Chemtrade Logistics Income Fund
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Rohit Bhardwaj, Chief Financial Officer: Thank you. Good morning and thank you for attending Chemtrade Logistics Income Fund's Earnings Conference Call for the Full Year and Fourth Quarter '23. With me this morning is Scott Rook, our President and CEO. To begin the call, Scott and I will provide a recap of our full year and fourth quarter results, as well as our 2024 guidance and the outlook underpinning this guidance. We will also provide an update on our organic growth projects. Throughout the call, we may refer to our accompanying presentation, which is available on our website, chemtradelogistics.com. Following our prepared remarks, we will open the call for analyst Q&A to answer any questions you may have.

Today's call will contain certain forward-looking statements that are based on our current expectations and are subject to a number of risks and uncertainties. Actual results may differ, materially, from expectations. Further information identifying risks, uncertainties and assumptions and additional information on certain non-IFRS and other financial measures referred to in this call can be found in the disclosure documents filed by Chemtrade with the Securities Regulatory Authority available on sedarplus.ca.

One of the measures that we'll refer to in this call is adjusted EBITDA, which is EBITDA modified to exclude noncash items such as unrealized foreign exchange gains and losses. While our accompanying presentation refers to adjusted EBITDA, we will refer to it simply as EBITDA in our remarks.

Beginning with our full year results, EBITDA in 2023 surpassed the previous record set in 2022 by more than $70 million. The diversity of our product portfolio played a pivotal role in achieving these record-breaking results, as areas of strength offset pockets of weakness. Additionally, our commercial initiatives aimed at optimizing margins capitalize on favorable market fundamentals, further enhancing our EBITDA. Another critical aspect underlying these achievements is the team's dedication and focus on productivity and reliability across our manufacturing footprint, enabling us to maintain strong operations through the year. This concerted effort resulted in a consecutive year of record annual EBITDA.

For the full year 2023, we generated consolidated revenue of $1.85 billion. There were two events that had a negative impact on 2022 results that I would like to briefly highlight, since they impact the year-over-year comparisons. First, the biennial turnaround at the North Vancouver chlor-alkali plant had a negative impact of approximately $15 million in revenue and $17.1 million in EBITDA. Second, we closed the Beauharnois, Quebec, sodium chlorate facility; that had a negative impact on EBITDA of $3.9 million. Also, notably, the weaker Canadian dollar contributed to a $55.1 million improvement in revenue and a $21.3 million improvement in EBITDA. When excluding the effect of these items, consolidated revenue declined by 2%, year-over-year, but EBITDA increased by 7%, compared to 2022. In addition to these items I mentioned above, the improvement in EBITDA is attributed to significantly higher selling prices for sodium chlorate net of lower sales volumes and higher margins for water products. This was partially offset by lower sales volumes of chlor-alkali products, lower sales volume of sodium nitrite, byproduct disposal costs and higher corporate costs. A significant increase in consolidated adjusted EBITDA we achieved in 2023 helped to drive a 32% increase in distributable cash for the full year and reduced our payout ratio for 2023 to 25%.

Turning to our Q4 results. In the fourth quarter of 2023, our consolidated revenue was $422 million, a decline of $34.7 million, or 8%, year-over-year. EBITDA for Q4 declined by $19.6 million to $86.4 million, reflecting a 19% decrease. This decline is attributed to lower revenue and EBITDA in both of our operating segments, which was partially offset by a reduction of $1.7 million in corporate costs.

In Q4, the SWC segment had strong results of solution products and acid, but this was overshaded by a decline in merchant acid volumes, due to reduced byproduct supply and weaker year-over-year performance in sodium nitrite. The sodium nitrite business, which had an exceptionally strong 2022, faced challenges during Q4 '23, due to an extended plant turnaround to implement various process improvements. This initiative limited our sales volume for the period. And additionally, we incurred higher disposal costs year-over-year for the byproduct generated at this site. Both the extended plant turnaround and elevated disposal costs are regarded as nonrecurring items, and we don't expect them to, materially, impact future quarters.

In Q4, within the EC segment, weaker results year-over-year were driven by significantly lower caustic soda prices, as well as lower sales volumes for sodium chlorate. These factors more than offset higher selling prices for sodium chlorate, chlorine and HCl. Net of foreign exchange, in MECU netbacks in Q4 were down by about $220, which with improved chlorine and HCl pricing offsetting about 30% of the decline in caustic soda pricing.

Moving to our balance sheet. Through the course of 2023, we continue to strengthen our balance sheet. We reduced the principal amount of the ventures in our balance sheet by 18%, and our total debt declined by $215.3 million, which is a 24% decline from the start of the year. In addition, our financial leverage, as measured by our net debt-to-EBITDA ratio, declined from 2.2x at the end of '22 to 1.7x at the end of '23. The reduction in our leverage is attributed to several factors, notably, a record EBITDA performance and the related strong cash flow we generated, over the course of 2023. We also sold our P2S5 business in November '23 for gross proceeds of approximately USD 43 million or CAD 59 million with the net proceeds used to further reduce the balance of our credit facilities. We ended the year with substantial financial flexibility. We have no debt maturities until September '25, and we have USD 450 million undrawn in our credit facilities, along with $21.5 million in cash on our balance sheet. We remain focused on maintaining a strong balance sheet in 2024 and plan to end the year with leverage below 2x, based on the midpoint of our guidance and related assumptions.

In January, we announced a 10% increase to our monthly distribution to $0.055 per month, or $0.66 per unit on an annualized basis. Based on yesterday's closing price, this equates to an attractive yield of approximately 7%. This increase, approved by the Board of Trustees and consultation of management, reflects the improved sustainable long-term outlook for our cash flow. We view this new distribution level as one that we will be capable of sustaining throughout our market cycle with an implied payout ratio of 45%, based on the midpoint of our 2024 guidance. And to reiterate, we believe the midpoint of our 2024 EBITDA guidance of $415 million is also a sustainable level of mid-cycle earnings with the current business portfolio. Alongside the increase to our distribution, we also announced the suspension of our DRIP, which was initially instituted during the pandemic. With our balance sheet now in sound shape, we no longer view the DRIP as necessary and view its elimination as prudent for existing unitholders. Neither the increase to the distribution nor the elimination of the DRIP is expected to have a material impact on our leverage nor our ability to invest in growth.

Switching over now to our 2024 guidance. Yesterday, we reaffirmed the guidance that we issued in January, projecting 2024 adjusted EBITDA to range between $395 million and $435 million with the midpoint of $415 million. Although the expected EBITDA for '24 is expected to be lower than the record high level seen in '23, it is worth noting that our second highest ever EBITDA achieved in 2022 would fall within this guidance range. Further, we believe that the $415 million midpoint in our guidance represents a sustainable level of mid-cycle earnings. This reflects a step change in earnings that we believe has occurred in our business following the various strategic improvements that we have implemented in recent years.

When comparing our 2024 guidance to 2023, we anticipate several factors will contribute to the year-over-year decrease in EBITDA. This includes the impact of lower caustic soda pricing, the biannual turnaround at our North Vancouver chlor-alkali facility, lower volume in the sodium chlorate, higher raw material costs of water chemicals and a stronger Canadian dollar. We expect the second half of 2024 will be stronger than the first half because of the North Vancouver turnaround, which is scheduled for the first half of the year. Additionally, it is important to acknowledge that year-over-year comparisons are particularly challenging for the first half of '24, given that the caustic soda index price for Q1 of last year was over USD 600 per ton and declined over the course of '23. All of the key assumptions underpinning the '24 guidance are available in our disclosure documents.

I will now hand the call over to Scott to provide additional color on the outlook for '24. Scott.

Scott Rook, President and Chief Executive Officer: Thank you, Rohit, and good morning to everyone listening. We value your continued support and interest in Chemtrade. We're pleased to share with you our impressive 2023 results, which highlight the dedication and execution of our exceptional team of 1,400 Chemtrade employees. I would like to extend my personal appreciation to our team for their outstanding efforts. The record earnings we achieved in 2023 were helped by favorable market conditions across many products, as well as a weaker Canadian dollar. These results also underscore our team's effectiveness in maintaining and operating our plants in addition to maximizing the profitability of the products we provide to the market. As we now look to 2024 and beyond, we anticipate that our culture of excellence will continue to play a key role in sustaining our strong performance. While we expect our earnings this year to return to more typical levels following the record high last year, we anticipate that '24 will mark another successful year for Chemtrade.

Looking now at our outlook, and beginning with our SWC segment, last year, our water chemicals business stood out as the top performer with both higher pricing, lower raw material costs contributing to improved margins. It's important to note that our water margins, last year, benefited from price adjustments following the last raw material cycle that peaked in 2022. So, we expect some downward pressure on margins as prices normalize, due to lower 2023 raw material costs. Additionally, we foresee the possibility that raw material costs could increase this year, potentially, having a negative impact on our water margins until contract renewals enable necessary price adjustments. We expect volumes for water chemicals to remain relatively stable, irrespective of the economic backdrop, given the nondiscretionary nature of these chemicals for the end markets we sell to.

For our sulfur products, last year, regen acid benefited from improved market pricing with stable demand. We expect this business to continue to perform well again, this year. Recall that regen acid demand is highly correlated with driving activity and refinery utilization rates, which tend to be stable with limited impact from broader macroeconomic growth. Last year, our merchant acid business experienced a decline in volume due to reduced supply from one of our byproduct sulfuric acid suppliers.

Additionally, merchant acid has faced downward pressure stemming from lower sulfur prices, the primary raw material we used for sulfuric acid production. To mitigate potential volatility in our business from sulfur prices, we have risk-sharing contracts with the majority of our byproduct acid suppliers, which does not use sulfur as a raw material. As a result, we expect that any changes in merchant acid pricing will have a limited impact on our profitability, this year.

For ultra-pure sulfuric acid, we continue to see a strong need for an increase in domestic supply over the coming years as more semiconductor production comes online in North America. Our first big project to capture this new demand is at our Cairo, Ohio, facility, which we expect will undergo commissioning this year.

Turning to our Electrochemicals, or EC business, we continue to benefit from Chemtrade's advantaged energy cost position relative to overseas competitors. As a reminder, our EC sites operate on hydroelectric power supplied in regulated markets. Although the differential between North American and European or Asian energy prices has narrowed, we think our advantage will persist as the global energy market continues to struggle with ongoing political instability. This differential may boost natural gas pricing, driving increased North American fracking activity and by extension, incremental hydrochloric acid demand.

In 2023, sodium chlorate had a very strong year, largely driven by higher pricing in the market. While we are anticipating that pricing will remain stable, we are expecting volumes to be about 5% lower, this year. The decline in demand reflects the Western Canadian pulp mill curtailments that were announced, last year. Despite the decline in volume, this business remains well positioned to continue driving strong cash flows for the foreseeable future, particularly given our facility’s low energy costs relative to the higher cost, globally.

Both merchant chlorine and hydrochloric acid had strong years last year, which helped to offset the weakness in the caustic soda market. The merchant chlorine market remains fairly tight, so we expect pricing will remain elevated, this year. The HCL market also remains stable, driven by strong demand for natural gas that has supported fracking activity in Western Canada. We expect the completion of the Coastal GasLink natural gas pipeline will further bolster fracking activity in Western Canada, as it comes into service in 2025.

We have scheduled the annual maintenance turnaround at our North Vancouver chlor-alkali plant to take place during the second quarter of this year. This turnaround is expected to take approximately three weeks and will impact our production, as well as our EC EBITDA. The last time we undertook this turnaround in the second quarter of '22, the impact of our earnings was approximately $17 million. On a pricing per MECU basis, our guidance assumed MECU netbacks will be approximately $210 lower this year than last year.

For caustic soda, this business is heavily influenced by global supply and demand. As a reminder, pricing for our market in Western Canada is typically set by the CMA Northeast Asia index. Last year, this business was affected by the Northeast Asian index price dropping over the course of the year. Based on analyst projections, we believe that caustic has reached the trough of the cycle and will start to improve in the second half of this year. Our guidance for 2024 assumes lower realized pricing based on the Northeast Asia Index of $375 per ton versus $455 per ton in 2023. This guidance reflects the fact that the index for caustic soda will be materially lower in the first half of '24, compared to Q1 of '23 when the Northeast Asia price was over $600 per ton. In addition, our pricing for Q2 is already set and will be markedly lower, year-over-year. This year-over-year decline is expected to improve in the second half of this year as the second half of '23 experienced significantly lower pricing than the first half of '23. Additionally, Taiwan contract pricing and the industry consultants both suggest that caustic soda pricing will continue to improve from current levels through 2024 and into '25, giving us confidence in our assumptions.

Before turning to organic growth projects, I would like to hit the defensive attributes of Chemtrade's business. While economists are increasingly calling for a soft landing or a goldilocks scenario, we believe Chemtrade is much better positioned than many other chemical manufacturers, should an economic downturn occur. First, several of our products either typically see very limited impacts in recession or have growth drivers that are expected to remain, irrespective of the economic backdrop. This includes our Water Solutions products business, which are essential to maintain safe water supply in North America and our regen acid business, which is tied to miles driven in North America. Both of these products have robust demand that sees little change from macroeconomic conditions. Second, our defensiveness is further enhanced by factors like the risk-sharing agreements we have in place with our merchant acid suppliers. Third, the diversity of our product portfolio helps to mitigate any weakness we may see in a particular market. For instance, in chlor-alkali, should demand for chlorine significantly weaken, this could potentially lead to reduced chlor-alkali production in the North American industry, which could in turn tighten the caustic soda market, leading to improved caustic soda pricing and prove to be a net benefit for Chemtrade. Finally, the steps that we have taken in recent years to significantly strengthen our balance sheet positions Chemtrade with a great deal of financial flexibility to weather any economic environment.

Moving over now to our organic growth projects. With our 2024 guidance, we announced we plan to allocate between $60 million and $90 million to growth investments in '24. About $40 million of this capital will be directed towards ultra-pure acid projects, primarily towards the completion of our Cairo, Ohio, expansion and upgrade. The remaining capital will be directed towards other areas of the business, including water chemicals. It's worth noting that we believe in the prudent allocation of capital and only investing in opportunities that generate attractive returns on our investment. The Cairo project is on track, and we expect to finish construction later this year. We now expect costs to be between $60 million and $65 million. Following the start-up later this year, the commercial ramp-up will begin to take place in 2025. This will be the first ultra-pure acid plant in North America that will meet the quality requirements for next-generation semiconductor nodes. As a result, completion of this project will further bolster Chemtrade's position as the top North American supplier of ultra-pure acid to the semiconductor industry. We will provide an update on the expected return of this project, after the startup is complete. During 2024, we also intend to undertake smaller quality upgrade projects at our other ultra-pure facilities located in Tulsa, Oklahoma, and Riverton, Wyoming. Meanwhile, our Casa Grande joint venture project remains on hold, until it can be assured the project generates an acceptable level of return. Discussions with customers are ongoing, and the joint venture has applied for CHIPS Act funding from the U.S. government.

In Water Chemicals, our specialty products, PAC and ACH, have increased in both volume and pricing over the past few years. So, we are continuing to invest in this business, and we'll be adding new PAC and ACH lines at existing water plant, this year. These are two higher growth products in our water chemicals portfolio with demand anticipated to grow by more than 5%, annually. These projects will add additional production capacity, enabling Chemtrade to participate in the demand growth for these products. We don't expect any notable financial contributions to revenue or earnings from the expansions that we make this year as it will take time for those projects to ramp up with incremental production.

Finally, it has been some time since we last provided an update on our green hydrogen opportunity. I am pleased to say that we're beginning to make progress on this front at our sodium chloride facility located in Prince George, Columbia, though it remains early days. This project will capture and monetize the green hydrogen that is already produced at our facility as a byproduct of sodium chlorate process. I look forward to providing you with additional updates on this and other projects, as we continue to make progress.

To conclude, thank you all again for your continued interest and support for Chemtrade. We look forward to delivering strong results again this year and beyond, and thank you for your time, today.

Rohit Bhardwaj: Operator, we can now open it up for questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. First question comes from Ben Isaacson from Scotiabank. Please go ahead.

Ben Isaacson, Scotiabank: Thank you very much and good morning, everyone. First question is on Cairo. You talked about mid-cycle EBITDA contribution from your current business portfolio of $415 million. When Cairo is up and running, how does that mid-cycle EBITDA change?
Rohit Bhardwaj: So, as we said we will provide an update on the return expected from the Cairo plant, once it's up and running. As you probably know from reading the media, a lot of the

fab expansions have been slowed down a bit, so it is going to take a bit of time to ramp up. But we will--when the project is complete at the end of the year, we will provide some guidance as to what the incremental return should be.

Scott Rook: Yeah, I'll just add to that. The outlook and the need for ultra-pure sulfuric acid continues to be the largest growth opportunity that we see at Chemtrade. What we do see happening, though, is that there has been a slowdown at the fab production level.

And so, whether that's--and these things are public. So whether that's TSMC Samsung, Intel and others, they are announcing that the new fabs that are coming on board are seeing some delays. And so our plant is coming online, which is going to be good. It will be ramping up the second half of this year, and will begin supplying, next year.

So long term, this is still a very, very positive story for Chemtrade. And the exact demand that will be determined by the rate that the new fabs come online over the next three to five years.

Ben Isaacson: That's very helpful. Second question for me is, historically, is it fair to say that when we look at chlor-alkali, you've made more money on the caustic side than on the chlorine side. If I remember correctly, you haven't made much money, historically, on that side, but now you're doing very well. Can you talk about what's changed in the market? And how sustainable are these chlorine levels? And is this really just a result of shutdowns we saw in the U.S.?

Scott Rook: So we've seen over the past two to three years, some structural changes in chlorine demand. I'll say so during COVID there was increased demand, let's say, from a bleach standpoint, but also there were plant shutdowns. There were at least three plant shutdowns that happened in North America. And so we have seen that the market has seen a structural role change. And I would say we believe that that is a longer-term solution. And if that's not a solution, but that's a longer-term trend that's likely to continue.

And then the other part of chlorine goes into hydrochloric acid which is, for us, primarily going into the fracking industry. And so now that North America is ramping up demand to produce natural gas, turn it into LNG and export that to Europe and replace the Russian gas that they were buying. What we're seeing is that there's increased demand for gas and fracking activity in North America. And although Canada is not exporting yet, that still as a net production of gas, there's a lot more gas headed to Europe; that's leading to increased production. And so in Canada, the fracking rate is above five years averages. And so, that is leading to strong demand. And so that's also likely to continue. And then as Canada opens up that line, that's all we think that's going to be next year. That's also going to lead to increased fracking activity. So we think that the strong demand for chlorine and HCL is likely to stay.

Rohit Bhardwaj: If I can just add one comment on chlorine. So, we are a fairly small participant in that market. But one of the big players is Olin. And if you go and look at their public material that they issue, you will see a notable change in their stance to the market about three years ago. And we think that has been very successful for Olin, and we fully expect that they will continue with that strategy.

Ben Isaacson: That's great. Thank you very much for that detailed answer. Last question for me is, have you begun to think through the difference between a Trump or Biden administration, going forward, and what that could mean to the business? I'm sorry, the reason why I am asking, Scott, is because Trump has talked about increasing import tariffs, gutting certain programs, etc. So I just wanted to know if that would have impact on the business?

Scott Rook: That's an interesting question. That's one where you made us go, oh, wow. I would say right now, the short answer is probably not much of an impact that I think that we could talk about, right now. I think that in either administration--either administration, I think, is going to support the CHIPS Act funding. And so as of this week, there have already been three announcements where the government has worked out grants with three fab producers. So these are the first to come out. And although we believe that they have been in the works for the past several months, they became commercialized or they went public with those this week. And we think that those announcements are going to continue to happen. And I really don't know whether that changes based on the outcome of the election. But I do think, again, that the CHIPS Act is here to stay and that the fabs are going to get built and everything that we see and hear and as we talk with the fabs, the expansions that are being talked about over the next one to two out through 10 years are significant expansions, and will be very impactful for Chemtrade.

Rohit Bhardwaj: And I mean, on the small end, there are some favorable tax drafts, tax registrations that are up right now to be voted on. So those may not go through and it's hard to tell. Those will be beneficial for us because it allows us to deduct more interest, but that's kind of a smaller scale. So, we'll have to see how that plays through an election cycle.

Ben Isaacson: That’s helpful. Thanks very much, guys.

Operator: Thank you. The next question comes from Nelson Ng at RBC Capital Markets. Please go ahead.

Nelson Ng, RBC Capital Markets: Great, thanks. So just first question, you touched on taxes, Rohit. So, the EBITDA is moving down this year in 2024, but your expected cash taxes are, I think, more than doubling in your guidance. Can you just talk about the key driver there? Are tax shields rolling off? Or do you expect to, I guess, get more tax shields, is it a one-off year, or is this a trend?

Rohit Bhardwaj: No. So basically we had lots of tax attributes and losses that we had accumulated over the years through various acquisitions. And as you know, we haven't done a big acquisition in a while. So those attributes have now been used up. So 2024 represents kind of a new run rate of cash taxes.

Now having said that, we continue to look for avenues. We're not a very--we're a bit--we're not very aggressive when it comes to tax planning. So, I don't think we'll do anything too exotic. But to the extent there are things we can do, we will try and do them. But you can think 2024 is a fairly good go-forward kind of run rate at these level of earnings.

Nelson Ng: Okay. That's good to know. And then just on chlorate, you mentioned that you saw a significant pricing last year. I think--in general, I think your chlorate pricing is set annually with some customers. So are spot pricing--are you forecasting spot pricing to come down this year, given--I think power prices are moderating or especially natural gas prices are moderating, which is, I guess, one of the drivers of power prices. Can you just talk about your expectation, going forward?

Scott Rook: Yeah, we are--so we are not. If anything, what we're doing--so you're right in that chlorate, typically, chlorate customers typically sign annual contracts. And so, in 2023, as those contracts were being negotiated in 2022, we saw significant price increases that we pushed through. And I think--so in 2024 at the end of 2023, there were some, there were some part of the business that was signed earlier in '22 that went through, last year. And so if anything, we'll see prices kind of catch up. So people--so annual contracts, let's say, started mid-'22 and rolled off in '23, as those contracts are in place, those are following the market. And so I think--so that's all--that continues to be a favorable impact on for the net overall business, even though we are--as we mentioned, expecting lower volume because we have seen curtailments with the pulp and paper producers.

Rohit Bhardwaj: And it tends not to really be a spot market. I mean, there is some spot business, but most of it is done on contractual basis.

Nelson Ng: Okay. Got it. And are there any opportunities to export from your Prince George facility? You mentioned that there's, I guess, lower demand due to pulp.

Scott Rook: Being looked at. Just--so that's--I'll just say looking into it.

Rohit Bhardwaj: And I think what's important is that product is exported from North America. It's really less important as to who's exporting it. And that's typically what's happened is in 2023, there was more products exported out of North America than, historically. So that's generally good for the domestic industry.

Nelson Ng: Okay. And then just one last question on your Arizona Casa Grande development. So, you mentioned that you guys have applied for funding from the CHIPS Act. Like what's the--what's your estimate in terms of timing? Like are the rules, and are all the details kind of set in terms of what you can potentially get? Or are you still waiting for the government to come up with the details and specifics? Like any--I guess, you'd have to finalize any funding first and then you'll have to then make a decision on whether you move forward with the project?

Scott Rook: So I wouldn't--so there's two pieces to that answer. So the first piece, I'll just say the joint venture is actively in discussions with the U.S. government with the U.S. government CHIPS Act. And so that's ongoing. And I won't comment on timing because, again, those discussions are very active with the government. I will say that the government, though, if you look at what the government is publishing their--they have ramped up their efforts to move on distributing money from the CHIPS Act. And so, we look at that and think that is--that's encouraging, and that's positive. But I won't comment on the timing because I don't want to get in front of ourselves. We'll let the joint venture work out with the chips office. The second part, though, is if we come up with, let's say, a grant from the government, the second part is we, as the joint venture, need to ensure that the volume is going to be there, we ramp up and build a 100,000-ton plant. We've got to make sure that the fabs are in place and that there's enough demand so that we can make a return on our investment.

And so some of those fabs--well, many of the fabs have slowed down the rate that they announced, over the past two years, each one of the fabs announced a rate that they were bring the fabs, their new plants on. And what we have seen is that they've slowed down the schedule. And we think--so do some of them are waiting to get grants from the government. And then there's also a market demand piece, as well. So that's happening. So we want to make sure that there's demand. So if we bring 100,000 ton on, we want to make sure that within a few years, we can be up to full capacity. And we want to make sure, I'll say, in writing as much as possible with contracts, to give us very high confidence that we make this investment that the fabs are there to buy.

Nelson Ng: Okay. So, I guess you have more flexibility in terms of timing now and maybe you don't need to see a full ramp-up on this facility until maybe like 2027 or some that type of time frame rather than something more recent.

Scott Rook: Yeah, so in terms of--it's going to take--I think even what we had shared before, once we break ground, two years or so to build it, and then it's going to take between six months and a year to ramp it up and start to get it qualified. So--yeah, so I mean from the time we break ground until we really see earnings coming in, it's--it would be three years, I think.

Nelson Ng: Okay, thanks, that’s great color. I’ll get back in the queue.

Operator: The next question comes from Gary Ho from Desjardin. Please go ahead.

Gary Ho: Thanks and good morning. At the end of your remarks, you mentioned the Prince George hydrogen growth project. Can you share kind of what the growth CapEx spend for that in total could look like and how much of that is baked into your 2024 growth CapEx guidance and, perhaps, timing of completion?

Scott Rook: Sure, Gary. So, the--with Prince George, our hydrogen project there, the nice thing about this project is we are not investing any capital in this project, ourselves. So this was the first hydrogen project. We have a partner and that partner--so our Prince George site is connected with the pulp and paper mill. And so, it took a little--it's taken a little bit of time to work with our partner to get this up and going. But no capital on our side, and the benefit from this project is going to be in the range of a couple million, $2 million to $3 million of margin that's going to come in. Nice, but it's not overly material. But it's--this will be our first success. And we had a kickoff event at our Prince George facility with the premier British Columbia a couple of weeks ago. And so that was nice to see. Again, we did that with our partner. And so, that's moving forward. Our bigger project, much larger project that's in the works is Brandon Manitoba, where we produce roughly 5 time as much hydrogen there. And so, we continue to work through ideas. We are making progress there, but we're not ready to share any specifics about Brandon. But Prince George is moving forward.

Gary Ho: Okay. Great. And then maybe just a clarification here. In your Q4 adjusted EBITDA, there was a $9.8 million add back for environmental decommissioning liabilities. Can you provide a bit more color on that? Is that just kind of interest rates moving around that impacts the discount rate, etc., or is there something else?

Rohit Bhardwaj: Yeah. No, I think that's the bulk of it. Now we do annually look at kind of where these provisions need to be. So there are some adjustments that are made typically up or down. But I think one--the big reason is the discount rates here.

Gary Ho: Okay. And then also in your Q4 MD&A, you cited lower sodium nitrate volumes that's due to extended turnaround. Can you give a bit more color on that? What was the financial impact on EBITDA for the quarter? And maybe talk about how 2024 looks in terms of SWC turnarounds, too?

Scott Rook: So, I'll start, and then I'll ask Rohit to come in with some of the specifics. The sodium nitrite story, overall, is a positive story for us. We've seen growing demand and growing pricing for sodium nitrite, which is encouraging. And we see that as another reason why we have been moving into, let's say, the new levels of earnings for the--for Chemtrade. And because of that, we decided to add to the capability of the plant, add to capacity, improve reliability. In order to keep up with demand. We made some decisions to spend capital there in Q4. And so we took an extended turnaround in Q4 to improve capability, capacity and reliability. And so that--so we took a hit because of that in terms of lost production. We also--as part of that process, we had some off-grade material to dispose of. But we--so that's behind us, and we won't see that moving forward. Rohit, what do you want to do?

Rohit Bhardwaj: Yeah, so that's what I can--if I can quickly comment on SWC Q4 versus Q4. So, there were some--so water was slightly positive, but keeping in mind that we already were starting to see the benefit of higher pricing in Q4 last year. So on an annual basis, water is up a lot, but Q-over-Q is marginally better. Our retail business actually did well in Q4 versus Q4, that was positive. As we mentioned, our merchant acid volumes were a little bit lower because of reduced supply--byproduct supply from one of our suppliers. But the biggest negative was sodium nitrite, the combination of the disposal of this material plus the reduction, the downtime due to the extended turnaround. So those two things were not recurring things, so they should be done. But that's the reason why SWC you see a significant decline in Q4 versus Q4.

Gary Ho: Okay. That's helpful. And Rohit, if I can just sneak one quick numbers question. Your 2x leverage target for end of '24, does that assume you force convert your convertibles that you can do at par in the fall of this year?

Rohit Bhardwaj: Yes, we actually think that those will be converted, yes.

Gary Ho: Okay, thank you.
Operator: Thank you. The next question comes from Steven Hansen from Raymond James. Please go ahead.

Steven Hansen, Raymond James: Yeah, thanks, guys. I appreciate the color on the SBC margins in the previous question, but I just want to clarify because you're already calling out margins coming down year-over-year in the guidance. So is the way to think about the forward path and better margins than we saw in Q4, but not as high as last year. Is that the simplistic way to think about it? It’s just hard nicely, I think, the big to big delta here?

Rohit Bhardwaj: Sure. So I think I'll give you some high-level comments, but when you look at our total '24 versus '23 guidance, we are guiding down about $85 million in EBITDA. The big amounts there are coming from the Electrochem segment, but there will be some in SWC, as well. So if you look at our presentation that accompanies our remarks, you will see a pie chart that gives you the various moving parts between--at a high level between '23 and '24. So you will see in there that there is some of the items coming from--there's some FX built in there. There's an outline to a turnaround. Lower volumes for chlorate.

Even though pricing is a bit higher, we do see some lower volume, and we expect some water margins to come down. But in terms of the acid business, it's not going to be significantly off. But yes, you're absolutely right, Q4 is not indicative of the run rate of SWC, neither in margin or EBITDA.

Steven Hansen: Okay. That's helpful. I appreciate that. And I just want to go back to the chlorate side for a minute. I know you addressed it earlier, but it has been such a big tailwind, through '23. And it sounds like we'll still have the pricing, at least stability in 2024, perhaps volume is a little bit lower. But what is your confidence around that sort of run rate on pricing into future years as you sort of contemplate the spread narrowing and gas prices, etc.? I just--the reason I ask is you've put out this guidance now, the midpoint of the guidance being sustainable. And I'm just curious how much of that relies upon chlorate prices remaining stable if there is some sort of shift in dynamics in the outer years?

Scott Rook: Yes. So I'll say--I think the price stability, I think as we look at chlorate and we think about pricing stability, I feel relatively good about what we would expect, over the next couple of years. I do--I think our team feels that the worst of the volume decline is likely behind us, but there’s still going to be pulp mill closures. And so we think that there's going to be soft demand. I'm somewhat optimistic that export demand is going to be--exports will remain strong coming out of North America because, again, 70% of the variable cost of this product is electricity. And so, when you think about the ability to produce chlorate, whether it's Canada or whether it's North America relative to big suppliers of chlorate in China, Japan, Korea, Europe, I think that North America has an advantage. And I think that will--that should persist.

Steven Hansen: Okay great. And then just one last one to follow up if I may, is just around the capital allocation. You've provided a distribution increase here, recently. How do you think about the concept of buybacks as well? I know it's not historically been a key part of your strategy. But with the stock trading at a much lower multiple these days, it arguably comes with one of the highest returns of your capital. So just curious about how you think about buybacks in the future.

Rohit Bhardwaj: Yes. So we did do buybacks. Now this goes back a long time back, probably 14 years ago or whatever. So it's not like we are fundamentally opposed to it. It's something that we look at with the board. I think 1 of the factors we consider is--our market cap has gone below when you sell the index, obviously, our market cap was higher. So market cap has gone below, and we are not in the index anymore. We do have--if you look at our trading volume is not that much every day and our liquidity is not that much. So we think--we do consider that, but do we really want to take that down further. And also, if you look at the analysis that shows how close we are to getting into the TSX index, we are not very far away. And so we think it's probably, at this time, it's probably good to not do a buyback, but something that is considered. And we thought that returning additional capital in the form of dividends to our shareholders, given that we have a very high retail investor base would be viewed positively by our unitholders.

But I think if you look at our allocation, the three legs to it are maintaining a healthy balance sheet, returning capital to shareholders and focusing and paying for organic growth. So we think the current location does all three. But you're right, if today, our market cap was $2 billion, probably we would be rushing to do buybacks. So that is a factor that is considered.

Steven Hansen: Appreciate the color. Thanks.

Operator: Thank you. Next question comes from Joel Jackson at BMO Capital Markets. Please go ahead.

Joel Jackson, BMO: Good morning. A lot of questions have been asked but not many follow-ups. Maybe on Ben's question following up, I think you said a couple of years ago, Rohit, that Cairo about a 25% return at the time of $50 million Canadian investment. So I guess what you're saying today is that the return may not be as high as 25%. Is that fair?

Rohit Bhardwaj: So firstly, I think those comments from a couple of years ago, we did update them in terms of where we already thought the process. So those are early numbers, and as you see the inflation everywhere, the CAD 50 million was very early in the process, and then we did move it to U.S. In terms of return, I think we're going to wait to see just--we will give you an update at the end of the year. I don't think I'd like to say right now what it is, but we will be providing an update as we complete this project.

Scott Rook: And I'll add--let me just add that we view that the construction of the Cairo project, I'll say, all things considered, particularly as this has happened over the past two years with--given the inflation that has been in the marketplace to come in at 60 to 65 is pretty close to what we had said at the end of last year. It is--it's over for sure, but still relative--in terms of relative performance, I'm proud of the team, and I think it's going to be pretty good results. Again, let's--the biggest factor that's going to have an impact on our return is going to be the rate that we fill up, and that's going to be tied to the rate that the fabs are coming online. And so that's what--I think that's going to be critical.

Joel Jackson: And I think following up on Steve's question, obviously, Q4 is not the right margin run rate for SWC. Should we expect that on the whole, Q1 for SWC would be lower margin, still some impacts what happened in Q4, some of the turnaround stuff you said you took, and the rest of '24 after Q1 will kind of look like from a margin portfolio similar to '23. Is that fair?

Rohit Bhardwaj: Yeah, I think what happened is the water business is typically stronger in Q2 and Q3 and so is the regen business. So you will see Q2 and Q3 margins. I won't comment on EBITDA, but margin percentages kind of be similar. But yeah, Q1 will have a little bit of weakness to it, but frankly, Q1 last year was--in SWC was weak as well, because there is some seasonality in this segment.

Joel Jackson: And then following up on the converted--the 2025 converts question. So, I mean, the strong--in the money, there's a period now with a soft call option until I think September after that, it can change. I mean, is there any reason why you wouldn't do the converts to the point of--and I imagine you wouldn't want converts after September to start happening in little bits and pieces. Like can you talk about maybe some of your thoughts around that?

Rohit Bhardwaj: Yeah, we don't--I mean, we haven't found a reason why we shouldn't because, frankly, when we do our analysis, we are counting this as equity in terms of per unit returns, etc., and I'm guessing sort of most of you and most of the investors, so given that there's a high coupon to them and they're well in the money and that they'll enter a hard call period in October and then they mature next year, anyway. So yeah, we don't see a reason why you wouldn't--why we shouldn't do it.

Joel Jackson: Thank you very much.

Operator: Thank you. The next question comes from Zachary Evershed from National Bank Financial. Please go ahead.

Zachary Evershed, National Bank: Good morning, thank you.

Rohit Bhardwaj: Good morning.

Zachary Evershed: Just on Cairo. Any color on the give and take and the phrasing of relatively on track? And given the commentary around the fabs, any incentives just slow down to match the pace of those coming online?

Scott Rook: So the answer--so in terms of on track, the project is coming along on schedule. We have said all along that we'll start the plant up in, let's say, at midyear and then we'll start production in the second half of this year. And so, that is on track. In terms of slowing it down to match the fabs, with--I think given that I don't think that would be prudent. And so, given that this is the first plant in--the first plant in North America capable of meeting the new quality needs of the fabs, I think that--I think the best thing that Chemtrade can do working with the fabs is to get up and go and get ultra-pure acid flowing at the right quality through this plant, and sample and qualify in the second half of this year to the major fabs. And so as they--as the fabs start up--the fabs had said they were going to start up there. Many of the fabs have said they were going to start up in the second half of '24. And now they've pushed that out as six months, some cases a year. I think it would be too risky for us to try to delay. It was something we talked about, but I think, again, the best thing we can do is get it up and running and get it in the hands of the fabs. Some cases, this asset is going to go to Asia because I'll remind everyone that the majority of the small node manufacturing is occurring in Asia. And so, several of the fabs that we're working with want to do their trials in Asia. And so, it's going to take time to get material there, tested and back, etc. So all that, yeah, I think it would be too risky to slow it down. And thinking about the long term, it's the best thing we can do is get it up and going and get it qualified.

Zachary Evershed: Very interesting. Thank you. And on that specific point, as you're ramping up, what's the possibility of locking in long-term contracts or preselling the capacity? Or is qualifying really necessary as that first step for the small known customers?

Scott Rook: Qualifying is absolutely necessary at every one of them. And again, as I mentioned, some of the qualification will happen here and others will happen in Asia. And I'll just say we are--we're having commercial discussions, and I won't share details on what's getting signed and what's not. But those have already, I'll say, been happening over the past 12 to 18 months. And so, we feel good about the agreements we have in place.

Zachary Evershed: Thanks very much. And just one last one. Can you point to any specific factors that caused the budget slipping in Cairo, and is there any additional risk there?

Scott Rook: Yeah, so the only color that I will share is that--so as we're having the final pieces of equipment delivered to the site, either delivered to the site to ready to leave, let's say, the suppliers, in some cases, two to three steps down the value chain. We are in partnership with our suppliers of doing extensive testing. Our requirements for this are extremely high and nothing like this has been done in North America, before. So our requirements are very high. And I'll say the good news is we've uncovered things that didn't match our high specifications. And so, we're requiring those to meet our specifications either before it gets delivered or as it gets on site. We're in the final 60 to 70 days of putting everything together. And so, I think we have seen we've found things that were not up to our standards. The good news is that we're having those addressed.

Zachary Evershed: Thank you. And given this level of due diligence and as we're getting close to the finish line, do you think there's a possibility for another budget bump or it's pretty much locked in at this point?

Scott Rook: I think I feel good about the estimates that we have now.

Zachary Evershed: Thanks very much, I'll turn it over.

Operator: Thank you. There are no further questions, I will turn the call back over for closing comments.

Scott Rook: All right. Well, thanks to everyone on the call. We appreciate your time this morning, and have a good rest of the day.

Operator: Ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and we ask that you please disconnect your lines.