CONTRARIAN RESEARCH REPORT

October 22, 2015

Teck Resources Ltd

(BUY)

Price:	$6.20	**Ticker:**	TCK
52-Week Range:	$4.39 - $17.88	**Dividend:**	$0.23
Shares Outstanding:	576.2 million	**Yield:**	3.7%
Market Capitalization:	$3.6 billion		

Data As of October 19, 2015

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The Contrarian Report

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Investment Thesis

Teck Resources Ltd. (NYSE: TCK), based in Vancouver, British Columbia, Canada, is a diversified mining company whose resources consist primarily of zinc, copper and metallurgical coal. It is also part of a joint venture that is developing a new oil sands project, which should add materially to the company's earnings going forward. As one might expect, downward pressure on commodity prices has weighed on Teck Resources' ("Teck") share price over the last year. However, it is the oil sands development project, and its related financial commitments, which has caused some observers to speculate as to whether the company is at risk of bankruptcy. This risk now seems remote considering the recent cash raised by entering into precious metal streaming agreements, and recognizing that Teck has the option of selling is interest in the oil sands project, thus forgoing its future obligations. In light of this, the company is positioned to reclaim its full earnings potential once commodity prices recover, which, historically, has been over 7x what Teck generated during 2014. Given the likely degree to which the shares will appreciate under such a scenario, and considering the margin of safety afforded to investors by the value of the company's high-quality resource base, shares of Teck are recommended for purchase.

The market is beginning to see signs that pricing for certain commodities primarily copper and zinc, in the case of Teck should strengthen going forward. On a cash cost basis, approximately 15% of the world's copper supply is believed to be unprofitable today, although these costs do not account for items such stripping costs or site development expenses. When considering the all-in total costs of a mining operation, approximately 50% of production is losing money based on current prices. Mines are beginning to close and, although lower-cost producers appear ready to fill this void and increase market share, it is not clear that they will be able to address the imbalance between supply and demand that exists in the copper and zinc markets.

As one might expect, Teck has significant leverage to an increase in commodity prices, having earned CAD2.7 billion in 2011. Production has increased since that time and other growth projects are in development, implying earnings could be even great going forward. Still, the company is getting no credit for this earnings potential as it trades at only 1.7x 2011 earnings. Based on shareholders' equity as of June 30, 2015, Teck is being valued at only 25% of book value, despite the fact that it has remained profitable throughout this most recent cycle.

Some have speculated that Teck may be a bankruptcy risk, given some combination of its capital obligations related to its Fort Hills oil sands development, the potential impairment of these assets, and the likelihood of a debt rating downgrade should commodity prices remain at current levels for an extended period of time. These fears appear far-fetched, however, when one considers that, should it come to it, Teck could simply sell its working interest in Fort Hills to its joint venture partner. Further, the company has stated that the availability of its credit facilities, which are more than ample, would not be affected by a credit downgrade. Lastly, any asset impairments would not approach the magnitude necessary to trip any debt covenants. In short, there is little risk that Teck will continue as going concern and, as such, benefit from the eventual rebound in the commodities market.

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Company Description

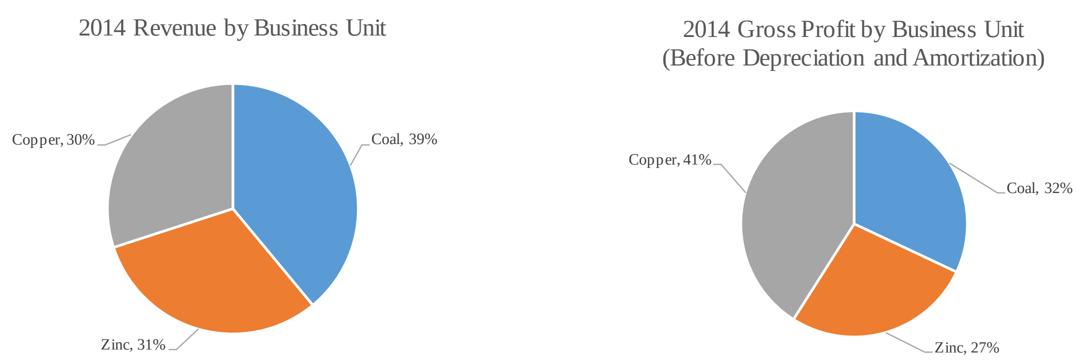
Teck Resources Ltd., based in Vancouver, British Columbia, is the largest diversified mining company in Canada. Its business segments today consist primarily of zinc, copper and steelmaking (metallurgical) coal mining and its assets are considered to be high-quality, meaning its resources are long-lived, located in countries with low political risk. Current projects are in Canada, the US, Peru and Chile and operate in the lower half of the industry cost curve.

The company has enjoyed the leadership of the Keevil family since the early 1960's. Norman B. Keevil Sr. served as president and CEO from 1963 to 1981, at which time he became Chairman of the company. The role of president and CEO was simultaneously turned over to his son, Dr. Norman B. Keevil, who served in that capacity from 1981 to 2001. Dr. Keevil became Chairman in 2001 and continues to hold that position today. He was inducted into the Canadian Mining Hall of Fame in 2004 and the Canadian Business Hall of Fame in 2012. The current president and CEO, Donald Lindsay, has served in that role since 2005.

The Keevil family remains a shareholder of the company via their 51% interest in Temagami Mining Company Limited, which owns 46% of Teck's Class A shares (which are entitled to 100 votes per share) and 0.15% of its Class B shares. This equates to slightly less than a 1% economic interest in Teck Resources. The state-owned China Investment Corp. owns 17.9% of the company via its wholly-owned subsidiary, Fullbloom Investment Corp.

Teck's revenues are somewhat evenly split between its resource segments. In 2014, for example, 39% of the company's revenues were derived from coal, 31% came from zinc and 30% from copper. Copper earned the highest margin, however, accounting for 41% of gross profit (before depreciation and amortization), followed by a 32% contribution from coal and a 27% contribution from zinc (see Exhibit 1).

Exhibit 1 Teck Resources: Contribution by Segment, 2014



Source: Company reports.

The company estimates that its current resource base will be able to support approximately 100 years of coal production, roughly 30 years of copper production and 15 years of zinc production (see Exhibit 2). The company is also involved in a joint venture to develop an oil sands project in

Canada, which is expected to support 50 years of production once operations begin in 2017/2018.

Exhibit 2 Teck Resources: Estimated Life of Resource Assets

Coal Resources	~100 years
Copper Resources	~30 years
Zinc Resources	~15 years
Energy Resources	~50 years

Source: Company reports.

Coal

Teck Resources is the world's second largest exporter of seaborne steelmaking coal, with total production of 26.7 million tonnes during 2014. Its resources comprise the Cardinal River mine in Alberta, Canada, and the Coal Mountain, Fording River, Line Creek, Elkview and Greenhills mines in British Columbia, Canada. Teck owns a 95% partnership interest in Elkview and an 80% joint venture interest in Greenhills. The rest are wholly owned.

Copper

The company produced 333,000 tonnes of copper in 2014 from four copper mines; the Quebrada Blanca and Carmen de Andacollo mines in Chile, the Antamina mine in Peru and the Highland Valley Copper mine in Canada. Additional projects are being evaluated in Canada, the US, Chile, Peru, Mexico, Namibia, Turkey and Australia.

Zinc

Teck Resources is one of the largest zinc producers in the world, having produced 659,700 tonnes of zinc in concentrate during 2014 from its Red Dog mine in Alaska and its Antamina mine in Peru. The company also operates one of the world's largest zinc and lead smelting and refining complexes, located in Trail, British Columbia. Lastly, Teck's resource portfolio includes the Pend Orielle mine located in Washington.

Energy

Assets in this segment include the company's 20% interest in the Fort Hills oil sands project in the Athabasca region of Alberta, Canada, which will be operated by50.8%-owner, Suncor Energy (SU CN). Total E&P Canada Ltd retains a 29.2% interest in the project after recently selling a 10% working interest to Suncor for CAD310 million. In addition to this development, the company owns a 100% interest in Frontier oil sands project (located to the north of Fort Hills) and a 50% interest in the Lease 421 Area. Lastly, Teck owns a 49% interest in the Wintering Hills Wind Power Facility, also located in Alberta.

The Fort Hills project is expected to produce 180,000 barrels per day over a 50-year time period starting as early as late 2017, and the economics are estimated to be quite favorable. At USD60 per barrel for West Texas Intermediate crude, for example, and with the CAD/USD exchange rate assumed to be CAD0.80 per USD, Fort Hills is forecast to generate annual pre-tax cash flow of CAD258 million. Should oil prices remain at $45-$50 per barrel, the project is still expected to be profitable. Teck's share of the remaining Fort Hills capital expenditure is expected to be

$1.8 billion (total capital expenditures were forecast to be slightly over CAD2.9 billion for Teck, of which, approximately CAD1.1 billion has been invested to date). It is interesting to note that, if Teck ever decided to exit this venture, the recent sale of the 10% working interest to Suncor would value Teck's 20% working interest at CAD620 million.

As one might expect, the company's revenues and earnings have been in decline since 2011 due to the cyclical decline in commodities prices (see Exhibit 3). Teck's 2014 earnings were less than 14% of what it earned during 2011, and consensus forecasts call for additional declines this year.

Exhibit 3 Teck Resources: Historical Revenues, EBITDA and Earnings; 2007-14
(CAD in millions)

	2007	2008	2009	2010	2011	2012	2013	2014
Revenues	6,189	6,655	7,674	9,223	11,514	10,343	9,382	8,599
EBITDA	2,799	1,961	4,109	4,326	5,459	3,295	3,153	2,348
Earnings	1,615	659	1,831	1,820	2,668	1,068	961	362

Source: Company reports.

It is interesting to note that, as is shown in Exhibit 4, production of steelmaking coal was 17% higher in 2014 than during its most recent peak-earnings year in 2011. Production of copper and zinc is virtually unchanged. Given this, the company's decline in revenues appears to be attributable solely to the lower price environment for these commodities.

Exhibit 4 Teck Resources: Historical Revenues, EBITDA and Earnings; 2007-14
(production in thousands of tonnes, except molybdenum, which is in thousands of pounds; prices in US$)

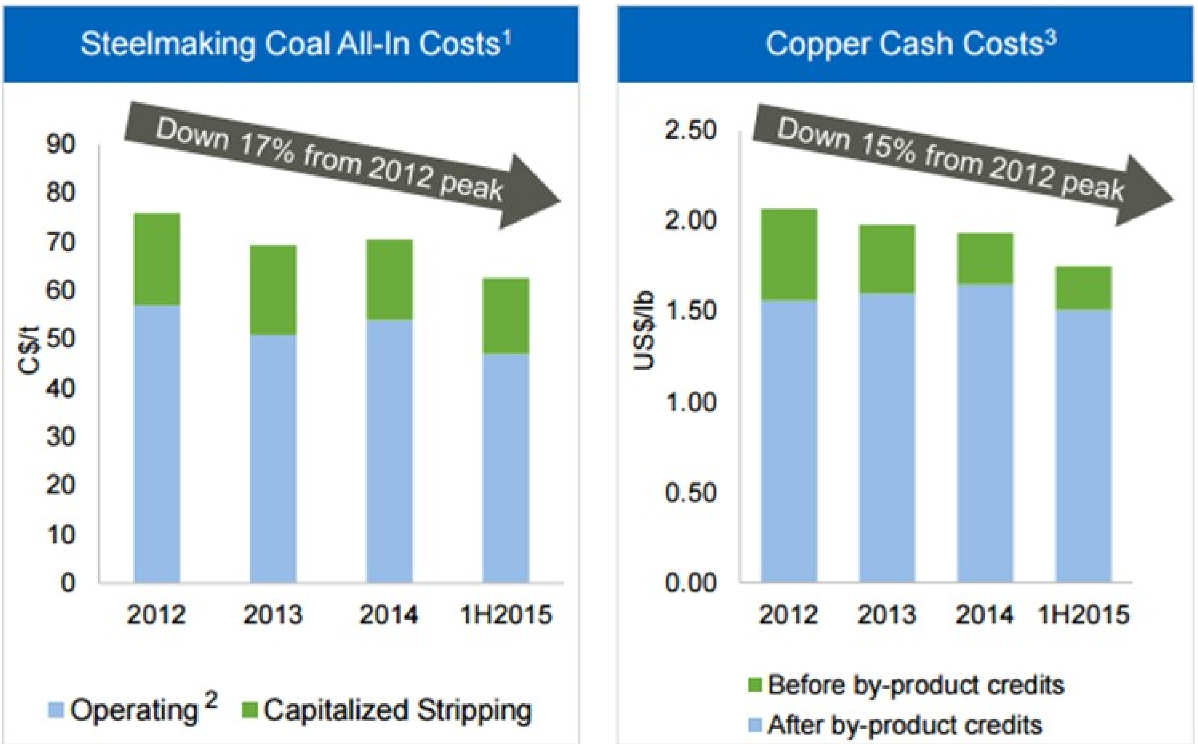
Principal Products	2007	2008	2009	2010	2011	2012	2013	2014
Steelmaking Coal	9,024	11,282	18,930	23,109	22,785	24,652	25,622	26,691
Copper	255	316	308	313	321	373	364	333
Zinc								
Contained in Concentrate	699	663	711	645	646	598	623	660
Refined	292	270	240	278	291	284	290	277
Other Products								
Lead								
Contained in Concentrate	146	133	132	110	84	95	97	123
Refined	76	85	73	72	86	88	86	82
Molybdenum Contained in Concentrate	7,235	7,224	7,798	8,557	10,983	12,692	8,322	5,869
Prices (in US$)								
Coal ($/tonne)	98	205	157	181	257	193	149	115
Copper ($/pound)	3.23	3.17	2.34	3.42	4.00	3.61	3.32	3.11
Zinc ($/pound)	1.45	0.85	0.75	0.98	0.99	0.88	0.87	0.98

Source: Company reports.

Today, the price of copper is 2.39 per pound, zinc is $0.76 per pound and coal is less than $90 per tonne. In other words, the prices of these products is on par with, or below, the prices experienced during the depths of the 2009 financial crisis.

Despite these lower prices, the quality of Teck's resources and its ability to manage costs have allowed it to maintain profitability. As shown in Exhibit 5, the company's all-in costs for steelmaking coal, which includes site costs, inventory write-downs and capitalized stripping, have been reduced to approximately CAD60 per tonne. Including transportation, the combined costs for coal were CAD92 per tonne in 2014.

Exhibit 5 Teck Resources: Costs for Steelmaking Coal and Copper; 2012-Present

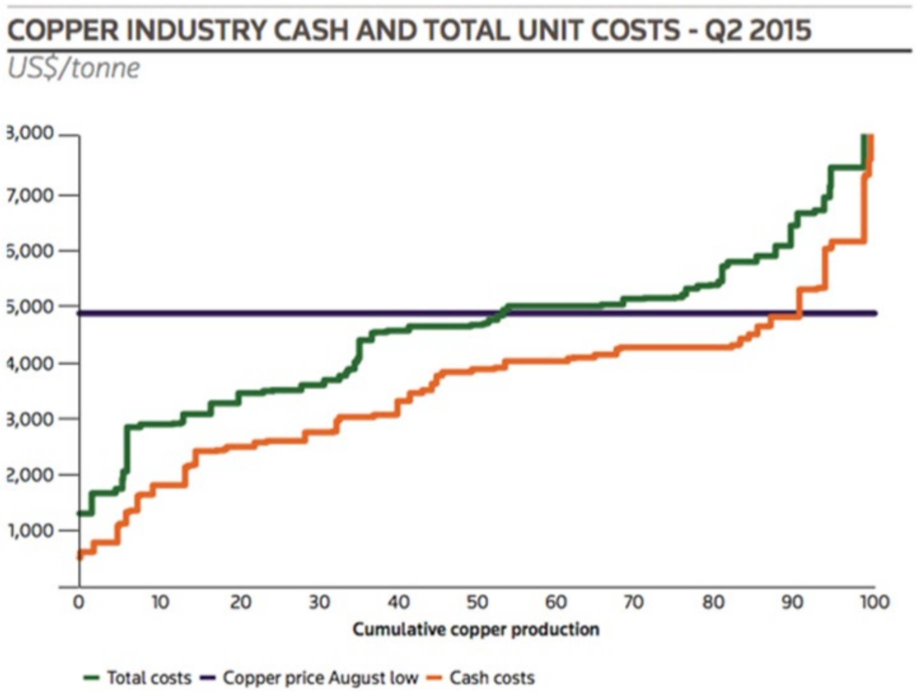


1 All-in costs are site costs, inventory write-downs and capitalized stripping, excluding depreciation.
2 Operating costs are site costs and inventory write-downs.
3 By-product credits currently reduce cash costs by ~$0.25/lb.
Source: Company reports.

There are reasons to believe that the prices for these commodities may stabilize and begin to rebound in the near term, as a significant percentage of global production is unprofitable relative to cash operating costs. In the copper industry, for example, approximately 10% of production was unprofitable on a cash cost basis. These costs do not include certain capitalized expenditures such as site development costs and mine stripping costs, although covering these expenses over the long term is necessary to ensure the long-term viability of a mine. When including these costs, approximately 50% of production was unprofitable as of the second quarter of 2015 (see Exhibit 6), and copper prices have since fallen farther.

This dynamic is more pronounced in the steelmaking coal industry, with more than half of global production believed to be unprofitable on a cash operating basis (source: Wood Mackenzie). Nearly all of global zinc production is estimated to be profitable at current levels, although supply has not kept up with demand and the above-ground stocks of the metal are approaching levels last experienced in 2008. Given this, the supply of zinc appears to be in deficit until prices increase sufficiently to spur new investment.

Exhibit 6 Teck Resources: Copper Industry Cost Curve; Second Quarter 2015



Source: Company reports, Thomson Reuters Eikon.

Valuation Analysis

As one might expect, the ongoing cyclical depression in commodity prices has weighed on Teck's earnings. Interestingly, however, the company's shares are trading at multiples of current and forecast earnings that would imply that Teck is getting no credit for its earnings potential should prices for steelmaking coal, copper and zinc eventually rebound. As shown in earlier in Exhibit 3, for example, the company has proven the ability to earn close to CAD5.5 billion in EBITDA and CAD2.7 billion in net income, before giving any future credit to the earnings of the Fort Hills oil sands development. Despite this, the company is trading at only 10.3x 2014 earnings (adjusted for one-time items and foreign exchange and hedging losses), which are a mere 17% of peak earnings in 2011. Valuations are also inexpensive compared to normalized net income, as Teck Resources is trading at just 3.4x average earnings of nearly CAD1.4 billion over the 2007-2014 period a period that is particularly weak considering the economic environment in 2008 and the current market for commodities.

Exhibit 7 Teck Resources: Current Valuation Metrics

(US$ and CAD in millions, as stated)

Share Price (10/19/2015)	$6.20		
Shares Outstanding (millions)	576.2		
Market Capitalization (US$)	**$3,572.4**		
CAD/USD Exchange Rate	1.2979		
Market Capitalization (CAD)	**CAD 4,636.7**		
Net Debt	7,745.0		
Enterprise Value	**12,381.7**		
2014 Adjusted Earnings	452.0	2015 Adjusted Earnings	279.4
Price/2014 Earnings	**10.3x**	**Price/2015 Earnings**	**16.6x**
2014 EBITDA	2,392	2015 EBITDA	2,240
EV/2014 EBITDA	**5.2x**	**EV/2015 EBITDA**	**5.5x**

Source: Company reports, *The Contrarian Research Report* estimates.

At such a low multiple of the company's multi-year average earnings, one could argue that the market is concerned about issues other than just the commodity price cycle. In the case of Teck, some market observers appear concerned that the capital expenditure requirements associated with the company's Fort Hills oil sands development will add substantially to its debt load. This, combined with its depressed earnings, could then cause its debt to be downgraded to non-investment grade. If such a downgrade were to then cause the company to lose access to various sources of liquidity, and should commodity prices continue to decline, some have gone so far as to speculate that Teck could go bankrupt.

This line of reasoning, however, seems to ignore some key facts about the company's credit lines and fails to take into consideration recent transactions that have added a significant amount of cash to Teck's balance sheet. For example, according to a recent corporate presentation, the company has CAD5.3 billion available to it via two credit facilities, as well as CAD1.5 billion in cash (as of July 22, 2015). The company's credit rating will *not* impact the availability of either credit facility. In addition, Teck added an additional $610 million (approximately CAD785 million) of cash to its balance sheet by entering into a silver streaming agreement with Franco-Nevada Corp. (FNV CN) that is linked to production at its Antamina mine. With this deal, the company could hypothetically finance its capital expenditure requirements at Fort Hills with cash on hand.

There are other concerns related to the potential impending write-down of its Fort Hills assets precipitated by Total E&P Canada's sale of a10% working interest to Suncor. As mentioned earlier, this transaction values Teck's 20% working interest at CAD620 million. However, this asset is currently carried on the company's balance sheet at a value of CAD2.3 billion, implying a potential write-down of CAD1.7 billion.

Teck has one financial covenant related to its credit facilities; that it maintain a debt-to-debt plus equity ratio of no more than 50%. As of the end of the second quarter, the company's equity of CAD19 billion and total debt of CAD9 billion places this ratio at 32%. In other words, to place this covenant in perspective, Teck could absorb a write-down for the entire CAD2.3 billion book value of Fort Hills, while simultaneously drawing CAD3 billion to fund capital expenditures and other working capital, and still be at only a 42% debt-to-debt plus equity ratio (see Exhibit 8). In addition, net debt (including the CAD610 million earned from the streaming agreement) would amount to 4.4x the consensus EBITDA forecast for 2015, which reflects expectations of a 6% decline from the already depressed results reported in 2014.

Exhibit 8 Teck Resources: Current and Pro Forma Balance Sheet Metrics
(CAD in millions)

	As of June 30, 2015	Adjustements	Pro Forma
Cash and Cash Equivalents	1,327	785	2,112
Current Debt	419		419
Long-Term Debt	8,653	3,000	11,653
Shareholders Equity	19,047	(2,300)	16,747
Debt/Debt+Equity	**32.3%**		**41.9%**
Net Debt	7,745		9,960
Consensus 2015 EBITDA Estimate	2,240		2,240
Net Debt/EBITDA	**3.5x**		**4.4x**

Company reports, *The Contrarian Research Report* estimates.

It should further be noted that, even in the event of Fort Hills being impaired to zero, shares of Teck Resources would be trading at only 28% of book value.

Considering these various factors, one could argue that the bankruptcy fears can be put to rest. Once the market agrees, it is reasonable to expect that Teck's share price will begin to reflect (to some degree) the company's normalized earnings potential, with significant additional upside to come once commodity prices begin to appreciate.

As shown in Exhibit 9, this upside is substantial, even when making overly conservative assumptions. This analysis, which is based on EBITDA in order to make some adjustment for the capital commitments related to Fort Hills, assumes normalized EBITDA of CAD3.4 billion; the average over the 2007-2014 period. Over these eight years, the company's EBITDA was as low as CAD2 billion, and as high as CAD5.5 billion. In other words, these is arguably more upside to the average of CAD3.4 billion than there is downside. In addition, this estimate gives no credit to the future earnings potential from the Fort Hills project, nor to the production increases that have occurred in recent years.

This analysis also assumes a modest EV/EBITDA multiple of 8x and that net debt increases by approximately CAD1 billion (net of the CAD785 collected from the streaming agreement) to fund the company's capital requirements. Using these inputs, one arrives at an equity value of nearly CAD18.4 billion, which implies upside of almost 300% relative to the current market capitalization. Interestingly, the fair value estimate of CAD18.4 billion would still represent a slight discount to book value.

Exhibit 9 Teck Resources: Potential Equity Upside Based On Normalized Earnings
(CAD in millions)

Normalized EBITDA	3,400
Assumed Multiple	8x
Implied Enterprise Value	**27,200**
Less: Net Debt	(8,760)
Implied Market Capitalization	**18,440**
Current Market Capitalization	4,637
Upside Potential	**298%**

Company reports, *The Contrarian Research Report* estimates.

If one where to use more aggressive, yet reasonable, inputs, the upside is significantly higher. For example, if one assumes only 10% growth from the peak earnings achieved during 2011, which could easily be achieved through growth projects, an inflation-adjusted increase in commodities prices relative to 2011 levels and production increases , Teck's share price could increase 10-fold based on an EV/EBITDA multiple of 10x.

It should also be highlighted that Teck has remained profitable during this downturn and has generated modest free cash flow in recent periods. Further, free cash flow should increase substantially once it is finished with the expenditures related to Fort Hills. This performance has translated into relatively consistent growth in book value per share over the last ten years, which expanded at the compound annual rate of nearly 17% since 2004 (adjusted for dividends). As one can see in Exhibit 10, Teck managed to create value on a per share basis in every year but 2009, when the company experienced an after-tax impairment charge of CAD856 million and placed 101.3 million shares in an offering to China Investment Corp. in order to pay down debt.

Exhibit 10 Teck Resources: Cumulative Value Created per Share; 2004-2014

(CAD in millions, except per share data)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Shareholders' Equity	3,221	4,383	6,549	10,900	14,490	14,357	15,773	17,721	17,801	18,597	18,606
Shares Outstanding (millions)	403	407	432	443	487	589	591	587	582	576	576
Book Value per Share	8.00	10.77	15.15	24.62	29.76	24.37	26.71	30.21	30.57	32.27	32.29
Dividends	60	81	296	426	442	0	118	354	469	521	518
Cumulative Value Created per Share		10.97	16.02	26.44	32.32	26.48	29.01	33.14	34.33	36.97	37.89
5-Year CAGR (2009-2014)	**9.2%**										
10-Year CAGR (2004-2014)	**16.8%**										

Company reports, *The Contrarian Research Report* estimates.

Even if one were to consider the least favorable period in the above exhibit – 2008 through 2014, cumulative value per share still increased at a 4% annualized rate. Given the company's ability to remain profitable during a period of depressed commodities prices, and considering the quality of its assets, which certainly have significant value over the long term, it is somewhat surprising that the company trades at only 25% of equity attributable to shareholders.

Conclusion

Teck Resources, one of the world's premier producers of zinc, copper and metallurgical coal, is in the midst of a cyclical decline in commodities prices. As a result, earnings have declined more than 85% from their peak in 2011. It is reasonable to expect that Teck's earnings will not only eventually recover, but increase, as its oil sands development begins to produce.

Despite this, Teck shares currently trade at a below-market multiple of depressed earnings (10.3x adjusted 2014 earnings), implying that the market is giving little credit to the possibility of a recovery in the intermediate term. Further, considering that shares currently trade at only 25% of book value, it would appear that the market is failing to recognize the value of the company's high-quality asset base.

Some market observers have speculated that Teck may be at risk of bankruptcy should commodity prices remain depressed for an extended period. The likelihood of this happening is remote, however, when one considers the cash raised through recent streaming agreements and the fact that, should it become necessary, the company could simply sell its working interest in the Forth Hills project and forgo the related capital expenditure obligations.

Teck is well-positioned to weather this market cycle and earnings will eventually recover. The global demand for copper, zinc and steelmaking coal simply cannot be met if prices continue at current levels, as producers are not covering their operating costs. Conservatively, Teck's share price could appreciate approximately 300% based on normalized earnings. Based on peak-cycle earnings, and factoring in the growth expected from its oil sands development, shares could appreciate by over 600%. When one further considers the margin of safety provided by the company's asset base, the risk/reward of this investment is squarely in the investors favor. As such, shares of Teck are recommended for purchase.

Exhibit 11 Teck Resources: Consolidated Income Statement
(CAD in millions)

	Year		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Revenue	8,599	9,382	4,023	4,093
Cost of Sales	(7,071)	(6,956)	(3,364)	(3,388)
Gross Profit	**1,528**	**2,426**	**659**	**705**
General and Administration	(119)	(129)	(49)	(61)
Exploration	(60)	(86)	(28)	(26)
Research and Development	(20)	(18)	(20)	(16)
Other Operating Income (Expense)	(281)	(216)	(88)	(138)
Profit from Operations	**1,048**	**1,977**	**474**	**464**
Finance Income	4	13	1	2
Finance Expense	(304)	(339)	(157)	(144)
Non-Operating Income (Expense)	(21)	(6)	(24)	1
Share of Losses of Associates and Joint Ventures	(3)	(2)	(1)	(2)
Profit Before Tax	**724**	**1,643**	**293**	**321**
Provision for Income Taxes	(342)	(633)	(153)	(159)
Profit for the Year	**382**	**1,010**	**140**	**162**
Attributable to Shareholders	362	961	131	149
Attributable to Non-Controlling Interests	20	49	9	13

Source: Company reports.

Exhibit 12 Teck Resources: Consolidated Balance Sheet
(CAD in millions)

	June 30, 2015	Dec. 31, 2014
Current Assets		
Cash and Cash Equivalents	1,327	2,029
Current Income Taxes Receivable	72	100
Trade Accounts Receivable	1,099	1,036
Inventories	1,886	1,752
Total Current Assets	**4,384**	**4,917**
Financial and Other Assets	943	894
Investments in Associates and Joint Ventures	38	32
Property, Plant and Equipment	29,787	28,925
Deferred Income Tax Assets	347	361
Goodwill	1,749	1,710
Total Non-Current Assets	**32,864**	**31,922**
Total Assets	**37,248**	**36,839**
Current Liabilities		
Trade Accounts Payable and Other Liabilities	1,451	1,663
Dividends Payable	86	259
Current Income Taxes Payable	10	59
Debt	419	428
Total Current Liabilities	**1,966**	**2,409**
Debt	8,653	8,013
Deferred Income Tax Liabilities	6,153	6,091
Retirement Benefit Liabilities	577	572
Other Liabilities and Provisions	852	918
Total Non-Current Liabilities	**16,235**	**15,594**
Total Liabilities	**18,201**	**18,003**
Shareholders Equity	**19,047**	**18,836**
Attributable to Shareholders	18,797	18,606
Attributable to Non-Controlling Interests	250	230
Total Liabilities and Equity	**37,248**	**36,839**

Source: Company reports.