



FEATURED OPTIONS RADAR REPORT



Bullish Positioning in Zinc/Copper Leader with Key Projects Ramping

Ticker/Price: TECK (\$21)

Analysis:

Teck Resources (TECK) into weakness last week saw 10,000 each of the January \$21 cans \$23 calls open for \$2M each and also on 8/20 the January 2023 \$20 calls added 2500 to OI. TECK has also seen put sales at \$20 and \$19 strikes in September and November respectively. TECK shares fell below its 200-day moving average last week but started this week retaking the level after bouncing right at the lower weekly Bollinger Band. Shares have a lot of work to do and need to clear \$23.25 for a confirmed trend and volume zone breakout but the reversal has an easy level to trade against and took place at the 50% retrace of the October 2020 low to 2021 high. TECK is a natural resources company focused on copper, zinc, steelmaking coal, and energy. TECK is a key producer of copper, one of the largest producers of mined zinc, the 2nd largest seaborne exporter of steelmaking coal and also has other interests. Steelmaking Coal is 38% of revenues & 35% of profits, Zinc is 30% and 29%, and Copper is 27% and 44% respectively. TECK has a market cap of \$11.3B and trades 4.5X EBITDA and 0.7X Book with revenues seen rising 39% in 2021 and 6-10% annually in 2022/2023 and EBITDA at 100% and 5-10% respectively. TECK has a key catalyst with QB2 expected to start operations in 2H22. Global steel demand continues to be robust, and met coal demand and prices remain elevated. Teck has seven copper growth projects outstanding at various stages of development: Zafranal and San Nicolas nearer term, QB3 and Galore Creek mid-term, and NuevaUnion, Mesaba, and Shaft Creek longer term. Management intends to make a decision on the potential sale of Zafranal in 2H21. In terms of capital allocation, management expects the first 30% of available cash flow to be returned to shareholders in the form of either a special dividend or buyback, and the remaining 70% balanced between further growth, balance sheet management or additional shareholder returns. Analysts have an average target of \$28 and short interest is low at 1.6% of the float. BAML upgraded shares to Buy in July with a \$30 target positive on rising met coal prices and the QB2 startup should dilute its met coal exposure eventually with carbon use concerns. Deutsche Bank raised to Buy in May noting QB2 can transform the portfolio with its Copper exposure and drive a FCF inflection point while seeing multiple accretive projects in the pipeline.

Hawk Vision:



Hawk's Perspective: TECK is cheap on valuation and can be re-rated higher as it shifts away from met coal, though carries plenty of execution risk with capital intensive projects. The \$19.50 level as a spot to trade against provides solid reward/risk here.

Confidence Ranking: \$\$