CHEMTRADE LOGISTICS INCOME FUND

Q4 2020 Results Conference Call

Rohit Bhardwaj

Good morning, everyone. We thank you for joining us today. I hope that all of you are staying safe and are well. As you all know, Mark Davis is retiring, effective next week, and Scott Rook will be our new President & CEO. So, after roughly sixty earnings calls that I hosted with Mark, it's my pleasure to have Scott on the call today and going forward. I will start with a review of Q4. Scott will follow that with remarks on the current state and outlook for the business, and then we will have the usual Q&A session. As with the past three calls, we are in different locations.

Before we 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.

As a reminder, since Chemtrade falls under the essential business classification under US State and Canadian Provincial orders, all our operations have continued during the COVID-19 pandemic. Our highest priority has been our employees' health and safety. By following the measures we implemented, our employees have ensured that they can continue to work safely and supply our customers. Given the challenging circumstances created by the pandemic, our measures have been largely effective. I want to start this call by again thanking each member of our workforce for their dedication and outstanding performance during these trying times.

Our fourth quarter results reflected the various matters we referred to in our last call. There was the significant maintenance turnaround at one of our regen plants. The plant is tied to a once every five-year major maintenance turnaround at this plant's refinery customer.

Our North Vancouver chlor-alkali facility also had its biennial turnaround in the fourth quarter instead of the third as originally planned.

Generally speaking, the pandemic-related conditions that affected our second and third quarter results continued to prevail in the fourth quarter. As we've mentioned previously, COVID-19 has not affected our Water Solutions business. It has, however, adversely affected demand for certain of our products, specifically, regen, merchant sulphuric acid, sodium chlorate and hydrochloric acid, or HCl.

Regen demand is tied to refinery production, and that in turn depends on driving miles in North America. While travel restrictions or guidance remain in effect, we don't expect demand to return to pre-COVID levels, although it did significantly recover from the steep decline at the start of the pandemic.

Demand for merchant sulphuric acid, which is one of the world's most widely used chemicals, was also lower than last year due to the generally reduced level of economic activity.

Demand for sodium chlorate continued to be weaker than 2019 as work-from-home reduced the demand for printing paper.

Finally, fracking activity and thus demand for HCl, remained well below 2019 levels.

Looking first at the aggregate results for the fourth quarter of 2020, revenue was $319.4 million, a decrease of $35.9 million from 2019. The decrease in revenue for the fourth quarter is primarily due to lower sales volumes and lower selling prices for caustic soda and HCl and lower sales volumes of sodium chlorate in the Electrochemicals, or EC, segment, lower sales volume of regen acid and merchant sulphuric acid in the Sulphur Products and Performance Chemicals, or SPPC, segment.

Aggregate EBITDA for the fourth quarter of 2020 was $44.2 million compared with $70.3 million in the fourth quarter of 2019, a decline of $26.1 million. This shortfall was primarily attributable to the EC segment, due to the fourth quarter maintenance turnaround, low caustic soda prices and reduced demand and prices for HCl, and higher corporate costs, and weaker results in the SPPC segment. These shortfalls were partially offset by stronger results from the Water Solutions and Specialty Chemicals, or WSSC segment, driven by our water business.

While EBITDA was $44.2 million, Distributable cash after maintenance capital expenditures for the fourth quarter of 2020 was negative $23.0 million, or negative 25-cents per unit. Note that for the full year D-cash was 64-cents per unit. As we had said on earlier calls, we expected capex to be very high in the fourth quarter, due to the deferring of projects and turnarounds from earlier in the year. Maintenance capex for the quarter was $34.0 million, or 37-cents per unit. For the full year, maintenance capex was in line with our expectations at $74.4 million.

So approximately half of all of our capex was spent in Q4. Distributions declared for the fourth quarter were 15-cents per unit.

For the full year, we generated EBITDA of $265.3 million which includes a realized foreign exchange loss of $5.9 million. So without this loss, EBITDA from running our business even during a pandemic was about $270.0 million.

Now, turning to segmented results for the quarter, SPPC generated revenue of $100.7 million compared with $117.3 million in 2019. The decrease in revenue in the fourth quarter of 2020 was primarily due to the COVID-19 pandemic which resulted in lower sales volumes for regen and merchant acid.

The most significant factor that negatively affected EBITDA during the fourth quarter of 2020 was lower sales volumes for Regen Acid as one of our Regen Acid plants took an extended turnaround. Also, Government orders restricting non-essential travel and people working from home continued to reduce demand for gasoline. Therefore, refineries operated at low utilization rates, which led to the reduced demand for regen services. Merchant acid demand was lower due to the reduced level of economic activity. EBITDA for the fourth quarter of 2020 was $27.6 million, which was $6.6 million lower than 2019.

Our WSSC segment reported fourth quarter revenue of $99.3 million compared with $101.8 million in 2019. The slight decrease is due to lower sales volumes of water solutions products.

EBITDA improved to $20.3 million from the $14.6 million generated in 2019. The improvement was due to higher margins for water products, which benefitted from higher selling prices and lower raw material costs for water solutions products.

Our EC segment reported revenue of $119.3 million for the fourth quarter of 2020, which was $16.7 million lower than the same period of 2019. The lower revenue in the fourth quarter of 2020 was primarily due to a 21% decrease in chlor-alkali sales volumes, a decrease of 12% in selling prices for caustic soda, a decrease of 12% in selling prices for HCl and approximately 6% lower sales volumes of sodium chlorate. During the fourth quarter we had the biennial maintenance turnaround at our North Vancouver chlor-alkali plant that resulted in lower production. In addition, weakness in HCl demand from the oil and natural gas fracking industry continued to negatively impact sales volumes and price. Chlorate sales also continued to be lower than 2019 due to people working from home during the pandemic, which led to reduced demand for paper and thus bleached pulp production.

From an EBITDA perspective, EBITDA for the EC segment of $22.3 million for the fourth quarter of 2020 was $11.8 million lower than the same period of 2019. This was primarily due to the lower selling prices for both caustic soda and HCl, as well as the effect of operating the North Vancouver facility at reduced rates due to the turnaround and to the reduced demand for HCl. In the fourth quarter, netbacks, i.e., selling prices less freight, for HCl were 23% lower compared with the same period of 2019.

As noted earlier, maintenance capital expenditures in the fourth quarter were $34.0 million.

Maintenance capex in 2020 was difficult to predict, primarily because of the uncertainty of being able to find contractors to carry out the work due to the pandemic. We were able to hire contractors in the fourth quarter, and maintenance capex for the full year was $74.4 million, which was in line with our expectations given the pandemic. For 2021, we expect maintenance capex of between $80.0 million and $85.0 million.

Excluding unrealized foreign exchange gains, corporate costs during the fourth quarter of 2020 were $26.0 million, compared with $12.7 million in the fourth quarter of 2019. Several items contributed to the higher costs. Long Term Incentive Plan, or LTIP costs were $7.3 million higher during the fourth quarter of 2020 relative to 2019. As we have said in the past, LTIP accruals are subject to volatility and for the first nine months of 2020, LTIP expenses were negative $2.4 million. For the full year, LTIP expenses were $4.7 million lower than 2019. Additionally, incentive compensation costs in the fourth quarter of 2020 were $2.6 million higher than the fourth quarter of 2019, when this expense was unusually low. The fourth quarter of 2020 also includes $3.0 million related to the CEO's retirement, and $1.0 million related to a long-term lease obligation for office space in Calgary which was acquired as part of the Canexus acquisition. These were partially offset by a $2.6 million claim under the Canadian Emergency Wage Subsidy program.

Turning to our balance sheet, during the fourth quarter we completed the redemption of the debentures that were set to mature in 2021. With the full redemption of the 2021 debentures, we now have no debt maturities until 2023.

We maintain ample liquidity, with US$221.2 million undrawn on our US$850.0 million credit facility. We are in compliance with all our bank covenants.

In April last year we suspended guidance because of the economic uncertainty created by COVID-19. That uncertainty continues to prevent us from providing formal guidance. However, our fourth quarter MD&A does comment on certain key items that are expected to affect our 2021 earnings, while cautioning that this is a very fluid situation and that some of our comments are based largely on input from our customer base which can, and likely will, change over time.

Once economic conditions normalize and our visibility is improved, we will commence issuing formal guidance again.

I'll now hand the call over to Scott for some comments on the broader outlook for some of Chemtrade's businesses.

Scott?

Scott Rook

Thank you, Rohit.

First let me say while I've met some of you virtually, I'm pleased to have this opportunity to meet the rest of you, albeit virtually. I look forward to in-person meetings in the not-too-distant future.

While we can't give meaningful guidance with the level of uncertainty we still face, the MD&A's Outlook section provides additional commentary on some of our current expectations for 2021. I will touch on some of those, but for the most part I will try to look a little further ahead to post-COVID-19 possibilities.

Before I share my longer term outlook for the business, I wanted to briefly touch upon the severe freezing conditions experienced in parts of the US and in Texas in particular. Some of our facilities and our customers' operations have been affected. At this time, it's difficult to estimate the financial impact, however we don't expect it to be material.

Turning now to our outlook, as Rohit mentioned, our water solutions products are not affected by COVID-19, whereas others, such as regen, merchant acid and sodium chlorate are affected by restricted travel, reduced industrial activity and work-from-home orders.

We expect our water solutions business to have another good year with steady demand. We expect to see raw material cost increases which will be offset by productivity improvements and price increases. Not only did this business demonstrated its resilience in down markets, but we also believe there is a strong longer term growth potential due to tighter government regulations and population growth. Two of our Water Solutions products, PAC&ACH, had a strong year in 2020 and we expect demand to continue to grow going forward. We are debottlenecking two sites with additional capacity to keep up with the increased demand.

In the SPPC segment, regen and merchant sulphuric acid demand will continue to depend on driving and industrial activity. Both of these markets will improve as the COVID-19 threat diminishes and the economy rebounds. From a refinery utilization rates perspective, 2021 did not begin as well as we would have liked, particularly in California where Stay at Home orders were in effect. More recently though, these restrictions have been eased and this should translate into higher demand for our regen services. As far as merchant sulphuric acid is concerned, the recent increases in commodity prices, including metals and fertilizers, which are two of the largest demand sources for sulphuric acid, are positive developments. While as a general statement, we don't engage directly in those markets, strong demand from those sectors should have a beneficial impact on the broader market. But it's important to note that we share price movements, both up and down, with our byproduct supply partners.

Ultrapure acid is a somewhat different story. We expect overall reduced demand for Ultrapure unrelated to COVID-19. One of our large customers has decided to use a different supplier, however, we have gained share with another customer and recently gained a new customer. For now, the net impact to us will be lower volume. Our challenge will be to replace that volume. We are confident we will be able to do that, but it will take some time. Demand, which is primarily from the semiconductor industry, remains robust and we anticipate that it will continue growing in the US in the mid to long term outlook. In fact, in the recent past we had turned away other customers because we were at capacity and demand growth outpaced our ability to add capacity. We are back in touch with those customers and working to take advantage of new opportunities as semiconductor manufacturing increases in the U.S. We believe we will be well-positioned to replace and grow this business and have invested in capital upgrades to ensure we are properly set up to meet the increasing quality requirements of the industry. Two major players in the semi-conductor industry have announced major U.S. expansions which is very positive for Ultrapure acid demand in the long term.

Turning now to chlor-alkali, the positive news, of course, is that our North Vancouver facility is fully back online and we don't have a turnaround scheduled for this year. You will recall that caustic soda is produced as a co-product with chlorine or HCl and our production is expected to be constrained by relatively low demand for HCl and chlorine. Although, more recently, chlorine and HCl prices seem to be improving due to increased demand. The outlook for oil has turned positive and this is leading to higher fracking activity. We are well positioned from an operational and logistical perspective to take advantage of the increased HCl demand, should it be sustained. As a reminder, we can convert up to 60% of our chlorine capacity at North Vancouver into HCl, whereas we've been operating at less than half of that rate.

With respect to caustic soda prices, our outlook is for the average Northeast Asia spot price to be about US$40 less in 2021 than last year. However, we expect the Index to increase during the year, and we do foresee better prices going into 2022. Industry experts are forecasting an 8% year over year demand increase on caustic that goes into alumina. We believe the outlook is for caustic prices to increase for several years before they get close to reinvestment economics.

I imagine almost everyone on this call is working from home during the pandemic. This has reduced the demand for paper, which means lower demand for bleached pulp production and therefore lower demand for sodium chlorate. While we expect some improvement in overall North American market demand in 2021 over 2020, and this may lead to increased demand for sodium chlorate, we believe it will not recover to pre-COVID-19 levels this year. And based on our customer mix, we anticipate that our sales in 2021 will be similar to 2020. We also expect realized pricing may be lower in 2021 than 2020 because of a stronger Canadian dollar relative to the US dollar.

There are a couple of industry trends that may have a favorable impact on the market demand and pricing. First, with potentially reduced pulp demand and, therefore, reduced demand for chlorate there may be some capacity rationalization across the industry. Second, in 2020 several customers closed their production facilities. In Q1, we believe our customers are operating at close to their capacity levels. Recently there has been an increase in pricing and demand for pulp and we are assessing if this will lead to greater chlorate demand. If market demand does increase for pulp, we could see our customers restarting those sites.

And finally, we are pleased to announce today a new project to commercialize our hydrogen co-product with Hydra Energy at one of our Electrochem plant locations. The project includes a fleet of commercial trucks from Hydra which will be fueled with diesel and our hydrogen. This is the first of hopefully several hydrogen projects to commercialize over the next several years. One of the advantages we have is that our source of electrical power is hydro-electric and therefore the hydrogen generated by the electrochemical process is considered to be “green” hydrogen, which generally commands a premium well above its intrinsic energy value. For perspective, roughly 55kg of hydrogen is generated per tonne of sodium chlorate. This project will have a relatively minor positive impact on our business for the next 4-5 years and will become more impactful for us in 2027.

To summarize, the uncertainty about the duration and extent of the pandemic means the outlook for some of our businesses is difficult to predict for 2021, other than water solutions, which should continue to perform well.

Looking a little further ahead, to when the pandemic is under control and our customers' businesses return to more normal operations, we believe we will be well-positioned to serve those customers. We will benefit from increased driving, higher oil prices and increased fracking activity. We also believe caustic soda prices will move out of the prior year's trough and begin a multi-year upward trajectory. We will deliver on targeted growth projects including Ultrapure and PAC/ACH. We are continuing our emphasis on reliability. We have initiated a Productivity Program across the company that will improve our bottom line. Together, these actions will help us improve our balance sheet and reward our investors.

Thank you. Rohit and I would now be pleased to take questions.

QUESTION AND ANSWER SESSION

Operator

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

Jacob Bout, CIBC World Markets

Good morning. My first question here is just on the outlook for chlor-alkali, so I guess it's really dependent on the shape of the recovery. Can you remind us again what the effective capacity is of North Van and is there anything that would preclude you from ramping from the 175,000 tonnes MECU to full capacity?

Rohit Bhardwaj, Chief Financial Officer

Jacob, that remains constrained with chlorine and hydrochloric demand. So we could get to about 200,000 MECU. So we have about 25,000 less than that. We do have the capability to produce more HCL and to move it in the form of chlorine, so it really depends on that sector recovering.

Jacob Bout, CIBC World Markets

Right. But is there any, like how long would it take it to ramp from 175,000 to 200,000? Is that just a matter of…?

Rohit Bhardwaj, Chief Financial Officer

It's instantaneous. It can be on a daily basis and we can ramp up any day.

Jacob Bout, CIBC World Markets

Okay. And then on the Hydra Energy deal, you're talking a bit longer term here, but are we correct to think that you could contribute 30,000 tonnes per year of green hydrogen from North Van?

Rohit Bhardwaj, Chief Financial Officer

So, North Van is not as big a factor because, if you think about the chlor-alkali process, part of the hydrogen goes out in the form of caustic soda. So really the bigger opportunity is in Brandon in the sodium chlorate facility. And so this Hydra project is actually at Prince George chlorate facility.

Jacob Bout, CIBC World Markets

Gotcha. And so how much do you think you can contribute?

Rohit Bhardwaj, Chief Financial Officer

So, Scott mentioned the 55 kilograms per tonne of chlorate and that plant has a capacity of, call it, 80,000 tonnes, so you can do the math from there. It's about 5%, 6% of that.

Jacob Bout, CIBC World Markets

Okay.

Rohit Bhardwaj, Chief Financial Officer

Yeah, 5,000 tonnes.

Jacob Bout, CIBC World Markets

And the ability to convert other facilities?

Scott Rook, President & Chief Executive Officer

So hydrogen is a by-product, so the ability, I'll say, it's there, we have to capture it and then be able to do something with it. So capture, contain it, and move it.

Jacob Bout, CIBC World Markets

Okay. And is there anything that would, say in North Van, are you locked into long-term HCl contracts?

Rohit Bhardwaj, Chief Financial Officer

No, HCl doesn't tend to be a contract business.

Jacob Bout, CIBC World Markets

Okay. Last question is just on the WSSC outlook. You talked about flat year-on-year demand growth. How should we be thinking about long-term organic growth rates? Or how are you thinking about that?

Scott Rook, President & Chief Executive Officer

Yeah, I would say that, so long-term organic growth rate for our water business on average is 2% to 3%. We have some of the more specialty products that are growing 5% to 10% and our larger, more established products on the lower range, probably 2%.

Jacob Bout, CIBC World Markets

Okay. I'll leave it there. Thank you.

Operator

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

Joel Jackson, BMO Capital Markets

Good morning, gentlemen. Congrats, Scott. A few questions. I'll just do one by one. So if I read through all the helpful tidbits in your M&A and your guidance, is the way to look at it as that for 2021 WSSC is going to be flat, that seems clear, and that we should see some modest improvements in earnings in both SPPC and Electrochem.

Scott Rook, President & Chief Executive Officer

Yes, I think that's fair.

Joel Jackson, BMO Capital Markets

Okay. To dive down a bit more into the ultra pure situation, so can you talk about what is the impact on 2021 from the loss of the customer and you picked up another customer, you've expanded elsewhere, so what's the loss in 2021 and do you think you'll be able to pick that up in 2022? Anything you can provide on the different margin opportunities from the old customer and the new customer would be helpful. Thanks.

Scott Rook, President & Chief Executive Officer

All right. Thanks. So, here's what I'll share, Joel, is that this situation is changing very, very rapidly. As you know, as you probably read, the semiconductor market is sold out right now. There's very high demand and there's a big need for increased production. And so our ultra-pure business, in terms of size and scope, what we've shared before is about a one-fourth, 25%, of our acid business, and so we took a big hit.

But we are working, as we shared, that we've gained share with another customer. We just picked up another customer as well. So I expect that we will be back to where we were when we started 2020 in 12 to 24 months and hopefully on the shorter end of that. But it's changing. I'll say that it's changing a lot. So what has happened over the past couple of years is that there have been suppliers in Asia that have added capacity and we are seeing more competition coming from Asia. But recently I think the industry is being impacted by shipping delays coming out of Asia. So it's harder to find containers and there are delays and I think that's part of the issue as well.

Rohit Bhardwaj, Chief Financial Officer

And Joel, if I can add one thing there, so you would have read as recently as yesterday the Biden administration is really putting a push on increasing semiconductor production in the US and trying to get more domestic supply chains so they're not dependent on others for their strategic chip production. So I think the midterm outlook is very robust. There have been major expansions already announced by a couple of the major players, like multibillion-dollar expansions. So, as Scott said, once we get past the short-term stuff, it's really got a very good outlook.

Joel Jackson, BMO Capital Markets

My last question would be, Scott and Rohit, so, as you think about the recovery and how you can recover earnings and grow earnings, there's obviously the cyclical, the commodity part, you know, caustic soda prices are very low, they have to recover, right, eventually, so there's that part of it. There's also what you can do now internally, different actions, different portfolio changes, different productivity programs to try to grow earnings, cut costs, whatever you have to do. Can you talk about that as you look out the next few years? What are your opportunities to monetize on both the commodity cyclical part and on what you can self-help to yourself?

Scott Rook, President & Chief Executive Officer

Well, Joel, as you recall, we shared early in 2020 that our guidance on EBITDA was going to be in the range of $300 million to $350 million. And once we get past the pandemic, there's no reason to believe that we should not be back in that similar range. So, our strategy is focused on delivering the growth projects that we've talked about. We put that with the market recovery that we expect to see with caustic soda as well as fracking activity, we combined that with an emphasis on reliability and productivity, and I think we'll be on a good growth trajectory.

Rohit Bhardwaj, Chief Financial Officer

And Joel, on the caustic soda part, I mean the expectation is that, as the index rises during 2021, the average is still going to be, call it, US$225. So that's about US$125 per tonne lower than its average for, let's say, the last 10 years. So if you look at that being C$160, call it, so that (inaudible) $35 million, $40 million just to get to its average and you look at what the industry experts say, it has to continue growing from there, because it gets nowhere close to reinvestment economics to at least when it's in the $500 to $600's. So there's a long trajectory, but even just to get to the average gives us a decent pick.

Joel Jackson, BMO Capital Markets

And just finally, there'll also be a North Van turnaround in 2022, correct, like every two years?

Rohit Bhardwaj, Chief Financial Officer

That's right. Yes, that's right.

Joel Jackson, BMO Capital Markets

Thank you very much.

Operator

Your next question comes from the line of Ben Isaacson from Scotiabank. Your line is open.

Ben Isaacson, Scotiabank

Thank you very much and good morning, everyone.

Rohit Bhardwaj, Chief Financial Officer

Good morning.

Ben Isaacson, Scotiabank

Just a few questions and then maybe just a housekeeping item. So, on the EC segment, you obviously saw Superior sell their assets in the past week. Orbia down in Mexico, they're looking to exit vinyls and part of that is the sale of their chlor-alkali assets. And the reasons why both are doing this is to increase the stability or predictability of their free cash flow and ultimately increase their multiple. When you think about Chemtrade, is there an opportunity to do a strategic review or is that, is potentially selling or divesting some of those assets put to rest right now?

Rohit Bhardwaj, Chief Financial Officer

Yeah, so we look at all our businesses to see what fits, what makes sense, whether they're good value for us. As you know, we've got some of our assets for sale right now. But I think Superior is very different, because they are clearly an energy play and they want to become a pure-play energy player. We're a chemical business, so it's not like we have something that doesn't kind of fit in particularly, so I think it's a different situation. But having said that, Scott's come in new and so we are going to look at everything with a fresh pair of eyes and, if something makes sense to divest, we will. But it's not an easy story like Superior, which is an energy play.

Ben Isaacson, Scotiabank

Thank you for that. Can you just talk a little bit more about the large customer that decided to obtain acid from somewhere else? How important is that customer? Do we know why they did that? And what's at risk here? I mean is there a risk that we see more or is this just kind of normal switching and every so often you see some customers kind of play musical chairs?

Scott Rook, President & Chief Executive Officer

Well, so, first of all, the quality requirements in this space have been getting tighter as our customers are producing smaller chips. The quality requirements have been increasing exponentially actually. And second, that's combined with increased volume. So the combination of increased demand and increased quality, I think, was a challenge for our production. We invested last year in several quality improvement projects at all of our sites and I'll say, as a result of that, I think we were able to pick up share with one customer and gain at another one. But there was another supplier, I think, that picked up or that chose to be supplied coming out of Asia.

And in terms of the scope of this, as I said, our ultra pure business is about a quarter of the acid business. And again, all I can say is that I think that, so I think we're going to have competition from Asia. I think that's not going to go away. But I think what will be there is our quality has to be at point where we meet the demands of our customers and we're committed to doing that and we'll make sure that we've got the capacity and the reliability and the quality to do that.

So we have a short break here in terms of being sold out. We have been sold out with our ultra-pure business the last couple of years. And so we're going to use this break to ensure that the quality and reliability is exactly where it needs to be for our customers to hit their expectations for the next two to three years.

Ben Isaacson, Scotiabank

Thank you for that. That's helpful. And then just a housekeeping item. On corporate expenses, it just caught me a little off guard, it was a bit higher than I thought, or I guess a bit lower than I thought. What's a good run rate for your corporate EBITDA and are there any one-offs that we should be thinking about either for Q1 or for 2021 as a whole?

Rohit Bhardwaj, Chief Financial Officer

So, firstly, a good run rate is about $65 million to $70 million. And if you look at where we came in this year, once you strip out some of those items we talked about, including there was a $6 million realized foreign exchange loss, when you strip that out, we actually just fall back into that range. And when I look ahead, the one moving part always is our LTIP, because these are three-year plans. You've got to run Monte Carlo simulations and come up with these accruals and they can fluctuate quite widely. And really what matters is what they are at the end of the period when they get paid out, but in that journey to get there is sometimes up and down. So that's a hard one to me to predict but, other than that, I think normally $65 million, $70 million is good. And when I look ahead into next year I can't think of anything that would be coming in the horizon, but the nature of some of these things is that it's they're hard to predict, but looking right now I can't really think of anything that's unusual that might come up.

Ben Isaacson, Scotiabank

Okay. That's great. Thanks so much.

Operator

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

Steve Hansen, Raymond James

Yes, good morning. Thank you, operator. Just a couple for me, guys. First, Scott or Rohit, I think you mentioned some growth CapEx on PAC and ACH. Can you just give us a sense for the timing on those projects and the rough cost?

Scott Rook, President & Chief Executive Officer

Yes. Well, we're debottlenecking two of our sites. The CapEx on that is relatively small and those expansions are being completed early this year. So the expansions that we're working on will be in the first half and they will basically enable us to keep up with the growth in demand that we see this year. The PAC and ACH expansions and the reason for mentioning that, that is, for us it is a relatively minor expansion, but this is a growing part of the water business. That's why we wanted to include it on here. And we have several, I'll say, of these products that are growing faster than the regular rate.

Steve Hansen, Raymond James

Okay. That's helpful. Just sticking to water, in the past, going back a year, 18 months now, one of the challenges you did face was the escalating raw material costs relative to the pricing. And in your comments you suggested that you expect to be able to offset that again. Do you have confidence in that? I just want to get a sense for here whether we're going to get a squeeze as raw material prices rise. Or can you ultimately pass on those costs and roll contracts?

Scott Rook, President & Chief Executive Officer

Yeah, so I think we do. So we have seen the prices for aluminum increase and so we've factored that in. So we are seeing inflation in our raw material prices, but we are very focused again on productivity across the water business and our other businesses, along with pricing, and I think those two will offset each other.

Rohit Bhardwaj, Chief Financial Officer

And Steve, what's interesting is that, as Scott mentioned, the key raw materials for water are alumina, or aluminum, and sulphuric acids. So even if there is a short-term squeeze, we don't think there will be, but if there is, that's really good for our business, because the alumina will drive up caustic soda and obviously sulphuric acid will benefit from higher pricing. So there's a bit of a, within the business there's a bit of a hedge. I don't know if that helps.

Steve Hansen, Raymond James

Yeah, no, that's helpful. And just one last one, if I may, is just on, you know, two of the items you mentioned in your outlook commentary suggested that you're still evaluating or watching, so that would be the pulp price increase and the demand at the E&P side or the fracking activity levels. How far out do you think we are from seeing, in those two respective industries, impacts on the positive side from your business? In other words, how much more activity do we need to see on the rig count before we start to see you guys (inaudible) rates higher at North Van and how long do we need to see the pulp price increases last before you get higher chlorate demand? Both of those strike me as is already well in effect, but don't seem to be reflected in your commentary just yet.

Scott Rook, President & Chief Executive Officer

Great. So, I'm going to start with oil. And so it's really been within the past recent terms that we saw oil prices move up to $60. And then, and actually just early this week, there are some reports to that oil might be above $70. We have not seen $70 oil, I think, since 2018 or so.

Let's talk about rig counts. If we start with Canada, the Canada rig count has already moved up some and so we are beginning to see more HCL because of that. So rig counts averaged, last year in Canada, I believe, high 80s, around 88, but already this year we're up above 170. And I think the peak, if I'm not mistaken for Canada, is about 200. So we are beginning to see that.

US, it's quite a bit lower and they're coming back slower. So peak in the US has been above 1,000, but rigs right now are around 400. So there's quite a bit of room for the rig count to go up in the US, but that's going to take some time because I think the industry moved quickly closing the rigs, banks have been reluctant to loan money, so there needs to be confidence in that and then we will see that. But if oil is going to be $60 to $70, then we'll go back to see that. And so it's very possible we could see, I think, higher HCL demand really in second quarter and into the second half of the year, depending on what happens with the rig count.

Turning to chlorate and the pulp demand, so the increased prices are for market pulp, what we call market pulp, and so that's pulp that gets sold to companies that are making paper. And there's a big increase in demand coming from China. So we're still waiting to see if the increase in demand and prices on market pulp is going to translate into bleached pulp and that's what we're… We're hopeful it will and we're watching that.

Steve Hansen, Raymond James

Very helpful. Thank you. Appreciate your time.

Operator

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

Nelson Ng, RBC Capital Markets

Thanks. Good morning, everyone. Just a quick follow-up on the Hydra Energy arrangement. In Prince George, what are you guys currently doing with your hydrogen? Are you like using it as heat? Are you venting it? Are you selling it to someone else?

Rohit Bhardwaj, Chief Financial Officer

Yeah, no, right now we're not able to monetize it. Many years ago we were able to get some value for it, but right now it's just, it's really not getting us any value.

Nelson Ng, RBC Capital Markets

Okay. Got it. So you're essentially going to get something for this whereas currently you're… Are you even using the hydrogen? Like do you currently have a use for it?

Rohit Bhardwaj, Chief Financial Officer

For a small amount of it. But you can basically think that it's just not being captured. And as Scott said, initially the return is not going to be that much, but we're not putting any capital. And once the partners have recovered their capital costs in five years' time, it does become quite meaningful for that site.

Nelson Ng, RBC Capital Markets

I see. So are you getting any project economics or is it really just selling hydrogen at some price?

Rohit Bhardwaj, Chief Financial Officer

No, we do share. So if you look at it, so you start from the top, how much does a kilogram of hydrogen go for, and then clearly different people get different shares of that pie based on their investment. So in the early years we don't get much, but I would say once we get past the five years we are actually getting a decent amount of a share of that hydrogen value.

Nelson Ng, RBC Capital Markets

Okay. Got it. And then just moving on to the ultra-pure, can you just remind us what your current production capacity is and what your market share is? I believe you're one of the larger players, so I'm just wondering how your market share has changed with the Asian imports.

Scott Rook, President & Chief Executive Officer

Yeah, so our capacity for ultra-pure is about 50,000 tonnes and so we still are the largest domestic producer. And our market share has been over 50%. I'll just say that with this we still remain the largest producer and our share is still going to be close to 50% range.

Nelson Ng, RBC Capital Markets

Okay. And are you able to provide a bit of colour in terms of how large this particular customer was that switched? Like are they 10% or 20% of your volume? Or is it something bigger than that?

Scott Rook, President & Chief Executive Officer

Well, I'll say that this was our largest customer for ultra-pure, but this segment, again, was about 25% of our overall acid business.

Nelson Ng, RBC Capital Markets

Okay. Got it. And then just to follow-up on the cold weather, you mentioned that the impact was limited. Like I know there was lot of like power generators in Texas who got hit really hard and there were a bunch of industries who had to, I guess, curtail or reduce their production. In terms of the cold weather impact and you having a few assets in Texas, did you have to curtail production or do anything like that?

Scott Rook, President & Chief Executive Officer

Yes. We certainly did. Look, we have a number of sites, around a dozen sites that were impacted by the cold weather. And the impact ranged from, starting out, suppliers, not able to get raw material supplies because our suppliers had weather. We also had trouble moving trucks, we and everyone else had trouble moving trucks along the roads that were shut down because of that. We had issues with power coming in, issues with gas, frozen pipes. We also had, many of our customers that were also shut down. But I think our teams worked through as good as we could have gone, preparation for the cold weather. So we have processes that you go through to prepare for cold weather. So we did that and I think because of those efforts we were able to come back pretty quickly.

Nelson Ng, RBC Capital Markets

Okay. So there was some impact but it’s not that material in terms of from a big-picture perspective.

Scott Rook, President & Chief Executive Officer

Yeah. From a big-picture perspective, I don’t think it’ll be that meaningful for us. I mean there has been an impact, but it’s not going to be that material for us.

Nelson Ng, RBC Capital Markets

Okay, thanks. I’ll leave it there. Thank you.

Operator

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

David Newman, Desjardins Capital Markets

Good morning, Scott and Rohit.

Rohit Bhardwaj, Chief Financial Officer

Good morning.

Scott Rook, President & Chief Executive Officer

Good morning.

David Newman, Desjardins Capital Markets

I just had a few quick ones. First of all, just on the weather theme, not to kill it, but could you see this as being maybe even a bit of a catalyst for a hydrochloric acid, not only from a pricing perspective but also shipping down there? And secondly, we're seeing some re-emergence of higher contracts for caustic. Do you think there could be a net positive come out of this?

Scott Rook, President & Chief Executive Officer

It's certainly possible. There were a number of refineries in the Gulf Coast region that were shut down. There were also a number of chlor-alkali facilities that were shut down, including force majeures. So we'll see what happens with the market. That definitely tightens the market up. And I think that probably had some impact. I won't make too many comments about what's driving oil prices up, but that's probably had some impact on it, as well as the force majeures and the tight supply on caustic, you're right. So we are seeing some signs of caustic prices moving up. It's still very early. It's a large global market and we'll see. But it's certainly moving it in the right direction for us.

David Newman, Desjardins Capital Markets

Okay. And then on hydrochloric acid, again, where do you think you might—you're at 30% today in terms of conversion of chlorine to hydrochloric acid, where do you think it might be? And if you don't want to hypothesize where you might be, if you went up from 30% to 35%, so a 5% increase in the conversion rate, how meaningful is that to EBITDA? Obviously, chlorine being the lower-margin product versus hydrochloric acid, how meaningful could a 5% move on utilization be to EBITDA?

Rohit Bhardwaj, Chief Financial Officer

So David, if you look back at 2018 or 2019, we were converting over 40% of our chlorine molecule into HCl. So there are two aspects to that, to your question. So it's not a straightforward answer, like a lot of things in our business. So the two aspects are, one, that if we are able to get more HCl demand, we probably will run our chlor-alkali facility harder. So it won't just be a question of getting rid of chlorine and converting more into HCl, it's more HCl demand, more chlor-alkali, which means that we'll make more money on the caustic soda. And then typically the HCl price moves a lot. If you look at our commentary, we've said how much lower our HCl price has been, even 20% from last year. If you look at 2019 that was, you know, I think another 20% less, so lower than the previous year. So, all in all, that upswing in HCl is meaningful and a move from 30% to 35% is quite meaningful to that business. Yeah, it's a big factor.

David Newman, Desjardins Capital Markets

Okay. And then on caustic soda, just not only what's going on down south, but obviously we're in the Lunar New Year as well and laid up capacity there. And we're kind of seeing some green shoots in caustic soda and, I think, Rohit, you noted in the past that the spread between the

Taiwan spot and the contracted rate was at the widest gulf it has ever been. So when do you think the catalyst is to really get caustic sort of going to kind of meet your guidance for the year that the second half might see a nice surge? Is it really, it comes down to COVID, or what are the machinations of it, I guess?

Scott Rook, President & Chief Executive Officer

Yeah, so I'll take that one. So I think, as we look at caustic, from a demand standpoint, what's the biggest driver, I think, for that is starting out with increased industrial activity and that ties to increased aluminum production. So aluminum production, and therefore, alumina, is forecast to be up 6%. But the other thing that's changing in this market is the type of process used to make alumina is also changing and so there's going to be more production in the process that needs more caustic. And so that's going to add what we think is another 2%. So an 8% demand in alumina, I think, will be good for the market. We're starting to see that. And then as long as automotive manufacturing is there and general industrial activity, that should translate into a pickup in caustic. Well, into alumina, which would be good for caustic.

David Newman, Desjardins Capital Markets

Is there a magnifier effect on the actual supply of caustic if you see sort of, ah, or is it just straight up 8% is kind of the impact on caustic?

Scott Rook, President & Chief Executive Officer

Say that again?

David Newman, Desjardins Capital Markets

So, in other words, if your customers are seeing a pickup, is it the customers seeing a pickup of 8% or the caustic demand is seeing a pickup of potentially 8%?

Scott Rook, President & Chief Executive Officer

Yeah, that's a global pickup in demand for caustic soda or a year-over-year change in demand for caustic soda that goes into alumina globally.

David Newman, Desjardins Capital Markets

Okay. Very good. And I guess on the spread, are we seeing any movement here at all on the back of the Lunar New Year?

Rohit Bhardwaj, Chief Financial Officer

Between the spot and the contract, you mean?

David Newman, Desjardins Capital Markets

Yeah, between Taiwan and the contracted rate. Are you seeing anything at all that leads you to believe that, gives you guys a bit more confidence that maybe the worst is behind us, we hit the trough in kind of a last fall and now starting to move in the right direction?

Scott Rook, President & Chief Executive Officer

So, we saw Northeast Asia spot coming closer to the Taiwan contract price really even in December and January, and so we actually had at a while where Northeast Asia had crept up to the $230 and so that was very positive movement. It then fell down to $210 and it's been there for a few weeks.

And we'll see what happens right now because, with the impact of the storm and everything else, it's early, but there are, from what I read, there are, so deals aren't concluded right now, but there are at least quotes that are out there that are that are high, I'll say, that are at or above $240. Those aren't confirmed, but they're being discussed. So we'll see what happens there.

David Newman, Desjardins Capital Markets

Excellent. Very helpful.

Rohit Bhardwaj, Chief Financial Officer

But David, from a historical perspective, that spread is still very wide and so there is still room that, as things stabilize in Asia, that does start to tighten, because right now, from a historical perspective, is still very wide.

David Newman, Desjardins Capital Markets

Do you view that conversion as being the single biggest catalyst?

Rohit Bhardwaj, Chief Financial Officer

It's a combination, because obviously they're kind of interrelated, because when you've got, when there's such a depressed caustic market on the spot side, it's hard to see that converts too much, but as things stabilize, as we get this 8% higher demand and caustic demand starts to go up, then the spot contract differentials should start to come down.

David Newman, Desjardins Capital Markets

Okay. That's great answer. The last one, just a housekeeping one. I know the Monte Carlo simulation on the LTIPs and things like that, Rohit, but any rule of thumb that we should be looking at that if your share price goes up $1 we can expect an incremental cost in the range of X to Y?

Rohit Bhardwaj, Chief Financial Officer

No, because there's also, one of our metrics is also relative return, so that's benchmarked against the dividend index, and so it does get complex, unfortunately. But I mean the rule of thumb is, you know, if you see the stock going up from the start of the quarter to the end of the quarter you know that it's going to be a higher expense, but it's hard to give you that easy metric, because we don't have that.

David Newman, Desjardins Capital Markets

Okay. Very good. Thanks, gentlemen.

Operator

Your next question comes from the line of Stephen Kwai from National Bank. Your line is open.

Stephen Kwai, National Bank Financial

Hey, guys. Thanks for taking my questions. I'm just calling in for Endri. A few from me. So you mentioned the lost customer for ultra-pure and I'm just wondering, for the excess ultra-pure now that you're going to have, are there any additional costs associated with selling it to that other customer or any other customers?

Scott Rook, President & Chief Executive Officer

No, there are no additional costs. And one thing that I did not mention is that, for the ultra-pure that we're not producing, we have the ability to turn that into other products and sell it, such as merchant acid. We don't get nearly the same value, but we do produce it and move it.

Stephen Kwai, National Bank Financial

Okay. Perfect. Great. And for the hydrogen partnership, I know you guys touched upon that a little bit. Will there be also any additional costs throughout that partnership?

Scott Rook, President & Chief Executive Officer

No, no additional costs for us.

Stephen Kwai, National Bank Financial

Great. Okay. And just turning to the WSSC segment, so I know it's performed pretty well throughout pandemic and I know that Q4 is typically seasonally weaker, but just in the past couple of quarters you mentioned the lower volumes in the segment, so I'm just wondering like what's driving the lower volumes.

Rohit Bhardwaj, Chief Financial Officer

Those tend to be seasonal or weather related, so it depends on… So there's no demand reduction in general. This tends to be just the way it's based on the model, how cold it is or rains, and so there's a bit of a seasonal or weather-related factor in here.

Stephen Kwai, National Bank Financial

Okay. Great. That's good. And so, again, turning to weather, I know you guys have kind of touched upon this a few times now. So, I know you said there's no material impact, but just on the operational side, were those sites that were impacted that you mentioned, do those impact a particular segment more than others or is it kind of just general?

Scott Rook, President & Chief Executive Officer

They were spread across the WSSC segment as well as our sulphuric acid sites.

Stephen Kwai, National Bank Financial

Okay, great. And just a couple more here. So, the change in environmental liability that you reported, could you just elaborate a little bit more on that?

Rohit Bhardwaj, Chief Financial Officer

Yeah. So we look at our long-term remediation obligations and, based on either discount rate changes or change in estimates, we adjust those. But I mean there's nothing too remarkable about it. And these tend to be really long term. We have to go out 40 years in some cases to try and estimate what our remediation cost might be. So we're always looking at that and seeing that we need to adjust and also there's a discount rate change there too.

Stephen Kwai, National Bank Financial

Okay. And just the last one on me, for the equipment write-downs, are those expected to continue? I know you reported a couple the last two quarters (inaudible).

Rohit Bhardwaj, Chief Financial Officer

No. We had rationalized some capacity and so we, because of that we did some write-downs, but we aren't expecting anything in 2021.

Stephen Kwai, National Bank Financial

Okay, great. Thanks.

Operator

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

Steve Hansen, Raymond James

Sorry, guys, just one follow-up. I apologize if you mentioned it, but do you describe what the cost to capture hydrogen would actually be? I think, Scott, you had mentioned you would need to gather it and store it or move it, I think you said, or something of that effect, and I just trying to understand what costs would be needed or capital need to be spent to capitalize on the opportunity. Thanks.

Scott Rook, President & Chief Executive Officer

It's going to vary on plant by plant site. So, typically we would have to capture it, compress it, store it, and then think about moving it. And that's really going to depend on exactly what the project is as well as where the plant is. So there's not one answer that I could give you other than it's really going to vary by site and by project. In this particular case, with Hydra Energy, Hydra put the capital in, so they invested to capture it and to store it and then put it in their facilities, and we have a long-term agreement in place for that.

Steve Hansen, Raymond James

Understood. Okay. That's very helpful. Thank you.

Operator

There are no further questions at this time. I turn the call back over to Scott Rook for closing remarks.

Scott Rook, President & Chief Executive Officer

All right, thank you very much. Listen, that concludes our remarks and I would just like to say thank you to everybody for your time. Stay safe, everyone, and have a nice day.

Operator

Ladies and gentlemen, this concludes today's conference call.

[(1)] Non–IFRS Measures

EBITDA and Adjusted EBITDA –

Management defines EBITDA as net earnings before any deduction for net finance costs, income taxes, depreciation and amortization. Adjusted EBITDA also excludes other non-cash charges such as impairment, change in environmental liability, net gains and losses on the disposal and write-down of property, plant and equipment ("PPE"), 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)	**2020**	**2019**	**2020**	**2019**
Net loss	$ (25,784)	$ (12,597)	$ (167,478)	$ (99,654)
Add:				
Depreciation and amortization	56,346	65,422	253,912	262,458
Net finance costs	24,017	12,490	140,296	88,487
Income tax (recovery) expense	(14,838)	4,410	(47,464)	(24,291)
EBITDA	39,741	69,725	179,266	227,000
Add:				
Impairment of goodwill	-	-	56,000	65,600
Change in environmental liability	4,427	-	8,170	-
Net loss on disposal and write-down of PPE	1,639	3,268	20,999	13,790
Unrealized foreign exchange (gain) loss	(1,597)	(2,660)	833	(10,787)
Adjusted EBITDA	$ 44,210	$ 70,333	$ 265,268	$ 295,603

SPPC -

($'000)	Three months ended December 31 2020	Three months ended December 31 2019	Year ended December 31 2020	Year ended December 31 2019
Revenue	$ 100,694	$ 117,286	$ 423,027	$ 502,604
Gross profit	6,649	14,313	22,306	60,207
Adjusted EBITDA	27,626	34,242	124,913	160,744
Net loss on disposal and write-down of PPE	(1,592)	(966)	(20,524)	(10,939)
EBITDA	$ 26,034	$ 33,276	$ 104,389	$ 149,805

WSSC -

($'000)	Three months ended December 31 2020	Three months ended December 31 2019	Year ended December 31 2020	Year ended December 31 2019
Revenue	$ 99,314	$ 101,845	$ 445,897	$ 445,175
Gross profit (loss)	7,162	3,601	942	(30,856)
Adjusted EBITDA	20,313	14,642	102,458	77,903
Impairment of goodwill	-	-	(56,000)	(65,600)
Change in environmental liability	(4,427)	-	(8,170)	-
Net gain (loss) on disposal and write-down of PPE	4	(2,313)	(433)	(3,970)
EBITDA	$ 15,890	$ 12,329	$ 37,855	$ 8,333

EC -

($'000)	Three months ended December 31 2020	Three months ended December 31 2019	Year ended December 31 2020	Year ended December 31 2019
North American sales volumes:				
Sodium chlorate sales volume (000's MT)	92	98	375	392
Chlor-alkali sales volume (000's MECU)	30	38	141	178
Revenue	$ 119,346	$ 136,084	$ 510,715	$ 585,076
Gross (loss) profit	964	5,839	10,482	67,972
Adjusted EBITDA	22,308	34,101	115,869	171,399
Net (loss) gain on disposal and write-down of PPE	(51)	(167)	(42)	706
EBITDA	$ 22,257	$ 33,934	$ 115,827	$ 172,105

Cash Flow –

The following table is derived from, and should be read in conjunction with the consolidated statements of cash flows. Management believes this supplementary disclosure provides useful additional information related to the cash flows of Chemtrade including the amount of cash available for distribution to Unitholders, repayment of debt and other investing activities. Certain sub-totals presented within the cash flows table below, 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.

	Three months ended December 31		Year ended December 31	
($'000)	**2020**	**2019**	**2020**	**2019**
Cash flows from operating activities	$ 73,191	$ 60,659	$ 261,954	$ 139,477
Add (Less):				
Lease payments net of sub-lease receipts	(13,592)	(14,199)	(56,010)	(56,815)
Changes in non-cash working capital and other items	(48,655)	(8,142)	(72,565)	82,149
Adjusted cash flows from operating activities	**10,944**	**38,318**	**133,379**	**164,811**
Less:				
Maintenance capital expenditures	33,967	36,871	74,411	82,743
Distributable cash after maintenance capital expenditures	**(23,023)**	**1,447**	**58,968**	**82,068**
Less:				
Non-maintenance capital expenditures	394	3,723	2,677	13,556
Distributable cash after all capital expenditures	**$ (23,417)**	**$ (2,276)**	**$ 56,291**	**$ 68,512**