Chemtrade Logistics Income Fund Q3 2024 Conference Call

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OPERATOR

Good morning and welcome to the Chemtrade Logistics Income Fund Q3 2024 conference call. At this time, all lines are in listen only mode. Following the presentation, we will conduct a question and answer session. If at any time during this call you require immediate assistance, please press star-zero for the operator. This call is being recorded on Friday, November 15, 2024. I would now like to turn the conference over to Rohit Bhardwaj, Chief Financial Officer. Please go ahead Sir.

ROHIT BHARDWAJ, CHIEF FINANCIAL OFFICER

Thanks Operator, Good morning everyone, and thanks for joining us today for Chemtrade Logistics Income Funds earnings conference call for the third quarter of 2024. Joining me on this call this morning is Chemtrade's President and CEO Scott Rook. Our agenda for today's call will cover highlights from the third quarter, including Chemtrade's financial performance, as well as our capital allocation and balance sheet management. I will also provide an update on our 2024 guidance, after which Scott will walk you through updates on the outlook for our key products and our organic growth initiatives. We will then open the call to analysts for questions. Please note that this call has an accompanying slide deck which is available on our website chemtradelogistics.com. Before proceeding, please note that today's call will contain certain forward-looking statements that are based on 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.com. One of the measures that we will refer to in this call is Adjusted EBITDA, which is EBITDA modified to exclude non cash 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.

In the third quarter of 2024, we delivered solid performance across both of our operating segments, building on the track record that we have established in recent years. While the quarter presented some challenges, we addressed them proactively and were able to minimize the financial impact.

Looking at our financial performance in Q3 2024, a few key points stand out. First, it is important to note that the prior year comparable period included $11.4 million of revenue and $1.9 million of EBITDA from the P2S5 business sold in Q4 2023.

Second, this quarter was affected by the work stoppage at Canada's two largest railways. However, thanks to our customers and our advanced preparations, we successfully minimized the impact on EBITDA this quarter, limiting it to $5.8 million.

Third, Q3 2023 was the highest third quarter for EBITDA in Chemtrade's history. So, while our results for this quarter were strong, last year's record quarter makes it a challenging comparison for this year.

On a year over year comparable basis, after adjusting for the impact of the P_2S_5 sale and the Rail Works stoppage, our revenue was similar to last year and our EBITDA increased by 1.9%. This performance, given the challenging comparison, underscores the resilience of our business and the advantages of our diversified portfolio.

Additionally, our cash flow generation remains strong and is well above our attractive monthly distribution. This strength supports our healthy balance sheet and allows us the flexibility to create long term value for our unitholders, by among other things, purchasing units under our NCIB, which I'll expand upon shortly.

In our Sulfur and Water Chemicals or SWC segment, revenue excluding last year's contribution from the P_2S_5 business increased by $1.4 million or half a percent year over year. EBITDA for the segment declined by $3.5 million or 4.3% year over year.

The water solutions business continued to show year over year improvement, driven by higher selling prices that led to increased margins. The water solution business has been a strong performer for Chemtrade throughout 2024.

Offsetting the improvement in water solutions, the Regen business saw lower revenue and margins. While the underlying Regen business remained stable, Q3 2023 benefited from favourable adjustments related to a customer contract and the release of provisions that were no longer required. Adjusting for these items, this year's results were comparable.

Overall, our SWC business continues to perform well and we expect this to continue, especially given the defensive nature of many of our products in this segment and the growth opportunities we see in water solutions and ultrapure acid.

In our Electrochemicals or EC segment, revenue remained stable year over year. EBITDA, excluding the impact of the rail work stoppage, increased by 5.4% from previous year's level.

This solid performance was partially supported by improved MECU netbacks year over year. Our realized MECU netbacks increased by approximately $115 compared to Q3 2023. We saw higher netbacks for HCl and, to a lesser extent, caustic soda. However, this was partially offset by lower netbacks for chlorine. While not overly material to year over year comparisons this quarter, it is worth noting that caustic soda pricing has shifted. It has moved from being a substantial headwind to becoming a positive contributor year over year.

Higher selling prices of sodium chlorate also contributed positively to results, although volumes were lower due to customer production curtailments that we previously mentioned. Additionally, revenue in Brazil declined year over year.

Considering the rail work stoppage this quarter, we view overall Q3 performance in EC to be compelling. The relative consistency of our results despite these challenges is particularly noteworthy.

Moving to our corporate costs in the third quarter corporate costs decreased by $1.7 million or 6.6% year over year. This improvement was primarily driven by realized foreign exchange gains this quarter, compared to realized foreign exchange losses in the prior year period, as well as provisions recorded for non income tax related audits last year. This was partially offset by an increase of $5.3 million in long term incentive plan costs year over year. As always, we remain diligent in managing expenses across the organization, including corporate overhead.

Looking at our capital allocation, we continuously review our capital structure and capital allocation strategy to position Chemtrade for long term value creation. Broadly speaking, we leverage our strong cash flow generation direct capital to optimize unitholder value in three main areas. Driving incremental long-term growth by investing in organic and other growth initiatives, returning capital to our unitholders via regular distributions and unit buybacks, and doing this while maintaining a strong balance sheet.

This approach ensures we have the financial flexibility to navigate potential challenges and take advantage of opportunities as they arise. In the third quarter, we continued to execute on each of these fronts.

First, we continue to invest in growth in the quarter with about $19 million of growth capex in Q3. The investments we are making today are expected to benefit our unitholders for years to come, and Scott will provide an update on our current slate of projects shortly. We will continue to invest in growth moving forward but will only do so when strategic and incremental to long term unit holder value, generating an attractive return on investment.

Second, we returned capital to unitholders through our attractive monthly 5.5 cent distribution while also initiating a unit purchase under our NCIB. During this quarter, we purchased roughly 2.6 million units under the NCIB. This unit buyback program enables us to purchase our units at what we view as a significant discount to the intrinsic value. We expect these purchases will be accretive to the remaining unitholders over the long term.

Third, we maintained our balance sheet strength exiting the quarter with a net debt to LTM EBITDA ratio at 1.8 times, and with over US $600 million of available liquidity. We also acted to further optimize our capital structure, including reducing our use of dilutive sources of capital. We completed a substantial issuer bid for the 8.5% Debentures that is set to mature next year and redeemed the remaining 8.5% Debentures not taken up under the SIB. Additionally, we closed on our inaugural high yield debt offering, issuing $250 million of 6.375% senior unsecured notes. Since the end of 2022, we have reduced the principal amount outstanding of all convertible debentures on our balance sheet by approximately 34%, reducing potential future unitholder dilution and decreasing our average financing cost.

While our financial performance remains strong through Q3 and with less than two months remaining until year end, we adjusted our guidance range and now expect 2024 EBITDA to be between $445 and $460 million. This would make 2024 the second highest

EBITDA year in Chemtrade's history, trailing only 2023 and would mark three consecutive years of EBITDA well above pre Covid levels. This reaffirms our view that the enhancements implemented across our business in recent years have led to a step change in the earnings and cash flow power of our business moving forward.

The assumptions underpinning our updated 2024 guidance are available in our disclosure documents. Please refer to these documents for additional information. Based on our guidance and updated assumptions, we continue to expect our key leverage ratio to remain below two times exiting the year. In addition, the midpoint of our guidance and related assumptions would imply a payout ratio of 40%, again highlighting the sustainability of our attractive monthly distribution. With that, I will pass the call over to Scott.

SCOTT ROOK, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thank you Rohit, and thank you to everyone listening this morning. We appreciate your interest in Chemtrade. Our business is unique in the chemical industry. We have demonstrated again with our latest results that Chemtrade is able to weather challenges and emerge stronger. I'm very proud of our team's dedication, focus and tenacity.

At the start of this year, the midpoint of our EBITDA guidance was $415 million. As Rohit mentioned, we now expect our EBITDA to be between $445 and $460 million. This is despite some significant obstacles such as the work stoppage at Canada's two largest railways, a significant production curtailment for the main customer at our Prince

George sodium chlorate plant, and lower caustic soda pricing on a year over year basis. We also successfully completed the biannual maintenance turnaround at our North Vancouver Chlor-Alkali plant in the second quarter of this year.

This performance shows how we have improved in recent years. Our operations are safer, more reliable and more resilient than ever and we're positioned well for long term sustainable growth. As we continue to deliver strong results, we expect that investors will recognize Chemtrade as the unique chemical company that it is, and value us accordingly.

Turning now to our outlook. Before I start with the segment outlook, I want to mention that we will announce our 2025 guidance early next year. With our diversified product portfolio, we anticipate continued strong performance for most of our products, stable performance for some of our products, and a few areas of softness.

Looking specifically at our SWC segment, water chemicals has been a very strong performer for Chemtrade throughout this year. Strong demand, improved pricing and expanded capacity have all contributed to this performance. We expect this business to continue performing well into 2025 and beyond. These chemicals are largely nondiscretionary and demand continues to increase, supported by both increased water treatment regulations and population growth.

We continue to strategically invest to capitalize on higher growth areas of the water chemicals business. In addition, as contracts come up for renewal, we have the opportunity to adjust pricing in response to changes in raw material costs, including recent increases in sulfur costs.

In sulfuric acid, we expect both Regen and merchant acid to be relatively stable going into 2025. US refineries are currently running near full operating rates, leaving little room for additional regen volume improvement. Meanwhile, given its closely tied to vehicle activity, this business has historically been resilient regardless of broader economic growth.

Merchant sulfuric acid tends to be a bit more cyclical given its widespread industrial uses. To date, we have not seen any signs of any material weakness. In addition, the risk sharing agreements we have in place with our merchant asset suppliers and customers helps mitigate any volatility related to pricing and or input cost movements.

Finally, the outlook for Ultra Pure Asset remains very positive. North America Semiconductor manufacturing is materially increasing in the coming years driven by significant government support and broader onshoring trends. We are increasing our production capacity and upgrading the quality of our ultrapure acid we produce. By meeting this opportunity, we are bolstering our position as one of the leading North American suppliers of ultrapure acid for the semiconductor industry. Our first big project located in Cairo, Ohio is expected to begin contributing to our financial results next year.

In the EC segment, our access to stable, low-cost renewable hydroelectric power continues to be a competitive advantage as energy costs remain the largest variable production costs. Overseas, relatively high and volatile energy prices are impacting producers. This, combined with geopolitical unrest seen in many parts of the world, is also driving improved domestic pricing. Looking specifically at sodium chlorate, we expect 2025 volumes to be lower than in 2024. As highlighted last quarter the baseload customer of our Prince George B.C. facility announced a production curtailment earlier this year that has impacted the volume of chlorate they require. In response, we consolidated manufacturing from Prince George into our low-cost Brandon Manitoba facility during third quarter, converting Prince George to a tolling operation. While this was a difficult decision, it has allowed us to rationalize our costs in response to the lower demand. This has resulted in the expected immaterial impact on our consolidated earnings while enabling us to maintain service levels.

In chlor-alkali, one notable item for next year is we do not have a planned maintenance turnaround. We expect HCl and chlorine to remain relatively stable next year with perhaps some modest changes in HCl demand tied to fracking activity. The North American rig count is lower compared to recent years, but it's closely in line with the five-year average which supports this view. For caustic soda, we've begun to see quarter over quarter improvements in Northeast Asia index pricing leading to improvements in our realized caustic soda pricing. As Rohit noted, while caustic pricing has been changing in recent quarters, we are beginning to see an improvement with index pricing trending higher on a year over year basis. For fourth quarter caustic soda pricing specifically, our related updated guidance reflects a Northeast Asian index improvement of approximately $405 per ton, approximately $40 US per ton higher year over year.

Market indicators suggest that caustic soda pricing should continue to gradually improve in the coming quarters as well.

Looking now at our growth investments, we have a pipeline of organic growth initiatives that we are executing. We believe these projects offer attractive returns and will deliver long term unitholder value. We intend to continue building this pipeline in 2025 and beyond and will provide an update on our capital allocation plans when we formally issue guidance early next year.

Currently, the two large opportunities that we are executing are in ultrapure acid and water chemicals. In ultrapure acid at our Cairo, Ohio facility we are proactively increasing our production capacity and upgrading our quality. This site is expected to be one of the first plants in North America to meet the requirements for the next gen semiconductor production. The startup of the new production in Cairo will be in fourth quarter of this year and will be followed by a steady commercial ramp up into next year. This project will bolster Chemtrade's position as the top North American supplier of Ultrapure or Sulfuric Acid to the semiconductor industry.

In water chemicals, our projects are smaller in nature, however, they are adding up to be meaningful contributors to our EBITDA. These investments are focused on increasing our production capacity for higher growth products including PACl and ACH. We're also building a new specialty Water Chemical line in Augusta, Georgia. We expect construction to be completed in the first half of next year with production startup thereafter. Looking ahead to the coming years, given the long-term tailwinds driving demand growth for these products, we expect to continue executing on similar sized opportunities in water chemicals.

With our balance sheet in a strong position, we're also continuing to evaluate M&A opportunities. However, we are being highly selective and will only execute M&A transactions that are expected to be accretive to long term unitholder value. Any acquisition we pursue must be aligned with our core competencies. The acquisitions we are targeting have annual EBITDA of between $10 and $50 million dollars. Further to Rohit's earlier comments on capital allocation, given our strong cash flow generation and available liquidity, we believe Chemtrade has sufficient financial flexibility to balance investments in both organic and inorganic growth opportunities, provide a return of capital to unitholders and maintain a solid balance sheet.

As we reflect on third quarter and year to date performance, we're pleased with our financial results and the progress we have made in advancing key strategic initiatives. We remain focused on operational and commercial excellence, building the business for the long term and delivering consistent results for our unitholders. Looking forward, we are confident that the strength of our diversified product portfolio and our commitment to disciplined capital allocation will ensure we continue to create incremental unitholder value. Chemtrade offers a compelling combination of defensiveness and growth and we're excited about the opportunities that lie ahead. We appreciate the hard work of our entire team and the continued support of our unitholders. We look forward to updating you on our progress in the quarters ahead and further building on the strong track record we've established in recent years. With that, we'll now open the line for any questions.

OPERATOR

Thank you. Our first question comes from the line of Steve Hansen from Raymond James. Your line is now open.

STEVE HANSEN

Oh yes, good morning guys. Thanks for the time. Just a couple for me if I may. Just firstly on the Cairo facility and the startup, can you just remind us, Scott, I know you said the ramp up would take place through next year commercially, but can you just remind us how much of that volume is spoken for and sort of what the anticipated time to ramp to full volume would be?

SCOTT ROOK

Yeah, sure. So, we will be starting up in Q1. We have started production at the site now in Q4. As we're ramping up we'll be producing acid in the first quarter and we'll be producing acid all year long and we'll sell by far the majority of what we produce. As we start out, we'll be ramping up, let's say from merchant acid as we begin sampling all of the ultra pure customers and we'll be sampling it and getting approvals and then ramping that up. But we'll be, we'll be selling into merchant acid beginning in Q1 and we'll actually see contribution from the site in Q1 is how you want to value that. It's going as we target and ramp up that with our, with the FABS, I think the way to think about it is there are in the semiconductor space there's older technology chips that are being produced that have a little lower quality requirements. And so, our plan has sales forecasts or sales going into that sooner and then the new advanced chips that's going to take a little longer to build up. But so, our plan starts out with merchant and then we have some other higher end applications above that, and then it will be old generation chips and then finally the new generation chips.

STEVE HANSEN

That's very helpful, thanks. Just as a follow up on your remarks regarding SWC, I think you referred to the ability to reprice contracts due to higher sulfur costs. Margins in that business have actually been okay. Is it, is it to imply that there has been a headwind there though just on sulfur cost specifically? And is that a big portion of the book that you have the ability to reprice? I'm just trying to understand how that's going to flow through. I know it takes some time.

SCOTT ROOK

So the strong improvement in our water business has come from several things. It's come from improved pricing, it's come from better reliability and it's come from added capacity in our specialty products. And so, in the water business, we sell to city municipalities and then we sell to industrial customers and we don't break out how we do that. But the city municipalities, the way that market works is with fixed prices that come in on a bid basis, and so we lock in a price there. And so we have seen over the past year or two, we have seen relatively low to stable sulfur prices, and in the beginning last quarter, we've seen sulfur starting to move up, and so with that, as we go out and reprice these contracts to city municipalities, that happens every month, those prices are moving up in line with sulfur.

ROHIT BHARDWAJ

I think on the merchant acid side, which is the other side there, we are pretty agnostic. We are able to pass. Either some contracts have automatic adjusters for sulfur and other cases in the Gulf Coast and in those markets, acid follows sulfur pretty closely, so that's not a factor on that.

SCOTT ROOK

As you think, or we think about the water business and look at next year, the improvements that we have made in this business tied to reliability, that'll be the same or slightly better for next year. We have been adding capacity in the specialty products, and so that is paying, that's having a very positive impact and that will continue to grow. We are building a specialty products line in Augusta, Georgia, and that will be finished, we said, in the first half of next year and starting up in the second half. So that's going to be additive to the business. And then, yeah, there's underlying market growth, but what's moving against that would be some increases in sulfur, which will be offset with prices as they come up.

STEVE HANSEN

That's great guys, thank you.

OPERATOR

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

JOEL JACKSON

Gentlemen, I want to ask a bit of a tricky question. We saw a lot of media reports in the summer, early fall talking about North Van. It then became clear who was the source of said report. We know about the lease renewal at North Van. I know it's a sensitive topic, but can you give us a sense of where you are in coming up with some mitigation strategies to allow you to continue to produce liquid chlorine at North Van past 2030 when we might hear some timing? I realize this is involving a lot of municipal and port authority contacts. So, it's sensitive, but anything you can help would be appreciated, thanks.

SCOTT ROOK

Thanks, Joel. So, appreciate the question and I'm sure you will appreciate that what we can share is that we are very actively in close discussions, communication with the Port Authority about extending that lease. We are also in close communication with Canadian government officials that are interested, we think, in why this is a good thing to renew this lease. It's based on the fact that the chlorine that we produce at the site is 40% of all of the chlorine produced in Canada. It is 70 to 80% of the chlorine used to treat drinking water in Western Canada and it's 60% of the chlorine used to treat drinking water in Western US. So, I think it's an important site. 96% of all of Canadian drinking water is treated with chlorine. So those are some of the arguments or the supporting points that we're making with government officials. I think government officials, what I can say is that they are definitely listening in. They're definitely listening in. And other than that, we are actively discussing, or in negotiations with the port, and as well, as soon as we have something more to report, we'll share that. And I can't really give a timeline on that just because it's active discussion right now.

JOEL JACKSON

If I can follow up on that. If you have to, you know, move something from the lease land to the part of the plant, I don’t know maybe the chlorine liquefaction plant to the owned land, or you have to do something else, you repurpose. Do something else on…

ROHIT BHARDWAJ

Yeah, go ahead.

JOEL JACKSON

Well, I just wanted to ask. You have to submit a variance right, to get it approved? In order to be, you know, be operational beyond 2030. How much lead time are you going to have to do to submit the variance, get it approved? Like, I imagine you're getting into some deadlines now.

ROHIT BHARDWAJ

So I guess without getting too specific, you know, that's not gating item right now. We're still in 2024. I think the key point is that we are, you know, this is a priority for our management team and it is being, you know, taken seriously with urgency, and I think it's important to underscore the chlorine point. If you look back at when the Prime Minister's office mandated the rail workers to come back, they used two main reasons. One was propane for hospitals and the other was chlorine for drinking water. So, it does have the right prominence and importance, and all the other gyrations around the site. Yes, there are many, there are many variables there, but I think at this stage we probably want to just, you know, not comment.

SCOTT ROOK

We will. But I would say that, you know, any hypothetical changes that would happen at the site right now, I don't see that the timing of that would be any, would have any material impact on our ability to renew that lease.

JOEL JACKSON

Thank you very much.

ROHIT BHARDWAJ

Thanks.

OPERATOR

Thank you. Your next question comes to the line of Gary Hope at Desjardins Capital Markets. Your line is now open.

GARY HO

Thanks. Good morning. First question. We have seen the increase in caustic prices recently, so that should be a good tailwind looking out to the first half of next year. Maybe you can share maybe your outlook caustic near term, maybe elaborate on the chlor-alkali side in general as you look out to 2025, please.

SCOTT ROOK

Yeah, okay. So, as we look out with chlor-alkali on caustic, we have seen some modest improvements in caustic soda pricing. And as we look at the forecasts coming from industry experts tied to caustic soda, we are seeing continued modest improvements in the caustic cycle as we go into next year. So, we're encouraged by that. As we look at chlorine and HCl next year, what we've seen is, well, we've seen a significant increase in fracking activity over the last 18 months to 24 months in Canada. That's very encouraging. We have seen the rig counts, though, in Canada flatten out a bit, and so as we look at next year and again we'll be releasing guidance, but we're not seeing signs that there's going to be a significant pickup in fracking activity next year, and so maybe rig counts, if you look at them right now, as we look at it, we see flattening out and so, but still on a, on a very, you know, significantly higher than where it was 18 months ago.

ROHIT BHARDWAJ

Yes, we look at, you know, I think one of the variables is natural gas pricing, particularly in Europe, which is where the LNG would, you know, go, and I think it will depend to some extent on the severity of the winter in Europe. If it's a severe winter, then that really boost fracking activity, but if it isn't, then, you know, the kind of, the current rate of fracking, which is a little bit lower than it's been, might persist for some time. But longer term, I think the thesis is very much intact that Canadian LNG is going to be exported. The terminals are up and running now. So, you know, longer term it's very positive and the short term its hard to predict.

GARY HO

Okay, great. And then my second question, I know you're giving guidance early, early next year, just, you sounded pretty optimistic on 2025 and your new midpoint guidance sits at, let's call it 452ish. So that despite roughly 18 million in North Van. turnaround this year, talked about the 6 million in kind of rail strike, perhaps better caustic price next year and a weaker CAD, you have the Cairo project ramping up maybe just high level maybe. What are some variables you're thinking that could cause the 2025 numbers to be below this 450 kind of midpoint guidance? Is it cross border risk with Trump? Any comments on the Trump administration impact would be helpful as well. Sorry, for the loaded question.

SCOTT ROOK

No problem. So, the first thing to share is. So, all the, well the points that you mentioned are valid, that's what we have covered. Keep in mind that with sodium chlorate this year we had one of our major customer, one of our major customer pulp mills close their production and that led us to consolidate manufacturing from Prince George into Brandon. So, I think we will see the full impact or the full annual impact of that closure as we go into next year. However, we are committed to optimizing our margins and so I think we've been able to do that and it helps we see some efficiencies by consolidating from two sites into one, but I think there will be a volume impact on chlorate. I think we've talked about water and so we've got a lot of positive momentum in water but we're beginning to see some increases in sulfur. And then we also talked about with chlor-alkali, everything you said we will not have to turn around. We won't have to turn around some positive movement in caustic. But could be some might be flattening out of the rig count and hydrochloric still to be determined right now.

ROHIT BHARDWAJ

I think a couple of things on the water we've seen aluminum pricing also go up quite a bit at the LME and that's the raw materials that's used. So that does in the short term as you know, over a period of time we're able to recoup all that. In fact, we tend to benefit like we have in the last 18 months when raw materials stabilized and pricing was firm. But we do get squeezed a little bit when there are spikes in raw material, and on the Canadian dollar side, yes, it is beneficial to us, but keep in mind we do have a hedging program in place which so we don't get the full, you know, benefit or hurt of spot movements. We tend to have a hedging program that goes out 18 months on a sliding scale basis. We disclose the amounts hedged in our MD&A so you can get a sense for that. So, there's some benefit, but it's not the full benefit that you might think.

GARY HO

And then any read in terms of the Trump administration coming in? Positive, negative impact?

SCOTT ROOK

Really hard to see right now. We don't want to speculate on whether there's going to be tariffs. Hoping not, but we don't know.

ROHIT BHARDWAJ

There are aspects of it that are positive in the sense of the whole onshoring in the US and more US manufacturing that could be positive for the chemical industry. But tariffs are a question mark please.

SCOTT ROOK

So they are. I mean, I guess another potential positive is the, you know, I think the focus and encouragement on more drilling, more drilling and more fracking, and so that could lead to greater fracking activity in North America, which could be a positive for our HCl business.

GARY HOPE

Okay, great. Those are my questions.

ROHIT BHARDWAJ

Thank you.

OPERATOR

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

NELSON NG

Great, thanks. And good morning everyone. Just a quick follow up on the Trump question. So, on the tax side, can you just comment about the how a potential corporate tax cut in the US could impact Chemtrade? I think your cash tax this year is like 40 to 50 million and you have a relatively efficient tax structure. So, I was just wondering how much taxes do you currently pay in the US and how would a potential corporate tax reduction in the U.S. help or hurt?

ROHIT BHARDWAJ

Well, there's no. So, it won't hurt. But the help is kind of mitigated by a couple of things. I don't want to get too technical, but there is, you know, kind of a beat tax, what it's called. So, even if your corporate rate comes down, there are certain claw backs that happen. So, I think there may be some modest benefit to us, but it's not going to be a significant difference. And we do pay quite a bit of tax in Canada, as you can imagine. Our chlor-alkali business is located in Canada, our sodium chlorate business is located in Canada, both of which are doing very well. So, you know, a good chunk of our taxes are actually paid in Canada. So, the US is not going to be enough to move the needle.

NELSON NG

Okay, that's great. Then next question: You talked about the port strikes having an impact in Q3. Sorry, the rail strikes. So, but I want to ask about the port strikes and whether that had a, whether you're expecting that to have an impact in Q4.

ROHIT BHARDWAJ

So they've been mandated back to work with the binding arbitration. So, we don't expect that. The only exposure we have of any consequence is our, we get our salt via the port and for our North Vancouver facility, we do carry inventory. But that's the potential if there's a lengthy strike. But in any case, at this point, it's a moot point because they were, you know, pushed back into binding arbitration. So, we don't see an issue there.

SCOTT ROOK

Just reiterating no impact in Q4. But because of that, the workers went back to work quickly enough that it had no impact on our business in Q4.

NELSON NG

That's great news, and then just moving on to growth capex, I might have missed it somewhere, but the range for this year has been reduced to 70 to 80, down from 70 to 100. Did some capex just simply get pushed to next year? And if so, what, which project specifically?

ROHIT BHARDWAJ

I think it's just timing. Some of it was, you know, some of it is Ohio, and that's on the water side. So, I think we had kept a range pretty broad because we had thought we might be able to execute on a few more things, but nothing too big there.

SCOTT ROOK

Yeah, I would say just reiterate that. No significant changes, I would say in what we were, you know, from the initial, initial guidance this year had a fairly wide range, and as we've gone through it, through the year, we have, we've tightened that up.

ROHIT BHARDWAJ

So, yeah, I think, you know, we are very disciplined in terms of approving projects where we want the adequate return. So sometimes you have ideas and you put them in and then they don't clear the goal lines.

SCOTT ROOK

Yeah, and as we, you know, as we have said, as we're looking at capital allocation for next year, we are, we'll be evaluating M & A opportunities versus organic growth, opportunities versus buybacks.

NELSON NG

Okay, and then just on that, so with Cairo pretty much done and ramping, do you see a big reduction in organic growth capex for next year.

SCOTT ROOK

That will, we'll share a lot more color on that when we release guidance next year. And so again, we'll, you know, we're, as we think about our capital allocation, where our, what we have in mind is to increase unitholder value. And I think that'll be done through a combination of levers. You know, our debt's already in good position, so I don't think we need to lower our debt significantly more than where we are. And so, we'll look at M & A, we'll look at organic growth, and we'll look at returning capital to shareholders with unit buybacks. And, you know, those are primarily the options I think we have to deploy capital.

NELSON NG

I see, so, but just to clarify, for this year, the growth capex. Is it safe to say the majority of the growth capex this year relates to Cairo?

SCOTT ROOK

So the majority, yes. But we've also, you know, the water has been sizable as well.

ROHIT BHARDWAJ

Keep in mind that the Cairo expansion started, you know, previously. So they were, in prior years we had some expenses, some capital too. So, it's not all this year.

NELSON NG

Okay, got it. And then just one last thing. Can you just talk about the, I think you flagged some weakness in Brazil in terms of margins and volumes. Can you just give a bit more color in terms of what you're seeing in the Brazil business?

SCOTT ROOK

Yeah, I'll do that. So, yes, our Brazil business relative, let's say, to where we were a couple of years ago, is significantly stronger and better, which is great. We have our business there primarily supplies Suzano. There's no secret about that. The largest pulp paper producer in Brazil, one of the largest in the world. Suzano continues to build new plants in Brazil. And so as they build new plants, they move volume around. And so there are minor impacts to the business that are tied to that, but no significant changes in the business, and we still are very, we feel very bullish about our longer term possibilities in Brazil.

ROHIT BHARDWAJ

And to be clear on Suzano, they build new mills, but they also have invested and are investing a lot in our Aero Cruise Mill as well. So, it's not like they've left that one behind. They actually publicly had said two, three years ago about how much money they're going to deploy to improve the cost position at that mill. So, while there are some optimizations that they do in the short term as they get new plants up and running, longer term, this is a very valuable part of their production portfolio.

NELSON NG

Great, that's great color. I'll leave it there. Thank you

OPERATOR

Thank you. Your next question comes from the line of Zachary Evershed at National Bank. Your line is now open.

ZACHARY EVERSHED

Good morning. Congrats on the quarter. With the administration change in the U.S. are you hearing any rumblings of Accelerating CHIPS act disbursements?

SCOTT ROOK

Great. So, I would say we're not hearing, I'm not hearing and we're not hearing anything about accelerated CHIPS act. However, the CHIPS office, I would say, you know, very active with Chemtrade as well as our joint venture partner. We are still very actively, very, very actively in discussions with the CHIPS office and I'll just leave it at that. So, I don't know if it's going to be accelerated with the change in administration or just continuing on. But it's a very active organization, and they are, you know, there's a lot of money that's going out to support the growth in this industry. So, the very positive thing is that the funds are moving and so the FABS are getting built. There was some question, you know, 12 months ago, 12 to 18 months ago, about the pace of the new FABS because what was announced three to four years ago slowed down a bit and then the funds have come through. And so relative to what we saw 12 to 18 months ago, I'd say that the pace of production of the CHIPS is accelerating, and I would say now the CHIPS office has funded a lot of the FAB production and now they're moving in, let's say to suppliers to the CHIPS. And that's where we fall into, and so I would just say we're hopeful that we'll have something come out of that.

ZACHARY EVERSHED

Very interesting, thanks. And then returning to the question on tariffs, without speculating on whether or not they get implemented, what is your rough magnitude of exposure to imports into the US and maybe splitting that out into raw materials versus finished goods.

ROHIT BHARDWAJ

So the key, the key products that get exported to the US are merchant acid, byproduct acid, that we get from people like Vale. And on that front you got to note that all the byproduct supply is actually in Canada, it's us and Glencore. Glencore has a lot of smelters, they're bigger than us. So that acid is, you know, moves to the US. If there is tariffs, we fully expect the market to, you know, react with pricing just because all of that supply is coming from Canada. So you know, the price would have to reflect the tariffs.

The other product that we have exposure is sodium chlorate which gets exported from Brandon to the US. But again, there is other chlorate that moves from Canada to the U.S.. So, in the short term there could be adjustment period. But again, we think no one's going to start building new chlorate plants, they are very capital intensive. So, we expect price will again react to tariffs.

Then we do have some HCl and chlorine that goes to the US. And again there, because we already talked about scarcity of Chlorine and the importance of HCl, not too concerned about it. But there could be some short-term volatility. But we think longer term, not even longer term, it has quickly to adjust its way out.

In terms of raw materials, we really don't have much exposure, we don't have a lot of raw material that goes across the border. They tend to be local suppliers.

ZACHARY EVERSHED

Great color. Thanks. That's it for me. I'll leave it there.

ROHIT BHARDWAJ

Thank you.

OPERATOR

Thank you. We have a follow up question from Steve Hansen at Raymond James. Your line is now open.

STEVE HANSEN

Yeah, thanks. As we look past the current in flight projects and think about your future organic growth pipeline, I think you referenced it a little bit earlier but just to clarify it sounds like you're, your preference for some of these specialty projects like you're doing in Augusta might have additional opportunity behind it. There could be further expansion perhaps at Cairo. I don't know, maybe just talk us through some of the opportunities you might be thinking about as you think into future organic growth pipeline, what you referenced.

SCOTT ROOK

Sure. So, I'll start with water and just restate that, our water business is seeing very strong growth. We like that we have been spending money on our organic growth projects and I think we have a healthy pipeline of ideas, of ideas to continue that growth pipeline in water. So, I'm very pleased with the pipeline and I think the pipeline of ideas will continue to increase and I think as we even look at M&A and we look at organic growth, I think one of the priorities is the water business.

Moving on to ultrapure, we like the ultrapure business, we know that's very poised for growth. We have seen that the expansions of the FABS are, they are coming on a little slower than what they said they were going to do about three years or so ago. That doesn't, you know, I think that doesn't mean that the CHIP industry is going to have much of an impact on a 10 year basis from now because these FABS are getting built, they're getting built and over the next five to 10 years the growth opportunity with ultrapure I think is tremendous. I think our focus is going to be on getting Cairo approved by the FABS who are producing the next generation CHIPS here. And I think we believe that we can do it. I think the FABS believe that we can do it. The FABS, let's say are being encouraging but I think we both know it's going to take, it's going to take time and effort to get approved for the next generation level of CHIPS. And as we do or as that happened and as that plays out over the next several years, you know, I think it's entirely possible, it'd be a great thing to happen is that Cairo is going to be completely full a few years from now with our say, with enough acid for the next generation and as that starts to, the closer we get to that time period, then we can, we'll be looking at other options.

I will also say, you know, over the past couple of years we've talked about hydrogen and we haven't heard, we haven't spoken that much about it the last, let's say 12 months or so because we have been, we have been working and trying to fine tune an opportunity. But that is the third area, we are, we're getting closer, I think, to being more specific about what we can do with hydrogen. So, I think hydrogen is the other area that we have continued to look at. Could start to have an impact the next few years.

STEVE HANSEN

Okay, that's really helpful. Just one last one. A bit of a harder question is just given how cheap the stock still trades and given the organic pipeline you've just described, is it not fair to say that any M&A would have to have an extremely high hurdle against it or just be extremely compelling? I'm just trying to weigh. I know you're always going to contemplate that as one of your capital allocation tools, but it just strikes me that the internal opportunities are so clear and obvious. M&A not so much in my mind, but just maybe any color on that would be helpful.

ROHIT BHARDWAJ

Yeah, no, I think you make a good point, and the M&A, to the extent we do anything would be highly synergistic and strategic. And I think if we did something it would become clear of the strategic value and value creation. But we preface everything by saying that, and I mean this might sound trite but it's true is, we are all about unit holder value optimization using all the levers, including giving back capital organic. And to the extent there are the initiatives nonorganic that add a lot of strategic value, we have to consider them. So. But it will definitely be, you know, synergistic and strategic if we went down that path.

STEVE HANSEN

Okay, very helpful. Thank you.

OPERATOR

Thank you at this time. There are no further questions. I will return the call to Scott Rook for closing remarks.

SCOTT ROOK

Well, I'd like to say thanks to everyone for joining us on the call today. I would like to thank our Chemtrade employees for their very strong quarter and the results and I wish everyone a very nice day and happy holidays. Thank you.

OPERATOR

This now concludes today's call. Thank you for attending. You may now disconnect.