly pricing is the average of the 3 main price assessments that are published daily. The other 60% is priced on shorter and quarterly pricing mechanisms. So those pricing mechanisms are either linked to price assessments directly, or they are actually negotiated on fixed price. But overall, they still reflect the direction of the price assessments. So I guess you can say that overall, looking at our book, generally it moves with the direction of the price assessment that you see in the market. 40% of it moves on the quarterly -- most of it on the quarterly lagged by 1 month. And then the other 60% moves up and down with the daily price assessments through the quarter.

Oscar M. Cabrera - *CIBC Capital Markets, Research Division - Research Analyst*

Okay, right. Réal, that's very helpful. Now with respect to the mix, the average -- or the historical average was about 7% of lower-quality coals. Is that going to be below 5% after 2019, or do you still expect to be closer to 10%?

Réal Foley - *Teck Resources Limited - VP of Coal Marketing*

So Oscar, I'm not sure where the 7% comes from. But if you look at our hard coking coal ratio, it's around 75%, and it's been at that level for 2017 and the two years previous to that. And going forward, we're expecting that we will continue to produce around 75% of high-quality hard coking coal. So no change to that. Except again, what we saw in Q4.

Donald R. Lindsay Teck Resources Limited - President & CEO

And just for further clarity, what that means, Oscar, is that 75% is the high-quality hard coking coal. And then you get different blends down to that. It's still only about 2% thermal. So the 7% you're talking about, I don't know if that might've been a few years ago if there was a year with a higher thermal or something. But just -- the levels we're at have been the same for several years now, and there is no change.

Oscar M. Cabrera - *CIBC Capital Markets, Research Division - Research Analyst*

Yes, I know that was basically the -- just, if you took the ratio in pricing. So sales, it was about 7%.

Donald R. Lindsay Teck Resources Limited - President & CEO

Oh I see. No, you're quite right. We used to talk about the average percentage price realization. The benchmark was 90% to 92%. But clearly, that number, whenever we publish it, is just our best guess on that day and is only of value for that day, and then things are going to change because the spot prices can go up and down. So actually, we found last quarter that unfortunately, there was a fairly severe reaction to a number that many reports misled investors. So we looked at our competitors -- nobody else actually publishes that number, and I think it was misleading shareholders.

Operator

The next question is from Alex Terentiew from BMO Capital Markets.

Alex Terentiew - *BMO Capital Markets Equity Research - Analyst*

Just two quick questions for you. First, on your energy business CapEx, can you just reconcile for me the spending for Fort Hills? You talked about $170 million to finish the share of the project. But I guess, this year, $90 million in major enhancements and $40 million in sustaining. So is that $30 million to be spent, I guess, in 2019? And then also you've got energy and new mine development, $195 million. So I was just wondering again, is that accounting for part of what you believe may have cost you your final adjustment to go up to 21.3% and that's in line with Fort Hills? And then just one quick question on Pend Oreille. Is extending the life of that mine a function of the zinc price, meaning that costs there are high, but you can keep mining at that mine at these prices? Or is it exploration and reserve growth that you're looking for?

Donald R. Lindsay Teck Resources Limited - President & CEO

Okay, we'll go to Tim Watson on the first part on energy, and then Dale on Pend Oreille.

Timothy C. Watson *Teck Resources Limited – SVP of Project Development & Engineering*

So the -- your one question with respect to the $195 million versus the $170 million. Within the total energy business is the $195 million. The $170 million represents the capital required to complete Fort Hills. And those are items that are associated with completion of the fire protection systems and the thermal insulation systems as well as completion of deficiency lists associated with trains 2 and 3 to get them commissioned. The major enhancement to capital is basic completion of items that have been identified as we've been going through the commissioning of the plant. They require additional work to ensure that we achieve nameplate capacity through the plant. So those are all items that will be completed in the first part of 2018.

Alex Terentiew - *BMO Capital Markets Equity Research - Analyst*

Okay. So they are Fort Hills related, but they're just new spending above and beyond kind of what the original cost expectation was?

Timothy C. Watson *Teck Resources Limited – SVP of Project Development & Engineering*

Yes. I think that's probably a fair way of stating. As we've closed out the project, we have -- as we've stated a couple of times, we've seen that cost pressure associated with labor productivity. So this is just the last of the capital required to complete Fort Hills.

Donald R. Lindsay Teck Resources Limited - President & CEO

And Dale?

Dale E. Andres - *Teck Resources Limited - SVP of Base Metals*

Yes, and just on Pend Oreille. It's a combination of both the zinc price, obviously. But we still have more work to do, and we'll continue to do that on a year-by-year basis to firm up our reserves and associated mine plans. Pend Oreille does provide a very important low iron-grade feed source to Trail, and it's a good transportation advantage as well. So we'd like to see that mine continue to keep going, going forward. But that's going to be on an annual -- year-by-year basis.

Operator

Your next question is from Ralph Profiti with Eight Capital.

Ralph M. Profiti - *Eight Capital, Research Division - Research Analyst*

Don, is the coal business now in a position to materially exceed on sales relative to production? You don't give guidance greater than one quarter out, but we've seen a lot of acceleration and mobilization work done on replenishing inventories, and there's actually been a small net build in Q4. How well built-up, internally, is Teck for that?

Donald R. Lindsay Teck Resources Limited - President & CEO

Okay, we're looking at a combination of Robin and Réal for that one. I mean, it's a complex moving target, but Robin, you want to start on inventories?

Robin B. Sheremeta - *Teck Resources Limited - SVP of Coal*

Maybe I'll -- yes, I mentioned, we've got strong clean coal inventories at site right now. So well of over 1 million tonnes of coal so if we can get it to the port, it's certainly available for sale.

Donald R. Lindsay Teck Resources Limited - President & CEO

Réal?

Réal Foley - *Teck Resources Limited - VP of Coal Marketing*

And on the market side, Ralph, demand is really good right now. So -- and we expect it will continue through 2018, as Don said, with the global synchronized growth that we're seeing with the capacity, closures and reduction in China. The increased yield production in the rest of the world too is pulling a lot of coal right now. And that's due to combination of increased demand, supported by still some production disruption. And in the European market -- the Eastern European mines -- a number of Eastern European mines are depleting and closing, so that is also generating additional demand for seaborne coal. Looking out to 2018, I think we -- the Westshore underperformance has really impacted our ability to deliver coal to the market as Robin stated. We have a lot of clean coal sitting at our mines that we need to move to ports. And if Westshore is not performing, it's creating a traffic jam on the rail line. So really looking forward to improvements on that side, but demand is there to move the product. And the mines are in good shape, too.

Ralph M. Profiti - *Eight Capital, Research Division - Research Analyst*

Yes, okay. Don, I understand it's still early days in the energy business ramp-up, but I'd like to get Teck's thoughts on what is sort of an exceedingly wide differential on WCS. Is this a temporary issue, or it's something more structural? And are you still comfortable with, say, a $15 to $16 a barrel target for, say, 2019?

Donald R. Lindsay Teck Resources Limited - President & CEO

Interesting question, and it's totally dependent on what happens with pipelines. And obviously, that's a sensitive political issue, both here in B.C., in Alberta, federally, of course. So we kind of leave it to the politicians to sort it out. Our working assumption is that at least one pipeline will be built, whether it's Trans Mountain, which we -- we believe Trans Mountain will be built, or Keystone XL or both. If and when that happens, that will reduce differentials. What it gets to is anybody's guess. We actually have a working assumption lower than what you're suggesting. It was last year for quite a while in the sort of $11 range or lower. And we could see it getting back there if the pipelines -- if the two pipelines are built it will certainly get it back there. So I think we're just going to have to see how the politicians sort it out. And clearly, I mean, it's costing the country an enormous amount.

Operator

The next question is from Lucas Pipes from B. Riley FBR.

Lucas Nathaniel Pipes - *B. Riley FBR, Inc., Research Division - Senior VP & Equity Analyst*

I wanted to follow up a little bit on the capital return side. So for example, on the share repurchases, if you stop $175 million out of the $230 million authorization, and I wondered, is it possible for you to give us kind of maybe a way to solve into share repurchases over the course of 2018? For example, if you have a certain level of liquidity. Don, I think you mentioned $6 billion later in the year that could be sufficient to meet the -- any requirements for QB2. So if you kind of meet that level or exceed it, could then any incremental dollar from there -- free cash flow go towards share repurchases? As an example. I would appreciate your thoughts.

Donald R. Lindsay Teck Resources Limited - President & CEO

Okay, so our policy on dividends and buybacks was announced last September. We've moved to a flexible structure, similar to many of the London listed companies, where there is a base dividend that people can count on year in, year out, no matter what happens in the cycle. That's set at $0.20 per year. And then each year at the November board meeting, the board would determine what supplemental amount to add in terms of returning capital to shareholders. And in the last one, last November, they decided that half of that would be a cash dividend and half would be a buyback. The reason for that is because we did a lot of shareholder outreach between September and November, asking what shareholders preferred. The majority did say they preferred buybacks. They aren't necessarily buying Teck as a mining and metal stock for dividends, but for exposure to the key commodities that we produce. And buybacks, of course, mean that there are fewer shares outstanding and there'll be more production per share, more resources per share, and they preferred that. Also, quite a number of international shareholders, U.S. in particular, were in a situation where there were double-taxed on cash dividends. And so they preferred buybacks for that reason. On the other hand, having a strong cash dividend yield is very important to a great many shareholders, so that needed to be an important component. At the November board meeting in 2017, the board decided to split the supplemental dividend half cash and half buyback. Going forward, we anticipate that there will be some proportion buyback again. But we don't know how much that will be. It'll depend on how the year goes and what the capital needs are going forward. And that will be assessed in November. Clearly, so far the year's looking very good. We are off to a very good start in Q1. For example, our average realized coal price in 2017 was US$176, as Réal pointed, looks like Q1's quarterly price is calculated with only two weeks to go is in the US$238 range. So we're -- pretty fast start there. Clearly the zinc price is also significantly higher than what we averaged last year, and is the copper price. So we're set up for a very good year. How that will translate to the board's decision on how much buyback still remains to be seen. In terms of completing what we said we would -- we did a lot of it before year-end. And thankfully, that was share price below $30. Then, of course, we're in the blackout period now. So we haven't been able to buy for a while, but we will complete the program by March 31, as we announced earlier. So I hope that answers your question.

Lucas Nathaniel Pipes - *B. Riley FBR, Inc., Research Division - Senior VP & Equity Analyst*

That's helpful. And then switching over to your growth projects. I noticed on Slide 11 that Quintette didn't make the list, right? I just wondered if you could give us a refresher on how you think about that project. I think it's been a little while since you've mentioned it, and it's to the best of my knowledge, permitted. And interest in coking coal project has increased. So I wondered how you think about that.

Donald R. Lindsay Teck Resources Limited - President & CEO

Thanks very much for the question, and a lot of people around the table are smiling, because I have been thinking about Quintette quite a bit in the last couple of months. I had a very good trip to India and China in December. And met with quite a number of customers. And was impressed by just how strong the demand is. And several customers at very senior levels, Chairman and CEO and so on, pointed out that we had a mine on the shelf that we could restart in a fairly short -- relatively short period of time, meaning kind of 14 to 18 months and could produce as much as 4 million tonnes a year and with the coal market being so tight, they'd love to see us do that. As you know, as most shareholders know, I'm religious about my belief that in this business you always make more money on price than volume. And that you wouldn't want to bring on a production that would tip the market into surplus and cause the price to go down on your other 27 million tonnes. So we've always been very careful about that. And I have said that in terms of Quintette that we wouldn't bring it back on unless we were very confident that the -- very, very significant growth in steel production that India's planning is actually going to happen. I think we have concluded that it's certainly -- a decent proportion of it's going to happen. They have said they want to get to 300 million tonnes of steel production by 2030. They're a little over a 100 million tonnes today. So that's a big increment that would require something like 80 million tonnes of seaborne coal, which is almost twice as much as all the China import is today. So that's very encouraging. You just wonder when will that actually occur. Well, what we're seeing in customers is a reasonable amount of it is actually occurring in the near term. And so, it may be that we could bring on Quintette and it wouldn't change the balance in the market. It's something we're going to study very closely, and we are updating things from an engineering point of view to see what the costs would be. We likely wouldn't do it unless we had some decent contracts from customers in advance at a floor price that is something that will give us [comfort] to invest the capital. And so we'd have those discussions with customers. So this is the kind of thing that would take 2 or 3 months to sort out. But we appreciate the question. It is a possibility, but no one should be putting it in their models just yet.

Fraser Phillips - *Teck Resources Limited - SVP of IR & Strategic Analysis*

Patrick, it's Fraser Phillips. We've gone over our time allotment a little here. So I think we will cut off the Q&A here. I apologize for those still in the queue with questions, but Ron Millos and myself are around all day to answer questions, just give us a call or send an e-mail, and we'll organize something. And I'll turn it back to Don now for closing comments.

Donald R. Lindsay Teck Resources Limited - President & CEO

Yes. I just wanted to make 2 comments. We are very pleased to have been able to set a new record for operating cash flow. And comparing that to 2011, when we last set a record, I note that we did it this year at an averaged realized coal price of US$176. In 2011, the average coal price we realized was US$257. So very significantly lower coal price, and the same is true in copper. 2011 was average US$4 a pound, and this year, we are around US$2.80 -- anyway, substantially lower copper and coal prices. And that's a good illustration of just all the hard work that was done over those 6 years to really increase productivity and reduce costs and maximize the efficiency of the assets.

So interestingly, we went through a downturn with a 5-point plant, where we said don't dilute to shareholders, don't issue stock while many of our competitors were, don't sell any core assets, while many of our competitors were, build something new during the downturn, and sure enough, Fort Hills has finished and now it's on and doing very well. And reduce costs and maintain a strong balance sheet, reduce debt. We did all that. So that today, we've actually already exceeded our operating cash flow record per share over the first ones coming out of the downturn. To do that, one of the analysts did some comparisons and we're well ahead of -- on a per share basis, because we actually have fewer shares outstanding today than we did back in 2011.

Last but not least, I do want to highlight that the average coal price for the last 10 years in today's dollars is actually US$191 and going higher. And that's a long ways from where most of the analysts are using their coal prices in their models guiding us.

And with that, thank you very much for your attention, and we look forward to speaking to you in April.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time, and thank you for your participation.
