Corrected Transcript

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Teck Resources Limited (TECK)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Teck's Q2 2024 Earnings Release and Investors Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] This conference call is being recorded on Wednesday, July the 24th, 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, Gaylene. Good morning, everyone, and thank you for joining us for Teck's second quarter 2024 conference call. Please note today's call contains forward-looking statements. Various risks and uncertainties may cause 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 forward-looking statements. In addition, we will reference various non-GAAP measures throughout this call. Explanations and reconciliations regarding these measures can be found in our MD&A and the latest press release on our website.

Moving to the agenda on slide 3, Jonathan Price, our CEO will begin today's call with highlights for our second quarter results. Crystal Prystai, our CFO, will follow with additional color on the quarter, as well as the sale of our steelmaking coal business and the use of proceeds from that transaction. Jonathan will then discuss the transformation of our portfolio and our value-creation strategy. We'll then take your questions.

With that, over to you, Jonathan.

Jonathan Price

President, Chief Executive Officer & Director, Teck Resources Limited

Thank you, Fraser, and good morning, everyone. Starting with the highlights from our second quarter on slide 5. At the very top of our list of highlights is the close of the sale of the remaining interest in the steelmaking coal business on July 11. It's not every day that we receive $7.3 billion in cash proceeds, and this transaction marks an exciting new era for Teck as a company focused entirely on providing metals that are essential to global development and the energy transition.

We believe that the copper market has strong fundamentals, and we continue to see ongoing urbanization and population growth driving increased copper intensity with additional demand driven by power generation, technology, data, and increased electrification. The long-term outlook for copper is highly resilient. And with the significant proceeds from this transaction, Teck is strongly positioned to capitalize on the growing demand for copper in our new era.

With substantial funding retained for our near-term value accretive projects, which provide us with a pathway to increase total copper production once QB is at full capacity by a further 30% starting as early as 2028, with significant debt reductions further strengthening our resilient balance sheet, and with the largest cash return to our shareholders in the company's history. Crystal will speak to the use of proceeds in greater detail shortly.

[ph] From the (00:03:21) transaction, there were several highlights from our strong operational and financial performance in the second quarter. We generated CAD 1.7 billion of adjusted EBITDA, a 13% increase from the same period last year, reflecting record quarterly copper production driven primarily by the ramp up of Quebrada Blanca or QB. It was also another strong quarter of Red Dog and we have very strong production in the steelmaking coal business despite two major planned maintenance shutdowns.

At the same time, we advanced our industry-leading copper growth portfolio, having achieved several milestones in the permitting processes for the Highland Valley mine life extension and for San Nicolás. We continue to focus on sustainability leadership, including improved safety performance. Our High-Potential Incident frequency rate was 0.11 for the first half of the year, which is a 46% reduction in HPIs from the same period last year.

I'm turning to the highlights on QB on slide 6. We continue to advance the ramp up during the second quarter. QB copper production increased quarter-over-quarter to 51.3 thousand tonnes from 43.3 thousand tonnes. Robust design and construction of the plant supports debottlenecking and we remain focused on recovery and throughput.

We achieved first production and sales of molybdenum as planned, and the ramp-up of the molybdenum plant is progressing. Our QB net cash unit costs were in line with our expectations. QB is already starting to contribute to our strong financial results with CAD 284 million in gross profit before depreciation and amortization generated in the first half of the year while still in ramp up.

Turning now to the outlook for QB on slide 7. We are seeing continuous improvements in throughput, which is now close to design rates. While we have recurring failures with a pulley and a key overland conveyor, these have now largely been mitigated. At the same time, recoveries have improved as we adjust to clays in the transition ores and improve plant stability.

Our focus is on driving recoveries to design levels, and we are confident that we will achieve our target recoveries by year end. But most importantly, we continue to expect to reach full throughput rates at QB by year end. However, slightly lower than planned ore grades in the second half of the year due to short-term mine access issues related to pit de-watering and a localized geotechnical issue have resulted in an update to our 2024 production guidance for copper and molybdenum.

We've revised our full year QB copper production guidance to 200,000 tonnes to 235,000 tonnes from 230,000 tonnes to 275,000 tonnes and revised our full-year QB molybdenum production guidance of 1.8 thousand tonnes to 2.4 thousand tonnes from 2.9 thousand tonnes to 3.6 thousand tonnes.

In line with our production guidance changes, we've revised our full-year net cash unit cost guidance for QB to $2.25 per pound to $2.55 per pound from $1.95 per pound to $2.25 per pound. And while second quarter sales for QB were impacted by a temporary filter plant issue at the port in June, it was resolved by quarter end, and we expect to make up the sale volumes over the balance of the year.

Production guidance for QB for 2025 to 2027 is unchanged. Once at full capacity, QB will double our copper production, and we expect our base metals operations to generate significant EBITDA. As shown on the slide, we have the potential to generate more than CAD 5 billion of annual EBITDA, and with sustaining capital and capitalized stripping expected to be in a range of CAD 1 billion to CAD 1.2 billion per year, Teck's free cash flow generation potential is compelling.

I'll now hand the call over to Crystal to provide further details.

Crystal Prystai

Senior Vice President & Chief Financial Officer, Teck Resources Limited

Thanks, Jonathan. Good morning, everyone. I'm going to start on slide 9 with our financial performance in the second quarter. Given final regulatory approval of the sale of Elk Valley Resources or EVR was not received until July 4, we continue to report EVR in our operating results in the second quarter.

Starting in the third quarter of 2024, EVR results will be presented as discontinued operations. There are a number of significant accounting and presentation items that impacted our first quarter results, and these continue to impact our results in the second quarter.

Consistent with our reporting in Q1, our second quarter financial statements reflect the 23% minority ownership in EVR by NSC and POSCO, and we continue to consolidate 100% of EVR's production and sales volumes, revenue, gross profit, and EBITDA given our controlling shareholding position. Our profit attributable to shareholders is based on our 77% ownership of EVR. If the remainder of EVR profit attributable to non-controlling interests. This reduced our profit attributable to shareholders and related EPS compared to the same period last year.

We continue to operate the steelmaking coal business in the second quarter and retained all cash flows from EVR until completion of the sale of our remaining 77% interest in EVR to Glencore on July 11, 2024. Our finance expense and depreciation and amortization expense have both increased compared to the same period last year as we are depreciating QB assets and no longer capitalizing interest on the project starting in 2024.

Our solid financial performance in the second quarter reflects record copper production and strong copper prices, as well as strong steelmaking coal sales volumes, which were partially offset by higher depreciation, amortization, and finance expense due to the QB ramp up and the non-controlling interest resulting from the minority sale of EVR to NSC and POSCO as I outlined earlier.

We returned a total of CAD 346 million to shareholders in the quarter, including CAD 282 million in share buybacks executed under the CAD 500 million return previously authorized by the board following receipt of the NSC proceeds, and we paid CAD 664 million of quarterly base dividends. Through the end of June, we had executed CAD 363 million of the board authorized CAD 5 million share buyback.

Slide 10 summarizes the key drivers of our financial performance in the quarter. The increase in adjusted EBITDA in the quarter compared to the same period last year was primarily driven by higher pricing adjustments, primarily for copper but also for zinc, increased sales volumes for copper with record quarterly production, as well as steelmaking coal sales volumes at the top end of our guidance range, and the positive impact of a weaker Canadian dollar.

These items were partially offset by higher operating costs across our business and lower steelmaking coal prices. We remain highly focused on managing our controllable operating costs. Higher overall operating costs in the quarter reflect elevated QB operating costs, as well as inflation that is expected to persist throughout 2024 and was contemplated in our guidance for sustaining capital and unit costs. As expected, QB costs were elevated in the first half of the year due to alternative shipping arrangements, ramp up of the molybdenum plant, and lower volumes as ramp up of production continues.

Now, turning to each of our business units in greater detail and starting with copper on slide 11. Overall, our gross profit before depreciation and amortization in copper increased 118% in the quarter compared with the same period last year, reflecting a significant increase in the copper price in the quarter and substantially higher sales volumes, partially offset by elevated QB operating costs as production ramp-up continues.

Spot copper prices hit a record high of $4.92 per pound at the end of May and our realized copper price in the second quarter was $4.44 per pound, up 17% compared to the same period last year. The ramp-up of QB drove our record quarterly copper production up 71% from the same period last year, and we also had higher production at Highland Valley and Antamina. This was partially offset by lower production at Carmen de Andacollo due to water restrictions as a result of ongoing extreme drought conditions. The water restrictions improved during the second quarter, and are expected to continue to improve in the second half of this year.

As expected, our cost of sales was higher year-over-year as QB operations ramp up and we record depreciation of QB's operating assets. Excluding QB, our net cash unit costs were $1.82 per pound or $0.10 per pound lower than the same period last year as a result of lower US dollar denominated operating costs and lower smelter processing charges, partly offset by reducing byproduct credits from Antamina.

Looking ahead, as Jonathan outlined, we have updated our 2024 annual copper and molybdenum production guidance and our unit cost guidance for the full year, reflecting changes to QB guidance. We've revised our copper production guidance to 435,000 tonnes to 500,000 tonnes from 465,000 tonnes to 540,000 tonnes, which still represents over 55% copper growth year-over-year at the midpoint.

Our molybdenum production guidance is now 4.3 thousand tonnes to 5.5 thousand tonnes from 5.4 thousand tonnes to 6.7 thousand tonnes. And our net cash unit cost guidance has been revised to $1.90 to $2.30 per pound from $1.85 to $2.25 per pound, primarily as a result of lower molybdenum production, as well as lower copper production volumes.

Looking now at our zinc business on slide 12. We had another strong quarter at Red Dog with increased zinc and lead reflecting higher grade and recovery. Zinc sales of 53,000 tonnes were in line with guidance for the second quarter. However, Red Dog's net cash unit costs were up $0.04 per pound due to higher cost for consumables and an increase in smelter processing charges.

At Trail, refined zinc production was impacted by unplanned maintenance, and refined lead and byproduct production was significantly lower, reflecting the planned 70-day shutdown for the replacement of the KIVCET boiler. The project was completed on time and on budget, and the boiler has been operating very well since the restart.

Overall, our gross profit before depreciation and amortization in zinc decreased 53% in the quarter, primarily due to reduced refined metal sales and zinc premiums at Trail, and lower zinc sales volumes for Red Dog compared to the same period last year. The shipping season at Red Dog commenced on July 12, and we expect Red Dog zinc in concentrate sales of 250,000 tonnes to 290,000 tonnes in the third quarter, reflecting our normal seasonality of sales.

Our 2024 annual zinc in concentrate production guidance of 565,000 tonnes to 630,000 tonnes, and our net cash unit cost guidance of $0.55 to $0.65 per pound are both unchanged. At Trail operations, our 2024 annual refined zinc production guidance is unchanged at 275,000 tonnes to 290,000 tonnes.

Turning now to steelmaking coal on slide 13. This marks our last full quarter of reporting on EVR, and we are finishing on a high note. Sales volumes in the quarter of 6.4 million tonnes were at the top end of our guidance range and steelmaking coal prices declined, but they remain strong. And despite two major planned maintenance shutdowns, we achieved very strong production across all of our plants.

Adjusted site cash cost of sales per tonne of CAD 112 were higher than the same period last year, driven by higher spend on labor, contractors and diesel, and less favorable mining drivers. Given the ongoing shortage of skilled trade labor, we continue to have increased reliance on contractors. Transportation costs were CAD 1 per tonne lower than the same period last year due to lower demurrage charges as a result of continued stable vessel queues.

Overall, we generated CAD 1.1 billion in gross profit before depreciation and amortization, reflecting lower realized selling coal prices and higher unit operating costs, partially offset by higher sales volumes and the positive impact of a stronger US dollar.

Turning now to the sale of EVR and our use of proceeds from the transaction. Starting on slide 15, we completed the sale of the remaining 77% interest in EVR to Glencore on July 11, and received total transaction proceeds of $7.3 billion subject to customary closing adjustments. This transaction is a catalyst to transform Teck into a pure-play energy transition metals company. The proceeds position Teck for our next phase of responsible growth and value creation.

And as always, we remain committed to our disciplined capital allocation framework on slide 16. This guided our deployment of the proceeds from the transaction. We have a disciplined approach with the deployment of capital, and we aim to balance our growth with cash returns to shareholders while maintaining a strong balance sheet through the cycle.

Slide 17 summarizes how we are allocating transaction proceeds. We announced the largest return of cash to shareholders in tax history with approximately CAD 3.5 billion in total share buybacks and dividends. The share buyback of up to CAD 2.75 billion is in addition to the CAD 500 million share buyback previously authorized following the minority sale of EVR to NSC and POSCO. And through the end of June, we have completed CAD 363 million of the CAD 500 million buyback.

The board also authorized a one-time supplemental dividend of CAD 0.50 per share or approximately CAD 250 million, which will be paid on September 27 in addition to our quarterly base dividend of CAD 12.5 per share. We announced a debt reduction program of up to $2 billion and launched a cash tender offer of $1.25 billion for our outstanding notes that was subsequently upsized.

On July 15, we completed the purchase of approximately $1.4 billion of our public notes, and we are assessing further debt reduction opportunities. We expect to pay costs and taxes related to the transaction of approximately $750 million in early 2025. The remaining net proceeds from the transaction will be retained to fund our near-term copper growth.

Once QB is at full capacity, we have a pathway to increase our copper production by a further 30%, starting as early as 2028 for our near-term projects. These include the mine life extension at HVC, Zafranal, San Nicolás , and QB optimization and debottlenecking. Our attributable capital cost for these projects is estimated to be $3.3 billion to $3.6 billion.

Turning now to slide 18 on our resilient balance sheet. Following the close of the EVR transaction, we are now in a net cash position, including CAD 8.7 billion in cash as of today. With the purchase of $1.4 billion of our public notes on July 15, through the cash tender offer, we have decreased our outstanding term notes to $1.1 billion.

Our total debt outstanding following the cash tender offer is $4.3 billion and our net cash position is currently CAD 2.9 billion. We remain focused on maintaining our investment grade credit metrics supported by our resilient balance sheet.

And going forward, we expect to generate higher interest income by the additional cash that we're holding onto balance sheet. At the same time, our annual requirements for sustaining capital and capitalized stripping have declined to CAD 1 billion to CAD 1.2 billion following the sale of EVR. QB is expected to generate significant additional EBITDA and free cash flow at full production, which will further build on the financial resilience. As demand for copper continues to rise and constraints on new supply persist, the value of high quality, low cost copper assets will only increase. Overall, Teck is strongly positioned to execute on our strategy for responsible growth and value creation.

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

Jonathan Price

President, Chief Executive Officer & Director, Teck Resources Limited

Thanks, Crystal. So going on to our portfolio transformation on slide 20. As I said earlier, Teck is now entirely focused on providing metals that are essential to global development and the energy transition. I would like to take a moment to reflect on some of the strategic developments that we've executed on over the past couple of years to get to this point.

Last year, we started to refocus our portfolio towards energy transition metals through the sale of our interest in Fort Hills, marking our exit from the oil sands business. We've also modernized our shared structure with the introduction of a sunset for our Class A shares reflecting our commitment to strong corporate governance and acting in the best interest of all shareholders.

At the same time, we continue to advance the projects in our industry-leading copper growth pipeline. Two key milestones we're entering into joint ventures at NewRange in partnership with PolyMet, and at San Nicolás in partnership with Agnico Eagle, which help us to advance and derisk both projects. This year, we completed construction at QB, which is the driver for our near-term growth.

QB is a transformational Tier 1 asset for Teck with a long life [ph] additive (00:22:03) cost position and meaningful expansion opportunities. And it will be a cornerstone of our copper portfolio for decades to come. And finally, we've completed the sale of our steelmaking coal business, transforming Teck into a pure-play energy transition metals company.

As Crystal has just discussed, with the significant transaction proceeds in hand, we've announced significant cash returns to shareholders and taken steps to ensure that Teck is strongly positioned to capitalize on the growing demand for copper. We remain committed to balancing our growth with further cash returns to shareholders. All of this evidences our willingness to both settable strategy and critically execute against it, always with a focus on value creation.

Moving on to our current portfolio on slide 21. With the strategic moves that we have made, our commodity mix is now 100% base metals. We have a solid foundation of long-life producing copper and zinc assets that generate strong cash flow today including Antamina in Peru, Highland Valley Copper in British Columbia, and Red Dog in Alaska, and our cornerstone QB asset in Chile, which will generate strong cash flow and full production.

We also have mine life extension opportunities to maintain this foundation including at Highland Valley and Antamina in the near term. Importantly, while our portfolio mix has changed, our focus on maximizing long-term value for shareholders has not. We remain committed to operational excellence, ensuring we deliver the full value from our premium base metals portfolio.

Now turning to our industry-leading copper growth on slide 22. Over a decade ago, Teck recognized the value that could be created through a robust pipeline of copper projects. As a result, we have created a highly valuable portfolio of actionable copper growth projects diversified by jurisdiction and scale. Each of these will be a low cost operation, with competitive capital intensities already derisked through strategic partnerships. Teck is now on track to becoming a top 10 global copper producer, doubling copper production with the ramp up of QB, the pathway to further increase production by 30% starting as early in 2028.

Our near-term copper projects are high quality, capital efficient, and low operating cost projects, which should enable us to move down the cost curve and generate strong returns. We are also exploring optimization of QB, we increased production deal design throughput capacity with minimal capital. And beyond this, by the end of the year, we will develop definitive plans at near term with low capital intensity debottlenecking at QB.

We're progressing the life extension of Highland Valley to allow for continued production of this stable and profitable core asset for another 17 years. And the board will be reviewing the Zafranal project for sanction as early as the second half of 2025. And this capital efficient growth project is expected to have a rapid payback driven by high grades in the early years. And at San Nicolás, we continue to progress feasibility study work and our permitting application that position us to deliver this low capital intensity project that we expect to generate [ph] industry leading (00:25:28) returns. At the same time, we continue to progress our longer dated projects to assure we retain a pipeline with future growth opportunities.

Turning to slide 23, we are continuing to create value for shareholders by driving best-in-class, safe, and sustainable operational performance from project delivery including managing costs; incorporating learnings from the completed independent review of QB2 into our future projects; assessing value accretive opportunities to expand and optimize our high-quality operating assets; ensuring we continue our disciplined capital allocation to generate strong returns; executing on a well-funded, capital efficient near-term copper growth projects; balancing growth with cash returns to shareholders.

Overall, I believe that Teck is uniquely positioned as a pure-play energy transition metals company, with both a premium portfolio of long life cash generating assets in well-understood jurisdictions and industry-leading copper growth. We're working hard to unlock the full potential of both with a focus on value creation. I believe there is incredible value inherent within Teck not just in terms of the quality of our assets and the depth of our copper growth pipeline, but also our responsible and ethical approach to resource development, which is critical to our ability to realize value.

So to conclude on slide 24, while we are entering exciting new era as a pure-play energy transition metals company, we remain strongly committed to our purpose and values, which remain personal to me and to all of us at Teck. As we pursue responsible growth always focused on value creation, our capital allocation framework continues to guide us in balancing that growth with cash returns to shareholders. We are strongly to capitalize on the growing demand for copper, and we look forward to continuing to unlock significant value upside for our shareholders.

And with that, thank you. And operator, please open the line for questions.

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. Nice to see the progress at QB2. I was wondering, can you give us some more color on this localized geotech issue? And specifically, what does it mean for grade profile for H2 on copper? And then I'm also wondering if it will impact 2025 grade.

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

A

Yeah. Thanks, Orest. We are very pleased with the ongoing progress at QB2. The quarter-over-quarter improvement, again, as we said, is very encouraging. What I'm going to do is hand over to Shehzad Bharmal, our SVP of Operations. He'll give you a bit of an overview as to where we are now and the outlook for the second half and beyond.

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

A

Thanks, Orest. And perhaps best if I give a broader overview of the status and the accomplishments of QB to date. As we published, QB continue to have month-over-month improvement in performance and copper production over the last quarter. April was at 14,600 tonnes, May came in at 17,300, and in June at 19,300 tonnes. And the operations design is robust and no critical issues have been identified. Throughput, recovery, and head grades are, of course, the three factors that drive copper production. And we have continued to make excellent progress on throughput and over the last while we have run between 90% to 95% of design grades. So very confident of reaching full range here over the next coming months. And focus here is really on stable operations with improved online time.

On recovery, we are managing through higher amounts of clays that are in the transition ores between the supergene and hypogene mineralization. And we are making good progress. And this has been done with selecting different reagents and turning the dosing and, of course, modifying some other operating parameters. And as a result, we are a few points behind on recovery with the adjustments and more stable operations, which also contribute to our recovery issues. We expect to hit target range in the months ahead.

Talking about the [ph] head/feed grade (00:30:33) that you mentioned with this geotech issue, generally the [ph] head/feed grade (00:30:37) is very consistent with our block model, and that is really the key point and very reassuring. In the second half, we do plan to have [ph] more than planned feed/head grades (00:30:47). This temporary access issues was in access to the higher grade areas in the mine sequence as we had planned originally. And this localized geotechnical issue is for the access ramp to these areas.

And what we are doing is we're working through [ph] rearranging (00:31:07) the access ramp a little bit and additional support and buttressing, and that will take several months. And we expect to complete this work later this year and then full access by early next year. And actually in December, we expect to have access to this.

So the implications for 2025-2026 is very minimal. Some of this higher grade will bleed into 2025 and then will change the mining sequence and the balance of them will feed into 2026 as well. So, overall, really not a meaningful impact into 2025-2026, but a meaningful impact in Q3, in particular, and Q4 as well.

Orest Wowkodaw
Analyst, Scotiabank

Q

Thanks Shehzad. Can you actually gave us a guide for the copper grade in H2?

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

A

Yeah. We'll follow up with that with – Fraser will follow up with some of those details maybe offline.

Orest Wowkodaw
Analyst, Scotiabank

Q

Of course.

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

Lucas N. Pipes
Analyst, B. Riley Securities, Inc.

Q

Thank you very much, operator. Good morning, everyone. My first question is on slide 22 where you show your near-term growth projects. And I'm sure you're putting them into a funnel. And I wondered in which order with the projects kind of come out of the funnel, and what are the key attributes you're screening for as you decide the ranking? Thank you very much.

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

A

Yeah. Morning, Lucas, and thanks very much for that question. Yes, I mean, we are managing this as a portfolio. These projects, all have different risk-return characteristics, as you would expect. Of course, with QB and Highland Valley, these are both brownfield expansions. And QB, in particular, there's a process there of optimization of the existing debottlenecking of that operation, and then a potential expansion of that operation. Zafranal and San Nicolás, of course, are greenfield projects, both in jurisdictions where we don't currently operate. We have good experience in Peru, of course, through Antamina and at San Nicolás, bringing Agnico Eagle into that joint venture with our experience in Mexico significantly derisks our entry there.

So we evaluate all of these projects. We're progressing them in parallel through the completion of studies, through engineering, and through the application for permits. We will evaluate the economics of each of these projects against the relative risk and make those decisions accordingly. The one project where, of course, we do have particular timing considerations is the Highland Valley mine life extension. The current mine comes to end of life there at around 2028, and we would like to see continuity of operations through the extension.

So that's one that we very much expect to take forward to sanction next year in 2025. With Zafranal and San Nicolás , as I said, of course, it will be dependent on the outcome of those studies and engineering. But in the case of Zafranal, as you know, we already have a permit and that's one again that we have some confidence we'll be ready for sanction within the second half of 2025.

So it's great to have a portfolio like this. So we can think about the balance of risk and reward associated with each of these opportunities. And as I said, we continue to work very hard to progress all of these opportunities in parallel to that.

Lucas N. Pipes
Analyst, B. Riley Securities, Inc.

Q

Thank you. Thank you very much. And quick clarification question for slide 7 and a higher level question as well. The capital requirements of CAD 1 billion to CAD 1.2 billion, I believe that's Canadian, and sustaining capital and capitalized stripping, I assume that would be too low for 2025 because there's always some spending on development CapEx. So if you kind of were to fully bake the capital spending for 2025, what would be a reasonable zip code? And then the higher level question is that from this side of the border, it appeared that the approval of the EVR sale was somewhat grudging. And I wondered if you could maybe speak on the industry's reaction and general appetite to invest in Canada, and if this could have any impact on future interest in tech. Thank you very much for your perspective on that.

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

A

Thanks, Lucas. You manage to sneak in a couple of questions there. Look, on the first one, the CAD 1 billion to CAD 1.2 billion is very much within our expectations for sustaining capital and capitalized stripping for the years ahead. With the development work that we're doing on the projects that we just discussed, of course, we are incurring spend on studies, on engineering, and on permitting processes. This year, that's amounting to around CAD 500 million in aggregate. And, of course, projects, when they're in the advanced stages of feasibility study and engineering, it tends to be where the highest pre-execution spend occurs. So while those projects remain in this phase, you could expect to see us spending at a similar rate through 2025 is probably the best way to articulate that at the moment.

Again, in terms of the Canadian government, we don't see any changes there from our perspective. There's nothing in there that prevents us from executing this organic project portfolio, which, of course, is the key element of our strategy for Teck. We continue to invest both within Canada and outside of Canada as you see here through commitments in Chile and then also the potential for major investments in Peru and Mexico. And I think the execution of that strategy and our focus on creating value for all shareholders remains at the front and center of what we do. So we don't see any immediate impacts of anything we've heard lately from the government here in Canada.

Operator: The next question is from Jackie Przybylowski with BMO Capital Markets. Please go ahead.

Jackie Przybylowski
Analyst, BMO Capital Markets Corp. (Canada)

Q

Thanks very much. My first question, I think, I'd like to follow up on Orest's question about the geotechnical issues at QB2. I understand that you have just given us like pretty rough guidance on the impact. I mean, first of all, just a comment, I would also like if you could follow up with me on those grade profiles for second half as well. But my question is, do you expect technical issues, anything serious faulting or anything that could impact mining operations going forward? Thanks.

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

A

I'll pass it back to Shehzad again. The high level answer is no, but I'll let Shehzad provide a bit more color.

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

A

Jackie, this instability has been a known instability. So it didn't come out of the blue. It's just – it was a bit deeper than what we had planned. And as we are operating around that with blasting, we are taking extra precaution to make sure that we do buttress it right and reorient it for the longer term. So, really, normal operations [indiscernible] (00:38:57). And it's early in the mine plan. And if it was an advanced and mature mine, we would have other phases to be able to address this. These are pretty – these are not abnormal instabilities that we have [indiscernible] (00:39:09).

Jackie Przybylowski
Analyst, BMO Capital Markets Corp. (Canada)

Q

All right. I appreciate that. Thanks, Shehzad. And as a follow-up second question, maybe this one is for Crystal. On the share buyback plan, I understand you guys have two plans on-the-go right now, the CAD 500 million that was approved in January and then the new CAD 2.75 billion plan. Can you give us some color on when you expect the CAD 500 million buyback to be completed? Should we assume that's completed in the third quarter and then the new buyback starts in the fourth quarter and over to which period do you expect to do that CAD 2.75 billion? Is that like a multiyear program? Thanks.

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

A

Thanks, Jackie. Welcome back. Nice to hear from you. Yeah, good questions. I think just in relation to the buyback, we'll be back, obviously, executing on the CAD 500 million. I'd expect us to close that in the third quarter, obviously, subject to valuation considerations, which are always what drives us when we're considering our buyback approach.

In regards to the CAD 2.75 billion, we're targeting 12 to 24 months to complete that, but, again, depends on valuation and market conditions. I think it's probably sooner than the fourth quarter in terms of us getting into to starting to buy on that. And then obviously, we have to go through the ordinary course regulatory approval to renew our NCIB, which happens at the end of October.

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

A

And so I think, Jackie, to add to that, don't need to think of those really as two separate authorizations anymore. That is the total capital we have committed to buying back our shares, and we'll undertake that on a continuous basis.

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

Liam Fitzpatrick
Analyst, Deutsche Bank AG

Q

Good morning, everyone. And first question is just on the independent review that's been completed now at the [indiscernible] (00:41:21) – or regarding the QB Project. Can you just share some of the key findings from that and how that's going to benefit project execution going forward? And do you think you've now got the right people in place across the organization to begin this next phase of growth that you're now talking about?

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

A

Yeah. Thanks very much for that, Liam. I'll just focus on the second question. The answer is, yes, but we still – we'll continue to build more depth and bench strength in the project team here, of course, given the slate of activity we have ahead of us, we're going to need world-class project managers.

We have some of those to date assigned to these projects, but we'll need more of them to execute the growth strategy going forward. But we're also building out other areas of the team that support those project managers. So we have world-class people now assigned to the projects in the near-term, but we'll continue to build up bench going forward.

Talking of world-class people, I'm going to hand you over to our Head of Projects, Karla Mills, who will talk a little bit about the results of the QB review and how we're applying those in [ph] here (00:42:33).

Karla Mills
Senior Vice President-Projects, Teck Resources Limited

A

Sure. Thank you, Jonathan. I think it's important to start with the fact that from the outset we knew that QB2 was a complex and challenging project, especially given the altitude and scale of the project. Along with those factors, the project review was highlighted additional areas for improvement and learnings, and we are taking them forward in our project execution. In a number of cases, it validated learnings we'd already identified and have already been actioning over the last several months.

So – for maybe a few examples and highlights from our findings, one is the need for increased geotechnical drilling is impacting construction at the port, the tailings management facility, and the pipeline, also being more conservative in our assumptions around things like labor productivity estimates and inflationary pressures, which, of course, were exacerbated by COVID as supply chain globally became constrained. And, of course, enhancing oversight from our Teck owners' team when we switched to a time and materials execution basis.

We're taking a number of steps to ensure we are embedding all of the learnings and the best practices for our projects going forward. This includes what Jonathan has already highlighted. We do continue to build out our project teams with additional capacity and expertise. As project team continues to grow, and we are, in fact, attracting more and more world-class talent that are really excited to work in and on our growth strategy.

We're also upgrading our project management systems. This is to better identify trends and risks to proactively analyze and interpret information, boost our efficiencies, this will lead to more informed and faster decisions. And we're enhancing our project readiness and assurance practices in areas specifically around engineering design and capital cost estimates. I think, collectively, the improvement opportunities identified through this review will be baked into our projects moving forward and contribute to strengthening execution as we advance our corporate growth strategy.

Liam Fitzpatrick
Analyst, Deutsche Bank AG

Q

Okay. Thank you. That was – thank you for the detail there. Just as a quick follow-up on the debottlenecking at QB, can you just remind us what additional permits you may need to get before you can progress with that?

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

A

Yeah. Again, I'll ask Shehzad just to talk to sort of the three phases we see going forward here and the associated permitting strategies that we require.

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

A

So Jonathan mentioned we have the three phases of optimization, of debottlenecking, and then we will consider later after that a more robust expansion project. For the optimization, we do not expect to need any permits that would be within our permitted ranges and we're talking 5% to 15% throughput increase, which would [indiscernible] (00:45:41) include things like increasing redundancies to get better online times, and some minor modifications of some equipment that might need a little bit more sort of capacity.

When we come to the debottlenecking study, we will need to make some more meaningful modifications and some additional equipment. And that is things like repowering conveyors and having bigger pumps as well to be able to handle higher capacities, whether it be of flows or conveying systems. And this, of course, will be very low capital intensity because most of the major infrastructure like [indiscernible] (00:46:24), pipelines transmission would not need any increases.

And for that, we will need a permit. And we are developing that permit right now and expect to submit it before the end of the year. And then once we receive that permit, we would continue with making those changes and achieving higher throughput rates. And for that, we're looking at somewhere between 10% to 15% further increase.

Operator: The next question is from Timna Tanners with Wolfe Research. Please go ahead.

Timna Beth Tanners
Analyst, Wolfe Research LLC

Q

Hey, good morning. Thanks for the detail. I wanted to clarify, please, on the guided $3 million to $3.6 billion for copper growth. What exactly is in that? Is that just San Nic and Zafranal and Highland Valley expansion? And does that already include the revisiting of the total capital cost? You had told us you were going to conduct for – and then I guess along the same lines, when are we going to get updated costs both on an operating basis and capital costs? Thanks.

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

A

Yeah. Thanks, Timna. Essentially, that range, it does capture the projects that you mentioned. There's some allowance in there for QB, some of the work that Shehzad was just discussing as well. They are our best estimates, I would say, at the moment. And I don't use estimates in the either rigor of a project's organization, but our best understanding of the forward capital costs associated with those projects in aggregate, our attributable share, of course, taking account for the joint ventures that we have or partners that we have in these projects. Those capital costs will be finalized through the work we do in studies and engineering, of course, when we get to those definitive estimates. But we've done this with a view forward as to our best understanding today as to where those costs are likely to land.

Timna Beth Tanners
Analyst, Wolfe Research LLC

Q

Okay. So thank you for that. And then I guess follow-up is, when can we expect the further detail on the adjusted go-forward cost of production? And also, can you remind us what additional volumes and when you would expect as a result of those investments? Thanks again.

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

Crystal?

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

Yeah. Thanks, Timna. I think you're just asking – you've kind of mixed up maybe operating capital. So maybe can you just clarify whether you're referring to an update on operating cost or capital cost?

Timna Beth Tanners
Analyst, Wolfe Research LLC
Q

I was asking for all of the above, so sorry for the confusion.

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

No, it's okay. So, like, as part of our normal process, we'll provide our guidance update in January like we've done in the recent years, and that will reflect our updated [ph] outlook (00:49:21) at CapEx and OpEx for 2025, including a view on QB's cost once operations are wrapped up at the end of the year. In regard to development capital updates to what Jonathan has noted already, where we've provided that range based on the best information we have available as of today. So the timing of that will depend on when the engineering and study work is completed.

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

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

Hi. Hi. Hello. Good morning. Can you hear me now?

Operator: Yes.

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

Great. Sorry, I was on mute. Yeah, maybe a follow-up on the CapEx discussion. Do you have already a broad ballpark range of the CapEx per project before maybe that we have been discussing QB expansion, Zafranal, San Nicolás, and HVC life mine expansion?

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

Well, the short answer is, yes, of course, but we use ranges associated with each of those projects to provide the range of aggregate guidance in terms of what we expect to spend over the years ahead. As I said, we need to complete the work on studies, engineering, and estimates, et cetera, to have more confidence in those ranges. But in aggregate, that is the best understanding of the capital profile today.

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

Q

Okay. And, yeah, we're looking forward to the breakdown when you're ready to provide that. And then just on San Nicolás, just have you received any confirmation or indication that this project, if you decided to go ahead, would be able to be built and brought on given the potential constitutional reform in the country that may ban open pit mining?

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

A

[indiscernible] (00:51:55)

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

Q

So, basically, the question is, yeah, well, we're not sure if the ban would be on new operating concessions or – but those that already have exploration permit and are on their development in a way would be okay?

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

A

Yeah. Look, we acknowledge the uncertainty, Carlos, with respect to San Nicolás and that permit. Our experience to date is that permit process continues to proceed as planned. And we got over a significant milestone recently with respect to that process. So indications at that level are good. We'll have to see how things evolve and more broadly in terms of legislation, including changes in the judiciary perhaps in the country.

So there's a few things at play there. But from what we can see on the ground today and our experience, obviously, the regulator to date is positive. So we continue to remain very engaged in that permitting process. We continue to work on closing out the studies and bottoming out of the capital estimates associated with that. And we're hopeful we can bring that to a point where we achieve the permit and take it forward for sanction.

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

Bill Peterson
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning and thanks for taking the questions. I want to come back to QB2. So on this access issue, I guess, can you provide a little bit extra color on the timeframe on issue. Did this have any impact, I guess, quarter to date? I'm trying to think about the production rates through the remainder of the year. Should we think of it actually taking a slight step down from the third quarter before, I guess, improved in the fourth quarter to what would appear to be – I think you said earlier you hope to be at full production to around 25 kilotonnes. Just trying to get a sense of the trajectory here.

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

A

Yeah. So just at a high level, we expect to continue to see the quarter-over-quarter improvement continue through this year. And by the end of the year, we expect to be producing at full rates. But I'll, again, hand to Shehzad to give a little bit more detail on the underlying issues associated with the geotechnical fault with grade and with the transition rules.

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

A

Bill, like I mentioned before, this was a known area of instability, and it was late in the quarter when we understood the implications for pulling a different access rather than just buttressing or reorienting the access. And that would prevent access from these higher grade areas. And so, really, it's a H2 issue mostly. And as Jonathan mentioned, it's not to take a step down. It's to continue the improvements that we have had. And throughput rates continue to improve on grade. And just compared to plan to have slightly lower grade.

Bill Peterson
Analyst, JPMorgan Securities LLC

Q

Okay. Okay. Thanks. Thanks for that. So actually changing subject, on the zinc, just trying to get a sense of what you're seeing in the zinc markets considering where TC/RCs are in global smelter output, which appears to actually be contracting. And what are you assuming for supply-demand balances in the back half of the year and into next year?

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

A

Right. Thanks. Thanks for that question, Bill. I'll hand you over to Ian Anderson, our Chief Commercial Officer.

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

A

Hi, Bill. Thank you for the question. So what we're seeing currently is that the zinc market is definitely in deficit. And the reason for that is, of course, you saw not only the mine shutdowns that occurred as a result of lower zinc pricing year, but also some disruptions this year. There have been an initial start, for example, at [indiscernible] (00:55:56). We're expecting over the medium term a restart [indiscernible] (00:56:01), for example. And, of course, [indiscernible] (00:56:03) is also predictive. But really those don't come along this year.

And so the reflection that you're seeing in the very low TCs for zinc is as a result of that deficit. And just an interesting fact there, concentrate imports in China, for example, are down significantly this year, and that is attributable to lack of available feed. So we are seeing, of course, pricing in the zinc market. We're seeing conditions in finished metal really coming along and stable premiums there. And so we do anticipate there will remain a slight deficit for this year and are expecting the same thing for the first half in 2025 as well. Thanks for the question.

Operator: And the last question we have time for today is from Brian MacArthur with Raymond James. Your line open.

Brian MacArthur
Analyst, Raymond James Ltd.

Q

Thank you and thank you for taking my questions. My first question, just I appreciate all the guidance for EBITDA and ongoing CapEx, but as I think about the jurisdictions, you're getting cash flow and earnings from in the future, can you give any guidance for one, A, tax rate going forward; and, B, I guess, cash tax rates as I try and figure out free cash flow, which is kind of the missing part of taxes in this equation?

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

A

I'll give it to Crystal [indiscernible] (00:57:25).

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

A

Thanks, Brian, for the question. I think 2024 is going to be a bit of an anomalous year. We expect our overall effective tax rate on a continuing operations basis to be in that 41% to 43% range. That obviously excludes the impact of the sale of full business and the dividend. Beyond 2024, we still continue to think that 41% to 43% is a reasonable guideline, where we're profitable across all our business units and we have aggregate operating margins that are relatively large in comparison to corporate costs and finance costs.

I think that doesn't necessarily build in our growth projects, and there'll be some work that we have to do in that regard. But I think I would just encourage you to continue to use 41% to 43%, and we can provide more guidance when we have it. And obviously, Fraser can provide more and team can provide more support offline on quarterly aspects.

Brian MacArthur
Analyst, Raymond James Ltd.

Q

Great. That's very helpful. And maybe if I can just ask one more, and maybe it's for Robin. Obviously, you highlighted the core businesses pretty well this quarter at your run rates with two big maintenance shutdowns. Can you maybe just go through what happened? And maybe a second question, are the operations down there safe that they'll run at the 26 million tonnes a year? And I guess maybe a final question, I guess, with the coal business being sold, what Robin's plans are next?

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

A

Yeah, thanks, Brian. I'll hand you over to Robin in a moment. We won't give any forward-looking guidance for the coal business as you might expect. I'm just going to quickly make a comment on Robin. Robin will be retiring from Teck in the coming months. Robin has been with us for 36 years, most recently as our President of Coal. He has quite literally delivered us truckloads of cash over many years through his role. And in addition to his leadership of the coal business, he's had a significant impact across all of Teck, particularly, in respect of his safety – leadership and the safety programs that he's established here over many years. So we just want to recognize and thank Robin for his incredible contributions to the company over many, many years.

And with that, Robin, I'll hand it over to you to discuss the quarter.

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

A

Thanks, Jonathan, and thanks for the question. I didn't expect one this round. I think what I'd say about the quarter is the coal business is operating as it was prepared to operate over many years. And we had a strong quarter because all the operations combined are in extraordinarily good shape right now. So we're seeing the best safety performance we've ever seen in history.

We've got our water treatment plants are all performing well. All the plants ran really well through the quarter. And this is really business as usual from my perspective. So I'm proud of the team that got us to the point we are today, and it's up to the new owners now to take it forward. But the business is in exceptionally good shape, and that was demonstrated in that quarter.

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

A

Thank you Robin.

Brian MacArthur
Analyst, Raymond James Ltd.

Q

Thank you very much, Jonathan and Robin, and good luck, Robin.

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

A

Thank you, Brian.

Brian MacArthur
Analyst, Raymond James Ltd.

Q

Thank you.

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

And thank you to everyone for joining us today. And thank you for all the questions. Just a note, we are planning to hold a Strategy Day in Vancouver on November the 5th, followed by a site visit to Highland Valley the following day. So please watch out for a save the date notice, which we expect to send out shortly. As ever, please reach out to Fraser and the IR team if you have any further questions. And with that, please enjoy the rest of your 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.