CENTURY ALUMINUM COMPANY: 4th Quarter 2021 Earnings Call

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SPEAKERS

Jesse Gary, President, Chief Executive Officer & Director
Craig Conti, Executive Vice President & Chief Financial Officer
Peter Trpkovski, Head of Investor Relations & Director of Financial Planning and Analysis

ANALYSTS

David Gagliano, Analyst
John Tumazos, Analyst
Lucas Pipes, Analyst
Timna Tanners, Analyst

PRESENTATION

Operator

Good evening. Thank you for attending today's Century Aluminum Company Fourth Quarter 2021 Earnings Conference Call. My name is Hannah and I will be your moderator for today's call. All lines will be muted during the presentation portion of the call, but then opportunity for questions and answers at the end. (Operator Instructions)

I would now like to pass the conference call over to our host, Peter Trpkovski, with Century Aluminum. Please go ahead.

Peter Trpkovski

Thank you, Hannah.

Good afternoon everyone and welcome to the conference call. I'm joined here today by Jesse Gary, Century's President and Chief Executive Officer; Craig Conti, Executive Vice President and Chief Financial Officer; and Shelly Harrison, Senior Vice President of Finance and Treasurer.

After our prepared comments, we'll be happy to take your questions. As a reminder, today's presentation is available on our website at www.centuryaluminum.com. We use our website as a means of disclosing material information about the Company and for complying with Regulation FD.

Turning to Slide 1, please take a moment to review the cautionary statement shown here with respect to forward-looking statements and non-GAAP financial measures contained in today's discussion.

And with that, I'll hand the call to Jesse.

Jesse Gary

Thanks, Pete, and thanks to everyone for joining.

I'll start today by updating you on the status and impact of the cyberattack we suffered last week before turning to some highlights from our 2021 performance and then reviewing the strong current market conditions. Craig will then take you through the details of the fourth quarter and 2021 results, and then I'll finish with some outlook for 2022 and beyond. Early in the morning of February 16th, we detected unusual server activity that was the beginning of a sophisticated encryption-based ransomware attack.

We immediately began taking action throughout our global systems to minimize the impact, including disconnecting servers, PCs, and other information systems and implementing our internal response procedures. Despite our best efforts, a significant amount of our information systems were affected. Since the 16th, we have been focusing on containment and reestablishing the security of our information system. As we've been able to do so we are gradually implementing recovery or replacement of affected information, programs, and systems with a focus on safety.

While we're disappointed that we were not able to prevent the attack, our preparation for such an event did allow us to largely shield our operations and financial system from significant damage. On the financial side, we continue to expect that we will file our Form 10-K and audited financial statements on time.

On the operation side, each of our locations have been able to continue production without significant disruption. Where necessary, we have been able to implement manual procedures or other workarounds to ensure that production continues, and we are able to continue to ship and invoice our customers.

I'd like to thank everyone throughout the Century organization who has stepped up and worked tirelessly to get us through this event. While it is still too early to give a detailed overview of the financial impact of the attack, we are pleased that we've been able to safely maintain production throughout the event. I do not believe that this event will have a material impact on the 2022 production numbers or financial outlook we have provided you.

Okay. Turning to Page 3, 2021 was a very busy year at Century and we made significant progress repositioning the company to take advantage of the favorable market conditions that we're experiencing today. Across our operations, our employees did an excellent job working through the continued challenges of the pandemic and supply chain disruptions to expand our production, increase the range of our value-added products, and improve our financial performance.

Most importantly, in 2021 our employees continue to prioritize safety redefining our safety vision and committing to continuously improve our safety culture following the health and safety of our employees, communities, and environment as our first priority. On the operation side, our team did outstanding work executing two significant restart and reinvestment programs at Mount Holly and Hawesville despite significant pandemic headwinds and supply chain disruptions. As a result, we expect that our 2022 shipments will exceed our 2021 levels by over 100,000 metric tonnes expanding our position as the largest producer of aluminum in the United States. The Mount Holly expansion, in particular, allowed us to increase our U.S. billet production by over 15,000 metric tonnes, all of which has been contracted for 2022 at record billet premiums in line with our previous guidance.

Where generally in Mount Holly our teams came close to finishing the research program by year-end. We did, however, continue to suffer supply chain disruptions and impact from the Delta and Omicron COVID waves in Q4 that resulted in the tail end of the restart at Mount Holly continuing into Q1. I'm pleased though to be able to say that the restarted lines in Mount Holly is now fully operational and work on the continuously operating lines is nearing completion and should be substantially complete by the end of Q1. We now expect full-year 2022 volume of 160,000 metric tonnes in Mount Holly.

In Iceland, we announced a new power contract extension in July, which enabled us to break ground on the billet casthouse project in Grundartangi. The casthouse construction is proceeding on schedule and in 2021 Grundartangi also secured its first significant sales of Natur-Al highlighted by the multi-year deal to supply over 150,000 metric tonnes of Natur-Al to Hammerer industry in Europe at a green premium.

Finally, on the financial side, we made significant progress extending and lowering the cost of our outstanding debt. We now have no long-term debt maturities until 2028 setting up our balance sheet exceptionally well heading into 2022. We began to see the results of this progress come together in the fourth quarter, where we generated adjusted EBITDA of $82 million, representing our best quarterly performance in nearly seven years. All in all, Century enters 2022 in a great position to take advantage of the current market conditions and deliver a strong performance for all of our stakeholders.

Turning to Page 4, you can see that the LME price of aluminum has gained significant momentum this year with LME prices averaging $3,100 quarter-to-date and spot LME currently trading around $3,400 following the overnight events in Ukraine. These price levels have fundamentally persisted as demand for aluminum has continue to well outpace supply with global supply and demand balances expected to be short over 1.5 million metric tonnes this year. These balances are especially acute in Century's markets in the U.S. and Europe, with the two markets were collectively short over 7 million tonnes in 2021 and are expected to grow to nearly 8 million tonnes short in 2022.

The shortages in Europe have been exacerbated by curtailments of over 750,000 metric tonnes of production over the past six months, driven by extreme power prices throughout the continent. As you can see from the graph on the bottom right mainland Europe power prices are up between 3 and 4 times of pre-pandemic levels and in many mainland countries are expected to remain at these elevated levels well into 2023. These markets also moved sharply higher overnight following the events in Ukraine. The extended nature of these elevated energy prices in Europe can be expected to make any near-term restart of the curtailed capacity difficult and may even cause further curtailments if hedged energy positions roll off and cannot be sustainably replaced at current forward price.

Europe was, of course, not alone in curtailing production, is trying to start more than 3 million tonnes of production in 2021 due to compliance with new Chinese dual controlled system for energy consumption as well as flooding and other energy disruptions. This has been exacerbated recently by shutdowns in Guangxi driven by the COVID lockdowns. All in all, curtailments in China in 2021 flip China into a net importer and is expected to remain approximately 1.5 million tonnes short this year.

All of these supply disruptions, including recent further disruptions announced in Brazil earlier this week have resulted in increasing drawdowns in global aluminum inventories, where we now

see inventory falling to near 40 days of consumptions by the end of this year, a level not seen since the last commodity supercycle.

On the demand side, we expect demand growth will continue to be strong, with most analysts predicting between 2.5% to 3.5% year-over-year aluminum consumption growth. Demand is expected to be especially strong in our U.S. market where most analysts see between a 5% and 6% increase.

Demand continues to be driven by the long-term trends we've discussed previously, including energy transitions into renewable generation and distribution, expanding electrical vehicle production, and increasing aluminum market share in packaging and building products. Of course, automotive and aviation demand has been impacted by supply chain and pandemic-related factors, both of which could provide tailwind to the demand expansion once these issues resolve.

If you turn to Page 5, we've seen demand especially strong in extrusion. In both Europe and the U.S. spot billet premiums have continued to rise so far this year, resulting from strong end-customer demand and supply chain disruptions from overseas suppliers. The continued strength in billet market is being driven by structural extrusion capacity expansions across our markets. Overall, the significant supply disruptions in Europe and China paired with continued demand growth and falling inventories have led to an especially tight physical market in the U.S. and Europe and provided a material increases in regional premiums, especially in our two markets where both Midwest premium and European duty paid premiums are near all-time high.

On the input side, we continue to see price inflation across our key commodities. Most significantly on the energy side where low reservoir levels and high gas prices, driven by spillover from the European energy crisis have resulted in significant increases in Nord Pool and MISO energy prices in Q4 that have spilled into Q1. Our Nord Pool exposure is significantly hedged with around 60% of our 2022 and 80% of our 2023 exposure hedged prices well below spot levels. As a reminder, our Nord Pool exposure ends altogether at the end of 2023 as the contracting question moves to fixed pricing in 2024.

While our geographic locations have insulated us from the worst of the effects of the European energy crisis, Iceland has experienced near-record low reservoir levels this winter. In January, Landsvirkjun, a state-owned power company announced curtailments across its industrial customers, including our Grundartangi smelter. For Grundartangi the curtailments began on January 20th and reduced the smelter's energy consumption by approximately 35 megawatts, about 7% of our total load for the curtailment period.

We currently expect that curtailment will finish by the end of March, but this remains subject to weather patterns and reservoir levels in Iceland, as well as other factors. Based on the current expected curtailment end date, we expect that the curtailments will reduce Grundartangi's 2022 production by approximately 5,000 metric tonnes. This impact is included in our Q1 and full-year volume guidance. It's important to note, however, that the financial impact of the curtailment is mitigated because the power contracts that are being curtailed our primarily linked to the Nord Pool price, which as Craig will discuss has averaged nearly 90 euros per megawatt hour for Q1 to-date. Put simply, the energy being curtailed is the most expensive energy consumed by Grundartangi and so the ultimate financial impact to the lost volume is significantly mitigated.

On the raw material side, we have continued to see increases in coke and pitch prices as well as other key raw materials in both the U.S. and Europe. While the aluminum market has remained constructive, Q1 will be impacted by relatively high-priced alumina purchased in Q4 flowing

through our Q1 results due to our contractual lag.

Craig will now walk you through the quarter and our Q1 outlook.

Craig Conti

Thanks, Jesse. Let's turn to Slide 6 and I'll take you through the results for the fourth quarter. On a consolidated basis, Q4 global shipments were up about 3% quarter-over- quarter, primarily driven by Mount Holly as the rebuild starts to materialize in our financial results. Realized prices increased substantially versus prior quarter as a result of higher lagged LME prices and delivery premiums, driving a 13% increase in sequential net sales. Looking at operating results, adjusted EBITDA with $82.2 million this quarter, which represents the highest quarterly result we've achieved in nearly seven years.

We had an adjusted net profit of $17.2 million or $0.17 per share. In Q4, the major adjusting items were $53.8 million for the unrealized impacts of forward contracts and $9.9 million for share-based compensation. Liquidity at the end of the quarter was $100 million comprised of a mix of cash and credit facilities. Additionally, we have expanded our liquidity by increasing our borrowing capacities under each of our domestic and Icelander credit facilities, a significant portion of this increased liquidity became available in January of this year.

Turning to Slide 7, we'll go through the $12 million fourth-quarter sequential increase in adjusted EBITDA. As we forecast on our last call, the Q4 realized LME of $2,605 per tonne, was up $230 per tonne versus prior quarter, while realized U.S. Midwest premiums of $720 per tonne, were up $50 per tonne and European delivery premiums of $345 per tonne were up $100 per tonne over the same period. Both domestic Indy Hub and European Nord Pool energy prices increased steadily throughout the quarter. Indy Hub prices in Q4 averaged $55 per megawatt hour, or up about 30% versus Q3, while Nord Pool prices averaged $110 per megawatt hour, or up 35% versus prior quarter. Lagged alumina was up $20 per tonne versus prior quarter and coke prices continued their upward trend as well with realized levels increasing 12% versus Q3 for a landing total of $490 per tonne on average.

Let's turn to Slide 8 and we'll take a quick look at cash. We started the quarter with $58 million in cash and ended December with $29 million. CapEx spending was $38 million in Q4 with $25 million of that total supporting the restart at Mount Holly. Hedge settlements were $41 million for the quarter and we made our normal semi-annual bond interest payment. The $5 million term loan pay down we completed in the fourth quarter represented the last payment of this 2019 borrowing. The facility was completely repaid by the end of the quarter. Finally, working capital was a cash usage in the quarter as raw material price escalation and rebuild activity drove increased inventory values versus Q3.

Turning to Slide 9, I'd like to give you some perspective on 2022, as Jesse mentioned earlier, we expect 2022 shipments to increase by above 100,000 tonnes or 13% versus 2021. The largest year-over-year volume increases will be driven by Hawesville and Mount Holly as the impact of those restarts are realized. From a cash standpoint, we expect about $30 million to $35 million of sustaining CapEx in 2022. In addition, the spend for the final phase of the Mount Holly restart will be about $15 million. The vast majority of the spend will occur in the first quarter and the totality of the cost should be incurred within the first half of 2022. The impact of the hedge book will vary with market conditions throughout the year, but to assist with anticipating these impacts on a go-forward basis, we have updated our previously reviewed financial hedge landscape, which can be found on Page 18 in the appendix.

As we discussed on our last several calls, the amount of Midwest premium financially hedged is significantly lower in 2022 than it was in 2021 with a total hedged volume reducing from 65% of total exposure down to 35% for 2022 and zero beyond that. Also, as Jesse detailed earlier, for Nord Pool we are about 60% hedged in 2022 and 80% hedged in 2023. In addition to the volume detail, we have also added the hedged price by commodity for the forward quarters of 2022 and for total 2023 and 2024. Also in the appendix of today's presentation are the updated 2022 commodity price sensitivities and pricing details.

Let's turn to Slide 10 and I'll give you some insight on our expectations for the first quarter. For Q1, the lagged LME of $2,770 per tonne is expected to be up about $165 per tonne versus Q4 realized prices. The Q1 lag U.S. Midwest premium is forecast to be $705 per tonne, or down $15 per tonne, and the European delivery premium is expected at $335 tonne, or down $10 per tonne versus the fourth quarter, respectively. Taken together, the LME and delivery premium pricing moves are expected to increase Q1 EBITDA by $15 million to $20 million versus Q4 levels. Lagged API-based alumina is expected to be $415 per tonne or up about $90 per tonne versus Q4, generating an approximate $25 million decrease in Q1 EBITDA versus prior quarter.

From a power perspective factoring in recent forwards with our realized quarter to date costs, we expect an overall reduction in total energy cost versus Q4 with domestic prices down about 10% and Nord Pool prices down about 15%. This reduction in energy cost would equate to a $10 billion increase in EBITDA versus Q4. Coke and pitch prices have been on the rise since mid-2021 and we expect that trend to continue into Q1 with an overall increase of about 20% versus the fourth quarter. We expect realized coke prices to be $590 per tonne in Q1 or about $100 per tonne greater in Q4 in realized pitch prices to be $1,020 per tonne or about $170 per tonne greater than Q4, driving a $15 million EBITDA decrease versus prior quarter.

As Jesse just highlighted, the market for our value-added products remains robust. We expect the Q1 EBITDA increase of about $15 million driven by increased value-added product premiums versus Q4 levels. Finally, we have continued to make solid progress on the Mount Holly restart. And while we do expect incremental production in Q1 versus prior quarter levels, timing of some of the planned Q4 restarts were negatively impacted by COVID and supply chain challenges and consequently are anticipated to come on in the middle versus the beginning of the quarter. We have already completed the bulk of hiring necessary to support the new level of production in advance of the pots being online. The net impact of the sequentially higher production volume will be an increase of $5 million to $10 million in EBITDA versus prior quarter levels.

In sum, we expect all of these items taken together will equate to an approximate EBITDA increase of $10 million to $20 million from Q4 levels for a Q1 pro forma total of about $90 million to $100 million. From a hedge impact standpoint, we expect a realized loss of about $20 million to $25 million in the first quarter and we expect the tax expense of approximately $5 million. As a reminder, both of these impacts will be below EBITDA geographically and will impact adjusted net income.

Before I turn the call back over to Jesse, I'd like to provide a little bit of perspective on the earnings power of our business in the current environment. If you were to simply mark the Q1 adjusted EBITDA I just walked you through to market using the spot prices shown on the page and the sensitivities provided in the appendix the net result would be an increase of $110 million for a total EBITDA of $200 million to $210 million. As you know our business prices on a lagged basis with respect to most of these inputs so the full impact will not be seen immediately, but this gives you a good sense of the earnings potential of the company in the current pricing

environment.

With that, I will turn the call back over to Jesse.

Jesse Gary

Thanks, Craig. Let's turn to Page 11. The hard work by our employees and the investments that Century has made over the past several years has placed the company in excellent position to perform in the strong market environment that we see today. Aluminum's key role in energy transition and other strong demand fundamentals paired with increasingly difficult global operating conditions that have significantly impacted supply have caused aluminum prices to reach record high. In addition, the supply shortages in the U.S. and EU caused by years of overcapacity in China and elsewhere have now led to record regional delivery premiums necessary to balance these short markets.

Since 2015 our focus on internal growth and investment has resulted in Century rebuilding, restarting, or adding nearly 400,000 metric tonnes of production in these regions, which now allows us to provide nearly 900,000 metric tonnes of this strategic metal into the two shortest markets in the world. Because our operating locations are inside of these deficit markets, we are able to provide nearly unrivaled short supply chains to our customers and directly benefit from the strong Midwest premium and European duty paid premium. We continue to believe that we have a number of attractive organic growth opportunities to capitalize on this position.

Our geographic location is also an advantage in the value-added marketplace, where our customers are increasingly focused on de-risking the lengthened reliability of their supply chain. As you can see in the appendix, each of our smelters felt an increasing proportion of their metal with product premium, whether that be billet in Sebree and Mount Holly, or Purity in Hawesville or Foundry Alloy and Natur-Al at Grundartangi. We are working to expand these product lines, most recently with the groundbreaking of the billet casthouse at Grundartangi that will provide 150,000 metric tons of much-needed billet into Europe.

Okay. Turning to Page 12. Given the strong footing and exceptional outlook on which the business enters 2022, we believe we will be generating strong free cash flows this year and thought it would be helpful to begin providing a framework under which we will be considering capital allocation going forward. As you might expect given the pure commodity nature and pricing volatility of our business, we expect to continue to allocate capital in a manner that allows us to operate and invest in the business in a sustainable manner, drive growth, and preserve a strong balance sheet through the cycle.

As we consider the appropriate target capital structure, we examine the businesses performance through past cycles and a range of potential future cycles and determine the target that we believe will serve the business well through all cycles. Going forward we will target net debt of $300 million, which is a level that we have been able to comfortably service through the past several cycles and have been able to refinance as it has come due without issue. In calculating net debt, we will include our long-term debt as well as any amounts drawn under our revolving credit facilities. Note, we will exclude the Grundartangi casthouse financing from the calculation, as we expect the incremental cash flows from that project will more than cover the debt repayment and therefore we'll continue to view this project outside of the capital allocation framework as it is not expected to be a call on cash from the rest of the business.

From a liquidity standpoint, we will target total liquidity of $250 million to $300 million, which will be made up of a mix of cash and availability under our credit facilities. Liquidity at these levels should provide us the flexibility to weather market downturns without curtailing productions, sacrificing operating stability or taking other actions to generate cash. To give you a sense of where we stand today on these metrics, we closed Q4 with net debt of $429 million and liquidity of $100 million. As Craig mentioned, we are currently expecting sustaining CapEx in the range of $30 million to $35 million this year, and this should be a good range for the business going forward.

We are now starting to see the benefits of our restart and reinvestment programs and as we begin to generate free cash flow above our sustaining CapEx requirements this year, we will begin to pay down the borrowings under our revolving credit facilities, which will both decrease our net debt and increase our liquidity towards the targeted level. Given spot prices in our forward outlook, we currently expect that we would begin to approach the targeted net debt and liquidity level sometime in the second half of the year. Once we reach these levels, we will then add returning capital to our shareholders through our capital allocation framework. As additional cash is generated, we would look to allocate it amongst these various return-seeking activities, mainly organic growth, opportunistic M&A, and returning capital to our shareholders. In allocating between these categories, we would generally look at the expected return of each action among other factors.

Hopefully, this gives you a sense of how we'll approach things going forward, and of course, we would expect to continue to update you with additional details as we begin to approach targeted levels. Finally, just before I turn it over to questions, I'd like to acknowledge Craig and the great work he has done in his time here at Century. He will be leaving us at the end of the month and we wish him the best of luck out West.

Peter Trpkovski

Thanks, Jesse. Hannah can you please kick off the Q&A session for us please.

Questions and Answers

Operator

Certainly. (Operator Instructions) The first question is from the line of David Gagliano with BMO Capital Markets. You may proceed.

David Gagliano

Hi, good afternoon and thanks for taking my questions. Just on Slide 10, the first quarter outlook. So the -- when I look at it versus kind of what we are coming up there's two differences. First of all, the lagged alumina price, it's a pretty big impact and it looks like the hedges have changed which makes sense. But obviously -- but when we look at the details it looks like hedging for alumina now is significantly more weighted to spot-based API pricing. I think last year's split it was 80-10-10, 80% LME percent, 10% spot and 10% fixed. This year it something like 40-50-10, so 50% is spot alumina base. I'm wondering what was the thought process behind going so far towards spot exposure on the alumina price?

Jesse Gary

Yeah, thanks, David. And just to be clear, that's the mix -- the alumina mix going forward for 2022, wasn't necessarily the mix in Q4, but as I think I've talked about before whenever we go to reaffirm alumina contracts or renegotiate pricing for the coming year we will always look at the mix of pricing available. And so, we will be quoting prices both on a fixed price, an API price and in LME percentage price. And those pricings will each -- within each factors will have a range. And when we look at those pricing we'll sort of look and see what's on offer and make what we think is the most advantageous decision to us based on those metrics. So just, for instance, you may see API is pretty easy to understand it's just the market-based floating price, but in some quarters -- some years you may see LME price -- percentage pricing that looks attractive compared to your expectations in API. But in others, you may see LME percentage pricing that does not seem attractive, based on where that relationship of API to LME stands at the time. So that's just to give you a sense, there is no sort of broad-based call on where pricing is going, but we just look at what's on offer and compare it to sort of the current relationship.

David Gagliano

Okay. And just to clarify, it was 10% in 2021 it was API exposed and now it's 50%, correct? I think I have those numbers correct.

Craig Conti

That's correct. Yeah, that's right.

David Gagliano

Okay. And then on the other part of that slide just it's not a big deal, but the value add premiums says at the $15 million quarter-over-quarter uplift I thought the full-year value add premium uplift was somewhere around $70 million to $75 million, does that mean it's going to sort of tick up a little bit as we go through the course of the year in terms of that sensitivity?

Jesse Gary

Yeah. Simply put, yes, there are some timing issues around turnover for the year as well as some volume issues but now Mount Holly billet coming online that will sort of impact that. But you're right, we still expect that level on a full-year basis.

David Gagliano

Okay, that’s it from me, thanks.

Operator

Thank you, Mr. Gagliano. The next question is from the line of Robert Curt with Wolfe Research. You may proceed.

Timna Tanners

Hi, this is Timna, with Wolfe Research. Hope you're doing well. I wanted to dig in a little bit more on thinking about the free cash flow discussion. One of the things that catches my eyes is certainly rising alumina pricing even in last couple of weeks and the sustained higher aluminum price, it seems now that could be absorbing a decent amount of working capital going forward. So just wanted to ask for a little guidance on how you think about that in your equation?

Jesse Gary

Yeah. And you did see a little bit of a working capital build at quarter-end, Timna, at some of those higher price alumina roll through. And so, yeah, I think that's right you're right on. We will now sort of expect that to come down a little bit as we start to consume some of that. And then as -- because of our lag that cycles back through, you'll start to see that rising price again roll through working capital as we move forward. But you're right to sort of match it to the LME price because that relationship between API and LME continues to be at very attractive levels compared to historical relationship.

Timna Tanners

Okay, helpful. Wanted to -- given the bullish commentary in terms of the shortages, wanted to revisit the opportunity to ramp up Hawesville that I know you've talked about in the past. Can you just remind us about the cost and timing and any latest thinking there? I know you talked about a balanced approach to using free cash flows, but just wanted to get a little more color on how you're thinking about that further?

Jesse Gary

Yes, sure thing. Yeah, and just to be clear that this opportunity is in both Mount Holly and Hawesville to bring volume online. At Mount Holly, we need to negotiate additional energy from our local supplier. At Hawesville, we have the ability to take the energy from the market, given our market-based power contract there. And so, the question will just come, we just recently got back up to full production. We want to make sure that we can sustainably stay there and then we'll look and see that when it makes sense to restart that last line.

As I said before, one thing to keep in mind is that the last line is usually actually a little bit more expensive than the previous line and usually it will take a little bit longer to restart. The reason for that is as you're restarting the other lines you tend to sort of borrow from the curtailed line. And so, there are some items -- sort of long lead-time items that will need to order, which will slow down that restart once we were to make that decision to restart.

So, I guess, Timna, just to wrap it up I think you should expect it will take a little bit longer than the other lines and also be a little bit more expensive from a capital perspective than the other lines, which you saw us do over the past few years.

Timna Tanners

And again, I know you mentioned balanced approach, but if you think about priorities given where the market is in that opportunity versus returning cash to shareholders, and any M&A is it a top priority, is it something that you're looking closely at given the very strong market dynamics?

Jesse Gary

Yeah, we do think we have really attractive organic growth opportunities, and it can both be that volume and it could also be value added product expansion. So, there are some good abilities to expand in our casthouse with some relatively low capital numbers that you get some really pretty good paybacks on. So, we do think we've got a lot of opportunity. But again, just looking at sort of the strength of the free cash flow that you would see at spot pricing, we think we'll have a lot of an opportunity to use that in different ways.

Timna Tanners

Okay. And then last one for me. In terms of the operational situation you've highlighted in the past with some disruptions from COVID-related absenteeism et cetera, just want to see if that was fully behind or if there are any lingering impacts into the first quarter?

Jesse Gary

Yeah. So, we saw that a little bit at year-end and we saw it continue a little bit into January, but we're now mostly through the COVID side of things, I guess pre-supposing there's not another wave. And like I said, so for instance, that restarted line at Mount Holly is now fully up and running. So, I think we -- most of that is behind us, supply chain is probably a little bit higher risk than COVID, but we are mostly there in terms -- at this point in terms of bringing that volume up. And so, you'll see it sort of build up during the quarter. But as we enter into Q2 we should sort of be reaching those sort of annual run rate levels, unless there is some sort of significant new COVID disruption.

Timna Tanners

Gotcha. Okay, I'll hand off. Thank you.

Jesse Gary

Thanks.

Operator

Thank you, Ms. Tanner. The next question is from the line of Lucas Pipes with B Riley. You may proceed.

Lucas Pipes

Hey, good afternoon, everyone. I wanted to ask about your capital allocation slide, Slide 12 and back of the envelope would seem to me like you would achieve your targets on liquidity and net debt sometime in Q2. Would it be reasonable to expect capital returns then or given your prior comments on growth opportunities, would you say maybe later this year given those conflicting -- potentially conflicting priorities? Thank you.

Jesse Gary

Yeah, hey, Lucas. Thanks. Yeah, I mean, listen, obviously, the prices have been moving around a little bit and so when exactly we'll meet those levels as highlighted out we are sort of looking in the back half, rather than Q2. So overall, I think that that's a more realistic timeline for when we might get there, but we'll continue to keep everyone updated as we get closer.

Lucas Pipes

Thank you for that. And in terms of the total size of -- you mentioned you have a couple of different project opportunities, is there a way to frame-up the size of those either on a total capital basis, NPV? Any metrics you could share on that that would be very much appreciated. Thank you.

Jesse Gary

Yeah, I mean, for the restarted lines you can look back at what we've told you in the past about the previously restarted lines and again this time around will probably be a little bit higher capital number than that. For the other projects that they would be smaller -- the other organic projects, those would be smaller than the restarted line numbers. So, we're talking about adding incremental billet capacity or adding incremental remelt secondary recycling capacity. Those types of projects, which will be more incremental than say restarting a full line, just to give you a sense.

Lucas Pipes

Understood. And I want to make clear I understand the restart opportunity properly. Does that include Mount Holly too or given the current power contract that's not really on the table yet?

Jesse Gary

Yeah, it includes Mount Holly, but just to be clear, we would need to be able to negotiate for additional volume -- energy volume from our energy supplier in South Carolina. So that's something that we're working on and interested in, but we're not there yet.

Lucas Pipes

Is there a sense on the timing on those negotiations, is this a multi-year process or could we see something over the next three months, six months?

Jesse Gary

Yeah, it's difficult to say because it's obviously a bilateral discussion. So, it's difficult to really give you a clear timeline. Obviously, this winter hasn't been the clearest winter from an energy perspective and sourcing perspective. So, it's not something that I would see in the really near-term, but something -- it's just difficult to say whether something you see later this year or years following.

Lucas Pipes

Okay, that's helpful. Thank you very much and best of luck.

Jesse Gary

Thanks, Lucas.

Operator

Thank you, Mr. Pipes. The next question is from the line of John Tumazos with John Tumazos Very Independent Research. You may proceed.

John Tumazos

Congratulations on the profits.

Jesse Gary

Thanks, John.

John Tumazos

Is the interpretation on the hedge gain that the electricity gains were larger than the little bit lost on the aluminum hedges?

Craig Conti

Yeah, John, this is Craig. Pretty much, yes, I mean the easiest way to think about it is, the forward stack for Midwest premium and for LME didn't degrade any further quarter-over- quarter. So, the gain that you're seeing is really from the Nord Pool hedge. And if you look at the appendix slide on Page 18, you get a sense of those values and I think that would probably make sense.

John Tumazos

With regard to the 4 million tonne deficit for 2022, you estimate in North America and also 4 million tonnes in Europe, Monday's IAI output was down 4.5% globally and February comparison is tougher. That was the record output in China. It might be down 5.5%. So, it would appear as though output is going to be down this year and at the moment it feels like the world economy hasn't completely stopped, it's still growing. So, would your 8 million tonne deficit if we were to take the whole world be bigger than 8 million tonnes? And is it something like 4% demand gain and 4% supply decline sort of scenario?

Jesse Gary

I don't think it would be bigger. Right. The U.S. and Europe are the two shortest markets. So, as you added other markets, you would see a smaller deficit. So again, we sort of spoke about 1.5 million to 2 million tonnes deficit in total global. But I think you're right on and focusing on the U.S. and Europe. And I agree with you that there are certainly supply-side challenges throughout the globe in terms of production coming on in 2022. And I think what you've seen on the energy side, especially overnight really starts to show that it's going to be very difficult for some of that curtailed European production to come back on this year and certainly there is a risk of more European production going off this year when you look at forward German and French, UK power prices north of $200 per megawatt. So, it's a very difficult time on the supply side, and I think prevents a lot of advantages for Century given our position within these markets and our secure

supply lines to our customers.

John Tumazos

Your 40 days supply inventory is a great number, I guess that suggest 9 million or 10 million tonnes of inventory, if we include scrap as part of the market. I make pick up some inventory numbers too but just between France I'm not sure all the inventory exists. Clearly there is the exchange inventories are a little over 1 million tonnes. When you do your day supply inventory number, how do you convince yourself that there is 8 million or 9 million tonnes of inventory greater than what's visible on the exchanges? You guys are smarter than me. I do the same thing but I don't really believe myself every minute.

Jesse Gary

It certainly gets tougher to count when we start to get shorter doesn't it, John? And so, we do our best and we look at a variety of market sources, but I would agree with you, as we get shorter it becomes -- your margin of error becomes bigger, sort of a lot of small numbers here. When you're up a little bit with smaller numbers it has a bigger effect. So, we do our best. That's where we see it right now, but I take your point that it does get harder to account as we get shorter.

John Tumazos

I make some estimates that there is Chinese hidden stocks and I make some estimates that the -- what the SRB might hold separately. And then I use 2.5 million tonnes it was the last producer inventory number the IAI published 10 years ago before they discontinued the series. So that's how I make up my inventory. I'm not sure that's there, I'm just sharing with you for your entertainment.

Jesse Gary

Thank you, sir.

John Tumazos

I was going to congratulate you on raising the dividend since aluminum is around $1.56 on the LME. And I think spot alumina is like 11% or 12% or just bumping along 17-year lows as a ratio. But it would seem like it's sort of the best business climate we all could dream for. And I know you're a little over $100 million too high on your debt target. Do you think you'd feel good enough about life to institute a dividend even sooner, given how spectacular the business climate is?

Jesse Gary

Yeah, John, I think as we said when we look at the cycles and having been through a pretty tough decade of cycles we want to be sure that we're going to be able to make it through without having to take actions that are may be detrimental to our long-term interests. Whether curtailing capacity or doing other -- taking other actions to preserve cash flow or margins. And so, we see it is prudent to sort of get to those target levels. And when we look forward, we are pretty bullish on the long-term future of aluminum here.

And as we -- you and I just discussed the supply side, certainly looks challenged and when you look to all the various demand side drivers these are pretty core drivers to energy transition and

greening overall world CO2 output. So, we're pretty confident in the long term, but we want to be sure that we're in a good spot to make it through a cycle, if one were to pop up on us.

John Tumazos

If I could just bother you with one last one, it's great that the LME hedges are down to 118,000 tonnes and the Midwest premium hedges to 150,000 tonnes. And I guess the LME hedge is sort of average about $0.50 under today's spot, although their future prices with a different term. And the Midwest premium looks like it's around $0.20 under. I own 14,500 of your shares and I wonder if your share price would go up 10%, 30% or 50%, if you came out with a press release saying we're not going to do any more hedging and maybe we're even going to close out a fraction of the existing hedges maybe my bet would be, you'd go up 30% if you did that press release. Why not just tell the market you're not going to hedge any markets, you're doing well on the finances to getting better?

Jesse Gary

Yeah, John, I think we've been pretty clear that going forward we plan to give pricing exposure to our shareholders. And I think when you compare those hedge numbers quarter-over-quarter for the last several quarters I think you'll see us sticking to that plan. The one piece on the hedge side that you've seen us act has been on the Nord Pool when we saw an opportunity given the risks in Europe and we did put some more Nord Pool hedges on. But I think we've been pretty true to that and I think we've been pretty clear that our sort of goal going forward is to provide that exposure to our shareholders.

John Tumazos

We love the electricity hedges because we think that in the green world electricity is a very scarce thing just like aluminum. It’s what makes aluminum scarce.

Jesse Gary

Yeah, I agree. And we talked about the supply side challenges and certainly, those are energy driven throughout the world. So, thanks, John.

John Tumazos

Thanks for putting up with me.

Operator

Thank you, Mr. Tumazos. There are no additional questions waiting at this time. So, I will pass the conference over to Jesse Gary for closing remarks.

Jesse Gary

Yeah, I'd just like to thank everyone for sticking with us through the call and look forward to talking to you again after Q1. Thanks.

Operator

That concludes the Century Aluminum Company fourth quarter 2021 earnings conference call. Thank you for your participation. You may now disconnect your line.