CHEMTRADE LOGISTICS INCOME FUND

Q4 2019 Results Conference Call

Mark Davis

Good morning, ladies and gentlemen. Thank you for joining us for our conference call and webcast today.

As usual, joining me is Rohit Bhardwaj, our Chief Financial Officer.

Before I commence the review, I would remind you that our presentation contains certain forward-looking statements that are based on current expectations, and are subject to a number of uncertainties and risks, and actual results may differ materially. Further information identifying risks, uncertainties and assumptions, and additional information on certain non-IFRS measures referred to in this call can be found in the disclosure documents filed by Chemtrade with the securities regulatory authorities, available at sedar.com.

One of the non-IFRS measures that we will refer to in this call is Adjusted EBITDA, which is EBITDA modified to exclude only non-cash items such as unrealized foreign exchange gains and losses. For simplicity, we will just refer to it as EBITDA as opposed to Adjusted EBITDA. Both these terms are fully defined in our MD&A.

In general terms we were pleased with the way we executed our business activities and operations in 2019. The initiatives we undertook in 2018 and 2019 to adjust to the changes in market conditions and improving day-to-day execution bore substantial benefits in 2019. While there is always room for improvement, our plants operated well, and supply chain and logistics movements were executed well.

Despite this improvement in execution, our aggregate financial results were lower than we expected. This was due almost entirely to prices received for our chlor-alkali products and, in particular, the prolonged weakness in caustic soda prices. I'll have more to say on our latest outlook for prices in my closing remarks.

Despite the CN rail strike in the fourth quarter, which had a negative EBITDA impact of approximately $3.0 million, our results for the year are in line with the guidance provided.

Ignoring the impact of IFRS 16, which Rohit will outline shortly, in aggregate our operating businesses generated EBITDA in 2019 that was similar to 2018. We achieved this result, despite significantly lower results in the Electrochemicals, or EC, segment. In that business, the low caustic soda prices throughout the year and lower netbacks realized for hydrochloric acid, resulted in EBITDA that was $50.5 million lower than 2018.

This significant decrease, primarily due to the market price of caustic, was more than offset by strong operating results in our Sulphur Products & Performance Chemicals, or SPPC, segment. SPPC reported significantly higher results each quarter in 2019 than in 2018. For the full year, EBITDA was $52.1 million higher than in 2018. A number of factors contributed to the increase, including higher realized selling prices, reduced logistics costs, and fewer maintenance turnarounds in 2019 relative to 2018. While all segments benefitted from improved execution this year, the results are most obvious in SPPC.

Our Water Solutions and Specialty Chemicals (WSSC) segment posted steady year-over-year EBITDA. Contract renewals for water treatment products during the year were generally made at higher prices, more than offsetting raw material cost increases, and weakness in some of our specialty chemicals.

So, in general, our businesses executed well in 2019 but, in aggregate, the results were counteracted by the decrease in the market price for caustic. We are pleased with how the re-configured SPPC business has adjusted to the structural changes in the merchant acid market, and how our water chemicals business gained strength throughout the year as new contracts came into force. Caustic prices started weakening about a year ago and the weakness has continued longer than we or industry experts anticipated. However, the long-term forecast continues to call for higher prices for a number of years. We remain confident that results for EC will improve over time and that our focus on execution will continue to deliver benefits.

Rohit will now provide you with some details on the fourth quarter results before I provide some further information on our outlook.

Rohit Bhardwaj

Thank you, Mark. Good morning.

As Mark indicated, our plants and supply chain continued to operate well in the fourth quarter of 2019 and results also reflect higher realized selling prices for sulphuric acid.

Before I review the financial results for the fourth quarter and the year, there are a couple of items to note.

The application of IFRS 16 on leases at January 1, 2019 means that Chemtrade now recognizes depreciation and interest expense, instead of operating lease expense, for leases that were previously classified as operating leases. This results in an increase in EBITDA, but it does not affect distributable cash. Also, comparative information has not been restated.

In 2018 and 2019, litigation reserves of $100.0 million and $40.0 million, respectively, negatively affected both EBITDA and distributable cash. Loan repayment costs of $7.4 million in 2018 affected distributable cash. I will exclude these in my comments this morning about full year results to better compare the actual operating performance of our businesses. These items did not affect fourth quarter results in 2019 and 2018.

Looking first at the aggregate results for the fourth quarter of 2019, revenue was $355.2 million, a decrease of $35.6 million from 2018. The decrease was primarily due to lower prices for caustic soda and hydrochloric acid in the EC segment. These decreases more than offset higher selling prices for sulphuric acid.

Aggregate EBITDA for the fourth quarter of 2019 was $70.3 million compared with $65.0 million in the fourth quarter of 2018. Excluding the $14.4 million benefit of IFRS 16, EBITDA for the fourth quarter of 2019 was lower than 2018 by $9.1 million. Strong results in the SPPC and WSSC segments were more than offset by the EC segment where EBITDA was $19.2 million lower than 2018.

Distributable cash after maintenance capital expenditures for the fourth quarter was $1.4 million, or 2-cents per unit. This reflected the lower level of EBITDA generated during the quarter and the heavy maintenance capex incurred in the fourth quarter.

For the full year 2019, Distributable cash from continuing operations after maintenance capital expenditures was $122.1 million, or $1.32 per unit, compared with $149.0 million, or $1.61 per unit in 2018.

Consolidated revenue for 2019 was $1.5 billion, which was $62.9 million lower than 2018.

The decrease was due primarily to lower selling prices for caustic soda and HCl, partially offset by higher selling prices and higher sales volumes for water products in WSSC and higher selling prices for sulphuric acid. Aggregate EBITDA for 2019 was $335.6 million compared with $296.2 million in the previous year. 2018 EBITDA included lease expenses of $56.2 million. Ignoring the effect of IFRS 16 on leases, 2019 EBITDA was $16.9 million lower than 2018. SPPC generated strong results in 2019 relative to 2018 with EBITDA improving by $52.1 million. This was however almost entirely offset by the EC segment, where 2019 EBITDA was $50.5 lower than 2018.

Now, turning to segmented results for the quarter, SPPC generated revenue of $117.3 million compared with $129.1 million in 2018. EBITDA for the quarter was $34.2 million, which was $17.0 million higher than 2018. While IFRS 16 contributed $5.8 million to the improvement, the majority of the increased EBITDA came from improvements in the business itself. Despite sales volumes being lower than last year due to reduced by-product supply, higher selling prices for sulphuric acid combined with better operations resulted in significantly higher margins. There was also a lower than normal level of maintenance turnaround activity in 2019 relative to 2018.

Our WSSC segment reported fourth quarter revenue of $101.8 million compared with $102.4 million in 2018. EBITDA improved to $14.6 million, including the positive IFRS 16 impact of $1.0 million, compared with $11.9 million generated in 2018.

Selling prices for water products increased and raw material costs stabilized, resulting in expanded margins. This was partially offset by lower results for specialty chemicals.

Our EC segment reported revenue of $136.1 million for the fourth quarter of 2019, which was $23.2 million lower than the same period of 2018. The lower revenue was due to lower selling prices for caustic soda and for HCl. For the fourth quarter of 2019, caustic soda prices were 15% lower than the fourth quarter of 2018. HCl selling prices and netbacks were lower by 21% and 27%, respectively.

From an EBITDA perspective, excluding the $7.2 million benefit from IFRS 16, EBITDA for the fourth quarter of 2019 was $19.2 million lower than the same period of 2018. This was primarily due to lower selling prices for both caustic soda and HCl. The week-long CN rail strike in November also had a negative impact on EBITDA of roughly $3.0 million.

Maintenance capital expenditures in the fourth quarter were $36.9 million, bringing total maintenance capex in 2019 to $82.7 million. We expect maintenance capex in 2020 to range between $80.0 million and $90.0 million.

Excluding unrealized foreign exchange gains, corporate costs during the fourth quarter of 2019 were $12.7 million, including a positive IFRS 16 impact of $0.4 million, compared with $10.4 million in the fourth quarter of 2018. The increase is due primarily to higher compensation accruals.

We maintain ample liquidity with US$265.4 million undrawn on our US$850.0 million credit facility and are in compliance with all our bank covenants. In October, we amended certain terms of our senior credit facility as well as extending the term. The facility now matures in October 2024.

On October 1, we completed the issuance of $100.0 million principal amount of 6.50% convertible unsecured subordinated debentures. The net proceeds of the offering were used to pay down senior debt.

During the fourth quarter we announced the redemption of the outstanding Chemtrade Electrochem (formerly Canexus) Series VI 6.5% debentures. The debentures were redeemed at par on January 3, 2020 for a total of $74.6 million.

I'll now hand the call back to Mark.

Mark Davis

Overall, we were pleased with our execution across all businesses and operations in 2019. For the most part, all our plants operated well. We also were successful in reducing logistics costs, including right-sizing our rail car fleet. We remain focused on improving execution every year and we expect further improvements in 2020. We continue to manage all the things within our control and ensure that the business is prepared to realize on opportunities, especially increased caustic soda prices and HCl demand and pricing when they occur.

I do want to touch on recent developments that are affecting our business. First, is the disruption to rail service caused by the recent blockades in various parts of Canada. We, like most chemical companies, are heavily dependent upon rail as that's often the only viable mode of transportation for raw materials and finished goods. The rail network is very complex and interconnected, therefore disruptions in one area can affect other parts of the network. The situation is fluid and it's difficult for us to estimate the financial impact of the reduced rail service.

Second, is the effect of the COVID-19 virus on economic activity, particularly in the Asian chlor-alkali industry. Recent reports show that the industry operating rates have dropped as there is reduced demand for both chlorine and caustic soda. As a reminder, the most important factor for us is the imbalance between demand for chlorine and caustic soda. As a general statement, if demand for chlorine exceeds demand for caustic soda, the price for caustic soda drops, and that hurts us and vice-versa. Very recent indications are that the NE Asia spot index for caustic soda may be rising by more than US$50 per tonne. Currently the COVID-19 virus has reduced Asian chlor-alkali operating rates from about 80% to 65% and has other serious effects on Asian and worldwide economic activity. We can't predict how the virus will ultimately affect economic activity and caustic pricing for the balance of the year, but our second quarter pricing will be strongly influenced by the index value over the next few weeks.

I will provide some comments on our recently issued 2020 guidance in a minute. First, like last year, I wanted to provide you with some high-level comments about the market dynamics for certain key products. Generally, other than caustic soda and HCl, the market conditions for our main products remain positive.

Starting with SPPC and sulphuric acid. Supply/demand and pricing for each of ultrapure, regen and merchant are positive. Ultrapure continues to be sold out, and we have been able to achieve higher pricing over the past few years. We expect that the North American demand for ultrapure sulphuric acid will continue to grow and we are contemplating how best to meet this growth.

Regen demand, based on refinery production of alkylate, also shows growth. Regen contracts are multi-year, but as they come due are being renewed at higher base pricing.

Finally, merchant sulphuric acid price has improved and continues to improve. Pricing continues to move up, although we do not capture all of this increase as we share improvements with our by-product suppliers under our risk sharing agreements.

Turning to water, as we have previously noted, alum pricing is also increasing, as the market has stabilized, and raw material costs are no longer increasing. We expect improved margins in 2020, although more modest relative to 2019.

Finally, I want to provide some colour on sodium chlorate. The North American sodium chlorate industry is expected to operate at a utilization rate of close to 95%. We have a significant portion of our chlorate pricing contracted for 2020 and were able to achieve pricing increases in excess of cost increases.

We don't talk a lot about our EC business in Brazil, but there have been some developments that are worth mentioning. Our key customer there is the world's largest pulp producer, Suzano. During 2019, in response to reduced demand from China, Suzano reduced the output at the pulp mill that we supply, as this mill is not the low-cost mill in their network. Suzano recently announced substantial investments in this mill to reduce its cost structure. We believe that until these investments are concluded over the next couple of years, they will continue running at reduced rates. Once those investments are completed, we expect the mill to run at high rates. As a reminder, we have a long-term fixed US dollar margin contract with Suzano. While our margin per tonne is fixed, we do bear volume risk.

Given the nature of the Brazilian electrochemical industry, we have a limited ability to sell products into the open market. So, while we expect an earnings drag in 2021 and 2022, the long-term prospects for this business are bright.

Switching gears to 2020, we expect that our businesses will continue to execute well on aspects within our control. However, there are several factors that will impact EBITDA this year. We listed these issues in our 2020 guidance released at the end of January, but here's a quick summary.

First, in 2019 there were fewer plant turnarounds – for our plants and those of our customers – that affected us than there were in 2018. That won't be quite as favourable in 2020. The key additional turnarounds are the biennial turnaround at our North Vancouver chlor-alkali facility and a major turnaround, about 60 days, at a key refinery customer that takes place once every 5 years. While that refinery is down our associated regen plant is also down.

As you've been hearing all year, lower caustic soda prices and HCl netbacks have had a negative impact on the EBITDA we generate. We are still bullish on these markets but do not anticipate any immediate improvement.

Our guidance for 2020 lists a number of assumptions. A key assumption is that our 2020 average caustic soda price will be lower than the 2019 average. Our assumption is that the 2020 average IHS NE Asia Caustic price Index will be US$15 per tonne lower than the 2019 average IHS NE Asia caustic price Index. This index value, while not directly linked, is a key variable in establishing Chemtrade's selling price for caustic soda. While we've assumed a lower average caustic soda price in 2020, this would still be higher than prices at the end of 2019. The market continues to forecast that there should be a modest improvement in caustic pricing during the second half of 2020. As I said, we remain bullish on the medium to long term pricing dynamics for caustic. The most recent update of the IHS forecast for the Taiwan caustic price index predicts pricing increasing every year from 2021 through 2024, which is as far as they forecast. For perspective, the forecast for pricing in 2024 is roughly US$240 per tonne higher than the forecast for this year.

Finally, we're assuming that there will not be a recovery in HCl demand from the higher net-back fracking industry. The amount of realized net-back revenue is typically higher from the fracking industry than from the industrial market; however, the industrial market is less cyclical. To increase demand stability, Chemtrade added more industrial customers part-way through 2019. Thus, the 2020 Guidance includes a full year of the lower realized net-back revenue as compared to 2019. If the fracking industry does increase demand, we can realize on this upside, but we are not assuming it will happen this year.

We want to end this call with a comment on our distributions, as we have received questions on our distribution policy, particularly in light of our 2020 guidance and current yield.

As you know, at our current unit price, our yield is in the double digits. We have a history of not decreasing distributions based solely on a high yield. On the other hand, if we believe that the underlying business cannot sustain our distributions, we make the appropriate capital decision and reduce distributions to a sustainable rate. We last took that step in 2007.

Following the release of our 2020 guidance, our unit price has decreased and, accordingly, our yield increased. Simplistically, if you take the mid-point of our EBITDA and other cost guidance, you will see that our distributable cash roughly equals our annual distributions of $1.20 per unit**.**

We believe that 2020 represents the trough for our business. We are currently enduring a low point for caustic soda pricing and HCl demand from the fracking industry and a higher than average level of turnaround activity. Despite that, as outlined, we believe that there is considerable upside in our earnings potential in the future. In other words, we believe that the business will generate sufficient funds to sustain our distribution as it has for the past 13 years. Addtionally, we maintain ample liquidity and have no covenant or other restrictions that hamper our ability to maintain our distributions.

Thank you for your attention. Rohit and I would now be pleased to answer questions.

[(1)] Non–IFRS Measures

EBITDA and Adjusted EBITDA –

Management defines EBITDA as net earnings before any deduction for net finance costs, taxes, depreciation and amortization. Adjusted EBITDA also excludes other non-cash charges such as gains and losses on the disposal and write-down of assets, and unrealized foreign exchange gains and losses. EBITDA and Adjusted EBITDA are metrics used by many investors and analysts to compare organizations on the basis of ability to generate cash from operations. Management considers Adjusted EBITDA (as defined) to be an indirect measure of operating cash flow, which is a significant indicator of the success of any business. Adjusted EBITDA is not intended to be representative of cash flow from operations or results of operations determined in accordance with IFRS or cash available for distribution.

EBITDA and Adjusted EBITDA are not recognized measures under IFRS. Chemtrade's method of calculating EBITDA and Adjusted EBITDA may differ from methods used by other income trusts or companies, and accordingly may not be comparable to similar measures presented by other organizations.

A reconciliation of net earnings to EBITDA and Adjusted EBITDA is provided below:

	Three months ended December 31		Year ended December 31	
($'000)	**2019**	**2018**	**2019**	**2018**
Net loss	$ (12,597)	$ (97,185)	$ (99,654)	$ (131,517)
Add:				
Depreciation and amortization	65,422	53,840	262,458	214,507
Net finance costs	12,490	25,263	88,487	74,126
Income tax expense (recovery)	4,410	(10,648)	(24,291)	(48,680)
EBITDA	69,725	(28,730)	227,000	108,436
Add:				
Impairment of goodwill	-	90,000	65,600	90,000
Loss (gain) on disposal and write-down of assets	3,268	1,031	13,790	(4,039)
Unrealized foreign exchange (gain) loss	(2,660)	2,696	(10,787)	1,826
Adjusted EBITDA	$ 70,333	$ 64,997	$ 295,603	$ 196,223

Segmented information

SPPC -

	Three months ended December 31		Year ended December 31	
($'000)	**2019**	**2018**	**2019**	**2018**
Revenue	$ 117,286	$ 129,082	$ 502,604	$ 509,765
Gross Profit	14,313	1,023	60,207	28,041
Adjusted EBITDA	34,242	17,254	160,744	86,418
(Loss) gain on disposal and write- down of assets	(966)	(1,031)	(10,939)	4,039
EBITDA	$ 33,276	$ 16,223	$ 149,805	$ 90,457

WSSC -

	Three months ended December 31		Year ended December 31	
($'000)	**2019**	**2018**	**2019**	**2018**
Revenue	$ 101,845	$ 102,442	$ 445,175	$ 430,311
Gross Profit	3,601	(88,188)	(30,856)	(55,106)
Adjusted EBITDA	14,642	11,929	77,903	77,300
Impairment of goodwill	-	(90,000)	(65,600)	(90,000)
Loss on disposal and write-down of assets	(2,313)	-	(3,970)	-
EBITDA	$ 12,329	$ (78,071)	$ 8,333	$ (12,700)

EC -

	Three months ended December 31		Year ended December 31	
($'000)	**2019**	**2018**	**2019**	**2018**
North American Sales Volumes:				
Sodium Chlorate Sales Volume (000's MT)	98	101	392	406
Chlor-alkali Sales Volume (000's MECU)	38	43	178	172
Revenue	$ 136,084	$ 159,276	$ 585,076	$ 655,671
Gross Profit	5,839	25,797	67,972	113,848
Adjusted EBITDA	34,101	46,196	171,399	193,442
(Loss) gain on disposal and write-down of assets	(167)	-	706	-
EBITDA	$ 33,934	$ 46,196	$ 172,105	$ 193,442

Cash Flow –

Management believes supplementary disclosure related to the cash flows of the Fund including the amount of cash available for distribution to Unitholders, repayment of debt and other investing activities provides useful additional information. A cash flows table presenting this information is included in the Fund's MD&A filed on SEDAR. The table is derived from, and should be read in conjunction with, the consolidated statements of cash flows. Certain sub-totals presented within the cash flows table, such as "Adjusted cash flows from operating activities", "Distributable Cash after maintenance capital expenditures" and "Distributable Cash after all capital expenditures", are not defined terms under IFRS. These sub-totals are used by Management as measures of internal performance and as a supplement to the consolidated statements of cash flows. Investors are cautioned that these measures should not be construed as an alternative to using net earnings as a measure of profitability or as an alternative to the IFRS consolidated statements of cash flows. Further, Chemtrade's method of calculating each measure may not be comparable to calculations used by other income trusts or companies bearing the same description.

A reconciliation of these supplementary cash flow measures to cash flow from operating activities is provided below:

	Three months ended December 31		Year ended December 31	
($'000)	**2019**	**2018**	**2019**	**2018**
Cash flow from operating activities	$ 60,659	$ 79,853	$ 139,477	$ 244,464
Add (deduct):				
Lease Payments [1]	(14,199)	-	(56,815)	-
Changes in non-cash working capital and other items	(8,142)	(31,105)	82,149	(125,136)
Adjusted cash flows from operating activities	**38,318**	**48,748**	**164,811**	**119,328**
Less:				
Maintenance capital expenditure	36,871	31,474	82,743	77,690
Distributable cash after maintenance capital expenditure	**1,447**	**17,274**	**82,068**	**41,638**
Less:				
Non-maintenance capital expenditure [2]	3,723	5,650	13,556	14,676
Distributable cash after all capital expenditure	**$ (2,276)**	**$ 11,624**	**$ 68,512**	**$ 26,962**

QUESTION AND ANSWER SESSION

Operator

At this time, if you would like to ask a question, please press star then the number one on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Joel Jackson from BMO Capital Markets. Your line is open.

Joel Jackson, BMO Capital Markets

Hi. Good morning, everyone. I have a few questions. I'll ask them a few at a time. First, I just want to reconcile some of your commentary between SPPC and WSSC. So, you see sulphuric acid prices rising across the complex, if I heard that right, but then in water you think that raw material costs aren't rising, although I thought acid is one of the main inputs to water treatment. Can you just reconcile that?

Mark Davis, President & Chief Executive Officer

The short/long story is, as you know, acid is a regional market and there's markets that are a by-product supply and there are markets that are sulphur burner supplied. Sulphur price has actually decreased and the acid that we source in our water business is a combination of by-product and sulphur burned, so the acid that's actually linked to sulphur price is likely cheaper than in other regions. I think if you take it all in aggregate, from a big aggregate view, raw material costs have stabilized in the water business.

Joel Jackson

Okay, that's helpful. Then my second question would be you've called out generally risks on the CN strike and coronavirus here in the first quarter. Can you help size a bit, I mean, I understand sizing coronavirus impact is impossible, but I'm going to ask you anyways. Can you give some order of magnitude of what that could mean in Q1 and Q2? What your best guess is right now on the two issues?

Mark Davis

I won't give you a number, because I can't. Right? I'll tell you two things.
First, on the rail blockade, because that's one of the things we called out is, as I've said, to date, okay, the extra costs, and there have been extra costs, are not yet material. But if the blockades truly actually stop our ability to move product it'll be as material as the other CN things that we talked about. And again, it depends on duration, overall effect on the supply chain and, frankly, where. Right? Probably our worst-case scenario is if somehow, we couldn't ship in and out of our Vancouver facility, since actually that facility in and of itself makes a lot of money, but that's probably the lowest probability effect of the rail. So, a non-answer for you is I can't quantify it because I don't know how to. All right?

Let me just finish the coronavirus and then we can circle back. The coronavirus, again, there's people that have actually abandoned guidance based on the coronavirus, not being able to quantify the coronavirus effects. I think from our perspective, why we can't quantify it, and we said that in our remarks, we think the biggest effect on us was what happened to caustic soda pricing that moves on that index that's actually instructive on our pricing in Western Canada. And the question that I can't answer is will the virus and the effect of the virus affect which side of the chlor-alkali business more in Asia, as we said, during the terms.

So, I don't know if chlorine demand goes up or down vis-à-vis caustic demand. and that's why we can call it out as a risk, but we just can't quantify it.

Joel Jackson

Okay. That's helpful, I guess. And my last question—

Mark Davis

I'd be happy for you to quantify it, Joel.

Joel Jackson

Yeah, well, I qualified that no one can.

Just my last question is, again, on the dividend and the payout ratio. So, if we assume over the next few years little or modest commodity price improvements across the complex, what will kind of be the average payout ratio? Because obviously you have turnarounds that ebb and flow, be it at North Van, be it at customers, so are we talking about, you know, in a low commodity price growth scenario of an average payout ratio of 90%? 85%? 80% to 90%? How would you quantify it?

Mark Davis

So, if you're assuming no commodity price increase or material including our chlor-alkali business, we haven't done the numbers but I'm going to say it it's 90%.

Joel Jackson

And if that was the case, it's 90%, that's enough to sustain the dividend in your mind?

Mark Davis

Well, 90% is less than 100%.

Joel Jackson

So I'll take it as a yes. Thank you.

Operator

Your next question comes from the line of Jacob Bout from CIBC. Your line is open.

Jacob Bout, CIBC World Markets

Good morning.

Mark Davis

Good morning, Jacob.

Jacob Bout

I just wanted to go back to the impact of the rail strike. What has this meant for the chlorine market? Because we've been hearing about chlorine shortages, you know...

Mark Davis

So, we're the wrong guys to actually comment on that. As you know, there are Eastern and Central Canada chlorine producers that the blockades have had an effect on. And simplistically speaking, most of our chlorine wheels out of our gate in Vancouver and heads south. So, we really haven't been affected, but if you want the Canadian nationalistic perspective, the effect on these rail blockades on the availability for people to get chlorine to purify their drinking water, I got to believe it's awfully hand to mouth. But I don't know.

Jacob Bout

Okay. And then on the, ah, I think I heard you say Northeast Asia spot prices for caustic up $50 a tonne?

Mark Davis

Well, let me clarify that a minute: this is what we've heard. The indexes do not yet represent it. We've heard it for good reasons, because partially, every so often, we do import caustic, so we have a pretty good handle on the price of imported caustic. So, the actual index publications haven't shown it yet, but we believe that's what's happening.

Jacob Bout

So, if this is implemented in contract pricing, then how should we think about the impact on EBITDA?

Mark Davis

So, you have to, I would suggest you need to—if it's up $50 in the first two weeks of March, which actually is informative for us for our Q2 pricing, then we should be up some from where Q1 was.

Rohit Bhardwaj, Chief Financial Officer

Yeah, but I think that will get us close to the midpoint of our guidance, because it did drop off early in 2020 and so this would bring it to where we expect Q2 pricing to be.

Jacob Bout

Okay. Even though you were originally talking about a second half versus a second quarter uptick?

Rohit Bhardwaj

Yeah. So second half, so what happened—so, this $50 we're talking about is from where it was in, let's say, January. And that was lower than where it was in November. So, it dipped down and this will bring it up to where we expect it to be. The uptick you're looking at is really getting it beyond where it was even at the end of the year.

Mark Davis

Or maybe this helps: if what we're seeing now is what happens, the assumptions in our guidance remain pretty much bang on. If it's higher than that, that's good. If it's lower than that, it depends how much lower. It may or may not be material.

Jacob Bout

Okay. Going to the WSSC division, you talked about alum and PACl price increasing and volumes growing. Can you just help us order of magnitude? Is it like a GDP-type growth on the pricing and on the volumes or it's something better than that?

Rohit Bhardwaj

No, I think the pricing should be better than GDP, but we took most of the price improvement in 2019. So we do expect, as we have opportunities in 2020 to re-price contracts, we do expect some pricing going up, but as raw materials stabilize it is harder to get a lot of price increase. In fact, frankly, we'll be comfortable maintaining pricing, because we actually expect raw materials are dropping. They stabilized and now the indications that they're likely to be going down. So, there should be some margin expansion above GDP, but not the way it was, nothing of the magnitude of 2019.

Jacob Bout

And then volumes?

Rohit Bhardwaj

Volumes are just GDP. I mean the volume is not that significant.

Jacob Bout

Okay. And then in the specialty products in that division we've seen some weakness. How long does that continue for?

Rohit Bhardwaj

So, what we had said was they are two, a couple of chemicals we had called out. One was P2S5 or phosphorus pentasulphide, which has already shown recovery in Q4, in our numbers in Q4.

But the other one we had mentioned, the other big one was potassium chloride, or KCl, and we had said that because of the particular situation there with a customer who had overbought, it's really more like a 2021 improvement. In 2020, we don't really expect any uptick there.

Jacob Bout

Okay. So what we saw in fourth kind of through 2020 then?

Rohit Bhardwaj

For that product. Now we don't break it out in that level of detail, but it's not a bad—the P2S5 improvement is there and there wouldn't be much more improvement in the rest of specialty.

Jacob Bout

All right. I'll leave it there. Thank you.

Operator

Your next question comes from the line of Paul Bilenki from TD Securities. Your line is open.

Paul Bilenki, TD Securities

Thank you and good morning. I'd just like to start out on the large turnarounds that you have upcoming in Q2 and Q4. Are you able to sort of put any numbers around the potential impact of those financially? I think last time in 2015 you had that large regen turnaround, I think you quantified it at about $5.5 million. Is that sort of the right sort of range?

Rohit Bhardwaj

Yeah, that's right.

Paul Bilenki

Okay. And the North Van, would it be something similar? Sort of $5 million to $6 million?

Rohit Bhardwaj

Yes, because I think last time what we said was when we had the outage it was closer to $12 million, but that was at a very high caustic price, and so now we expect about half of that.

Paul Bilenki

Okay. And I guess just sort of hypothetically, and following on all these rail blockade questions, if there is a blockade that impacts the North Van facility, are you able to move forward the timing of that maintenance turnaround at all?

Mark Davis

No.

Paul Bilenki

No? Okay. That's set.

Rohit Bhardwaj

Yeah, it's very hard to get contractors and everything lined up to—it's very hard to move.

Mark Davis

It's not just our guys turning cranks here. We bring in people and you have to pre-order equipment you're replacing, and it's...

Rohit Bhardwaj

It's a big production.

Paul Bilenki

Yeah, fair enough. And I guess you've done a lot of work on operational improvements in the last couple of years. What are your areas of focus on that front in 2020?

Mark Davis

We focus on all of it, but to give you the two big things we're looking at is actually we're going to look at additional production efficiencies, and whether or not that's actually utilization of raw materials or increased reliability, anything that actually helps us reduce cost per tonne produced. And secondly, we're going to be looking for additional logistics chain efficiencies and cost savings.

Paul Bilenki

And how far along are you through the shedding of the railcars at this point?

Mark Davis

We've shed the majority of them. Now, actually, we are fine-tuning and expect to be able to actually realize additional cost savings in 2020, whether that's by shedding additional cars or using those cars more efficiently, it's going to depend on how we line out our supply chain. The big step change was made during the year, but we're going to find other cost-saving opportunities going forward as well.

Paul Bilenki

Okay. That's great. Thank you very much. I'll get back in queue.

Operator

Your next question comes from the line of David Newman from Desjardins. Your line is open.

David Newman, Desjardins Capital Markets

Good morning, gentlemen.

Mark Davis

Good morning.

David Newman

You said something in your formal comments on a couple of issues. First of all, you mentioned the drag in Brazil. I would assume that the drag is pretty much what we're seeing right now and that would be what we could expect in 2020? Is that...?

Rohit Bhardwaj

Yeah, I think that's right. Now, I think we obviously believe that once Suzano completes its investments it's announced in that facility, that will reduce the cost and it will start to go back up, but that's going to take a couple of years to go in the right direction.

Mark Davis

It's probably the same in 2020 and 2021 is our guess, right? It depends on how quickly they put the capital in.

David Newman

And Suzano got offside on their inventory and have sort of flushed it through the system. Could there be any knock-on benefit for your sodium chlorate business?

Mark Davis

Yes, but it's all dependent on that particular mill site. So, if they decide to run that one harder, clear benefit.

Rohit Bhardwaj

Now keep in mind, we've talked a bit about the COVID-19 virus and Brazil, Brazil's biggest market for pulp is China, so we have to see what the effect is going to be of Chinese demand consumption, because that could be, like I said, that's a new factor, right?

David Newman

Yes, yes. No, for sure. And then on ultrapure, you made some comment about maybe perhaps considering plant there? Does that involve investment? Or what are you thinking?

Mark Davis

Yeah, look, we're the largest market share supplier of ultrapure acid in North America. We want to continue to grow with our customers. We expanded our Tulsa facility maybe five years ago. We've gotten extra capacity out of some of our other facilities as we continue to look for the most cost-effective way to provide additional volume of the quality required by the markets. So, it will require investment, but that's a business that we like. We are the market leader and we intend to remain there.

David Newman

Any thoughts on how much that could involve, Mark?

Mark Davis

It could either be a little or it could be a lot. The investments at our existing plants are probably not large numbers, right, if you assume that $10 million is not a large number, because most of our plants have been tweaked and prodded. If you build a new ultrapure plant, it's $100 million plus.

David Newman

Okay. And then on your costs, your corporate costs, they were a little bit lower than the recent run rate of $13 million. Any puts and takes there and what do you think the sustainable corporate cost should be for 2020 on a quarterly basis?

Rohit Bhardwaj

Sure. So, I mean the way we look at corporate costs, there are two elements to it. One is kind of what we look at as program expenses and the other are incentive compensation expenses. So when you look at our Q4, now we don't break it out for you quite like that, but if you look at Q4 our program expenses are very much in line. Our incentive compensation, as you'd expect, are low, even though my remark is a bit confusing because I said that they were higher than 2018, but in 2018 we had reversals in our LTIP accruals which actually made the expense negative, so we're comparing off a very unusually low number. So, anyway, I cut to the chase and tell you that what you should expect as an annualized run rate is about $65 million to $70 million, all in.

David Newman

Okay. Very good. And then just on the blockade, have you guys anticipated, I assume this was not anticipated in your guidance for the midpoint and it sounds like the $15 below on caustic gets you to the midpoint such that, or if you get to $50 back you get to the midpoint. So, if it remains at current levels and, ah, how do we anticipate the CN rail blockade into your numbers, I know it's has not had a material impact, could we presume you'd be in the bottom end of the range though?

Mark Davis

What's your number for the CN rail blockade? That's the hard part, right? If you ignore the CN rail blockade, we're still in the range. Right?

Rohit Bhardwaj

The CN blockade, the hard thing is we ship vast majority of our products by rail, and not all of it is Canada, but you also get raw materials, so the blockade is just so difficult to predict because they've—for example, two days ago, one sprung up somewhere affecting Manitoba and then next it was pulled down and so it's just very difficult to quantify the impact, because you just don't know how long, where, and what plants it's going to affect. But in most cases we don't have alternatives that are viable.

David Newman

Yeah. And you need the $50 increase in caustic to get you to the midpoint of your guidance, correct? Just to clarify.

Mark Davis

No. Be a little careful. What we have for the year of 2020, we are actually (inaudible) $15 below 2019, right? And we're expecting price increases in the second half. So, forget about the $50 thing that we said, for a minute, okay? We're expecting price increases in the second half, not in the first half, right?

David Newman

Right.

Mark Davis

So, the $50 that we talked about, which you guys have all jumped on, okay, is really, which is fine, it's really an indication that at least, as of today, it looks like the effect of the virus is resulting in an increase in spot caustic pricing. I don't know if that's the case tomorrow and I don't know if it's the case two weeks from now, right? So we thought we'd try and give some colour that at least as of today is that's what's going on, but our guidance is based on getting price increases in the second half of the year.

David Newman

Okay. And last one for me, guys, is just with the Superior Plus' terminated sales process, I know, obviously, different chemicals, whatnot, but is it indicative to you that maybe the potential sale of your specialty chemicals that you have on the block might be more difficult to move?

Mark Davis

No. But a longer answer is, I won't describe ERCO's business, but the business that actually we have on the block is a true specialty and has significant growth potential that, as we said at the time, we think someone who's more in that business might be more capable of realizing on that growth potential than we are. I don't think you would actually use that description to describe the ERCO business, but that's a description of our business.

David Newman

Are you seeing any interest, Mark? Anybody kicking the tires?

Mark Davis

Dave, if you read my press release, it says I'm not going to comment on the process until (inaudible).

David Newman

Okay.

Mark Davis

But it was a nice try.

David Newman

Thanks a lot, guys. I appreciate it.

Mark Davis

Thanks.

Operator

Your next question comes from the line of Nelson Ng from RBC Capital Markets. Your line is open.

Nelson Ng, RBC Capital Markets

Great, thanks. First question is just a bit of a clarification. So, in terms of the turnarounds expected this year, they'll mostly be in Q2 and Q4. Is that correct?

Rohit Bhardwaj

Just to be clear, we do turnarounds through the year, but the two ones you're calling out would be Q2 and Q4.

Nelson Ng

Okay. Got it. And then in 2019 I think the non-maintenance CapEx was about $14 million or $15 million or so. What's the expectation for 2020 in terms of the non-maintenance CapEx?

Rohit Bhardwaj

It's going to be way low, maybe $3 million, $4 million. It's not anything of that magnitude. Those ones we were doing actually related to the businesses we are selling, in the large part, which is why, to Mark's answer about other growth businesses, we've put the capital into those businesses so that they will grow. So, yes, 2020 is back to minor CapEx.

Nelson Ng

Okay. So just like $3 million to $4 million. So does that imply that there's going to be pretty limited like organic growth CapEx? Like that $3 million to $4 million is going to be considered organic growth CapEx? Is that the right way of looking at that?

Mark Davis

Yeah, that's—I'll give you the two or three different ways. We call our $80 million plus sustenance and you need it to keep on the lights, right? But every time we spend a dollar, we expect that actually that dollar to do more than actually just do what it's done before. We should get incremental, minor incremental improvements out of that. But we don't try and quantify it, because that's just part of the day-to-day running the business. Or we haven't tried to quantify it outside.

There are two other things actually that are different. One is, as I mentioned, if we could find the right opportunity to invest money to generate more ultrapure acid, we will do that. So, that would be a difference. But other than that, those are really our organic CapEx right now.

Nelson Ng

Okay. Because I know in the past you made some more investments on the water side. I'm just wondering whether those opportunities are still available or not.

Mark Davis

They might be, but we first want to actually—we've built those plants, now we want to actually sell them out and make sure they're absorbed by the market and then we can make that decision again. If you go back, and sorry for those that have heard it before, is the workhorse coagulant has been and we think will continue to be alum, but we think there are specific circumstances where PACl or ACH, something else, actually does better. We now have those facilities where we want them and we'll have to wait to see how the market develops to determine whether or not any more is needed. But right now I think we have what we need.

Nelson Ng

Okay, great. And then just one last thing in terms of rail: So, in the last quarter, I guess, it was mostly, like you were mostly impacted on your, I guess, Western Canada portion in terms of west of Ontario, so if we see any rail disruptions on the west side of Canada, we should expect a larger impact compared to the east. Is that a fair way of looking into the impact?

Mark Davis

It's awfully hard to say that, just because the rail line is so interrelated. If you have a specific issue, for example, in the Vancouver area, if that's west, then for sure, that affects us. But just because something doesn't happen out west doesn't mean it doesn't have an effect out west. And I guess one question is, for example, is Brandon Manitoba out west or is that central Canada? But the main point actually is, the whole rail system is a bunch of interrelated lines and if you have troubles anywhere, you have to wait and see how far of an effect that has. So you can't just look at western issues.

Nelson Ng

Okay. Thanks, Mark. I'll leave it there.

Mark Davis

Thanks.

Operator

Your next question comes from the line of Steve Hansen from Raymond James. Your line is open.

Steve Hansen, Raymond James

Good morning, guys. I'm staring at your North Van facility right now. Just a quick one first on the distribution, if I may. In a scenario where things were more difficult for longer, how long would you need to see your distributable cash sit below your distribution commitments before you'd contemplate some sort of move? It's maybe a hard question to ask, but if you look back to your 2007 timeframe, is that the way we should think about it? Or how do you think about it today relative to then?

Mark Davis

It's not a hard question to ask, it's just a hard question to answer. My recollection, back in 2007, is we went, I think, like nine months, so there is no timeframe. Conceptually, we don't like burning liquidity for no good purpose, but if we have a belief that actually the business is going to generate sufficient cash to sustain our distribution then our inclination is actually to continue paying our distribution. Having said that, our distribution is, obviously, a board-level topic. It's allocation of capital and our board considers it every month when they distribute it. And if we're running higher than 100% distributable cash for a period of time, the board takes that into consideration and takes a look forward on what we think the business can generate and then we make that decision. But there is no hard time for us.

Steve Hansen

Okay. No, that's fair. And maybe just another hypothetical on the same point is, in a scenario where you did contemplate a move, would there be opportunities for you to, outside of just paying down debt, but would there be opportunities to recycle some of that capital into other growth opportunities that are obvious? Or would it just be a debt pay down focus in the short term? I'm trying to get a sense for your perception of the growth opportunities that might be out there that you can't act on today given less capital available.

Mark Davis

Yeah, I'll answer it two ways. One is, and as I said, or let me start by saying we're not contemplating this. So it's your hypothetical, okay?

Steve Hansen

Understood. Entirely.

Mark Davis

If you cut the distribution in half, you save $50 million a year directionally, right? So, it would take a while for that to cause a deleveraging effect sufficient, I think, before you're back in the acquisition game.

On the other hand, if you actually did that, it'd be a fine cash to attribute to growth in an ultrapure facility, which something within our control and exercise. So, again, getting to your hypothetical is I think, actually, that that starts taking you down the path that the business model can be replicated, which is actually buy businesses and integrate them and optimize them, but you need to cap the structure to do that.

Steve Hansen

Okay, great. No, that's a helpful rundown. And just one more if I may, is just on the sulphuric acid market here domestically, and you've given some good commentary for the different verticals, but it does strike me that the international markets for acid have been a little bit weaker to start 2020 for a number of different reasons, but you're still feeling pretty confident about the domestic market opportunity on the merchant side and what that brings for 2020.

Mark Davis

Yes.

Steve Hansen

Is there something driving that specifically that can help us understand that?

Mark Davis

Well, yeah, actually, it's things I talked about before. The acid market is regional, it depends on the acid individual supply-demand characteristics in each region. Belledune has actually now been shut down, which takes some supply out of it and, as you know, the international acid really kind of, when it hits, really only hits the shores and it has to go into a tank, then you need rail cars and trucks to get it anywhere. So, the number of regions that a weakness in offshore acid would affect is not where we place most of our acids.

Steve Hansen

Understood. Okay, very helpful. Thanks, guys. I appreciate it.

Mark Davis

Thanks, Steve.

Operator

Again, if you would like to ask a question, please press star then the number one on your telephone keypad.

Your next question comes from the line of Endri Leno from National Bank. Your line is open.

Endri Leno, National Bank Financial

Hi. Good morning. Most of my questions have actually been answered, just a very quick one in terms of the legal reserve and has there been any developments in terms of, I think you'd commented before there were some derivative actions outstanding. Has there been any movement, and do you have any timelines for those to be resolved?

Mark Davis

We still continue to work through those and hope to resolve them this calendar year, but there's been nothing material that changed since the last call.

Endri Leno

Thanks.

Mark Davis

Thank you.

Operator

There are no further questions at this time. I turn the call back to the presenters.

Mark Davis

As usual, thank you all for your attention and we'll talk to you next quarter.

Operator

That concludes today's conference call. You may now disconnect.