



Call Buyers Active in Beaten Up Teck Resources

Ticker/Price: TECK (\$13.45)

Analysis:

Teck Resources (TECK) trading 35,000 calls midway through the session which is 7.5X daily average with size trades including 6000X each of the January \$13 and \$15 calls, 2350 of the August \$15 calls, and 6000X each of March \$13 and \$15 calls. TECK has seen a surge in bullish call flows since 1/22/2020 and also has 24,500 March \$16 calls in open interest. TECK shares have sold off sharply since 2018 and continue to be weak with Metal peers in 2020, but hitting a potential support near \$13 as a 61.8% Fibonacci retracement of the longer term move. The \$7.5B Company focuses on Coal, Copper, Zinc, and Steelmaking and trades 3.4X EV/EBITDA with a 1.16% yield and pretty solid balance sheet. TECK will next report 2-21 and estimates called for a 6% decline in EBITDA for 2020. In November the company hired advisors to assist in the sale of its Peru assets and could look at shedding more assets. It sees future value catalysts as QB1/QB2 as well as transformation through innovation: RACE21. TECK is the best low carbon emissions names versus peers and could attract investment flows from the ESG push. Analysts have an average target of \$25 and short interest has dropped 48% Q/Q to 0.8% of the float. CSFB named it a Top Pick for 2020 on 1/14 noting "Teck has a compelling, capital -efficient copper growth story that will pivot the earnings mix away from lower multiple coal. Teck has an operational turnaround story in coal as strip ratios decline and transportation cost s benefit from Neptune. The stock has derated from capex escalation, macro concerns, and coal cost inflation and we view sentiment as near a trough." Citi upgraded shares to Buy in December noting CAPEX expenditures are now understood and priced into shares and positive on met coal into 2020. Hedge Fund ownership fell 20% in Q3 filings, the top holding for Impala that added more shares.

Hawk Vision:



Hawk's Perspective: TECK does not really fit my preference of overlaying momentum to option flows, but on a different level the valuation is getting extremely cheap and could see some sort of M&A.

Confidence Ranking: \$