CENTURY ALUMINUM COMPANY: 1st Quarter 2024 Earnings Call

May 1, 2024/10:00 a.m. CDT

SPEAKERS

Jesse Gary, President, Chief Executive Officer & Director
Gerald Bialek, Executive Vice President and Chief Financial Officer
Ryan Crawford, Investor Relations & Financial Planning and Analysis Manager

ANALYSTS

John Tumazos, Analyst
Katja Jancic, Analyst
Lucas Pipes, Analyst
Timna Tanners, Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Century Aluminum Company First Quarter 2024 Earnings Conference Call. All lines have been placed on mute during the presentation portion of the call, with an opportunity for question and answer at the end. (Operator Instructions)

I would now like to hand the conference over to our host, Ryan Crawford. Please go ahead.

Ryan Crawford

Thank you, operator. Good morning, everyone, and welcome to the conference call. I'm joined here today by Jesse Gary, Century's President and Chief Executive Officer; Jerry Bialek, Executive Vice President and Chief Financial Officer; and Peter Trpkovski, Senior Vice President of Finance and Treasurer.

After our prepared comments, we will 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 statements 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 Ryan and thanks to everyone for joining. Lots of progress made this quarter with some exciting new initiatives, so I'll start today by quickly reviewing the improving market environment and the strong operating performance from each of our plants. Jerry will then take you through the details of our excellent first quarter results and then I'll finish with an update on our new U.S. green smelter project and our recently announced secondary joint venture with MX Holdings.

Overall, strong operational performance and declining costs drove Adjusted EBITDA of $25MM in the first quarter. Jerry will give you the full details here, but we are really proud of the job our team did across our locations to operate safely and efficiently through the quarter. We have seen a real improvement in the safety culture across our plants, which is reflective of strong plant leadership and the commitment that all of our employees have made to operate safely.

Turning to slide 3, market conditions remained broadly balanced in the first quarter before an improving demand picture in the US and Europe paired with continued strong demand in China drove LME prices substantially higher in April. This pickup in demand was evident in regional premiums as well, with the European premium increasing most notably over the course of the quarter to be up nearly 50% from year-end levels.

Alumina markets also rose during the quarter, with Q1 Atlantic alumina prices up about 10% from Q4 levels, driven by supply curtailments in Australia. In April, spot alumina prices have followed LME higher as production disruptions in India and elsewhere have made for a tight market.

In rising alumina markets like these, we can see most clearly the strategic value of our Jamalco acquisition and the captive supply of high-quality alumina and bauxite that it now provides for our smelters. Combined with our long-term commercial contracts, the Jamalco acquisition makes us roughly net neutral to API pricing as a company.

Production at Jamalco also improved through Q1, and I'm pleased to say the refinery returned to profitability in March. Of course, the team is not resting on this achievement and we plan to continue to drive additional efficiencies and operational improvement through the balance of the year.

Turning to the global trading environment, as you can see on slide 4, global inventories remain at post-financial crisis lows with the vast majority of available metal around the world being comprised of Russian stocks, including over 90% of all LME inventories.

Long-term global trends towards near-shoring strategic mineral production, including aluminum, continued to accelerate this month, with new government actions announced in the US, UK and Mexico that will impact global aluminum flows and supply into our key markets in the US and Europe.

Most broadly, the US and UK announced earlier this month new sanctions on Russian aluminum and other metals, including a ban on physical import of Russian metal into the US and UK produced after April 13th. The sanctions further restrict the ability of the London Metal

Exchange and Chicago Mercantile Exchange to accept delivery of Russian metal into licensed warehouses. We would like to thank the US and UK administrations for taking this necessary action - we firmly believe this was the right step and we urge the EU to take action as well to ensure a consistent approach across Western markets.

Elsewhere in North America, Mexico announced last week the immediate imposition of new tariffs on a number of industrial goods, including primary aluminum and other aluminum products. The new tariffs, including a 35% duty on P1020, a 20% duty on value-added products and 25-35% duties on aluminum extrusions, will apply to all countries with whom Mexico does not have a free-trade agreement, including countries that exported over 700,000MT of P1020 and value-added aluminum products into Mexico last year. While the full details of the program are not yet clear, including the applicability of exemptions for products re-exported from Mexico, the actions are expected to be supportive of US delivery and value-added product premiums.

In the U.S., we continue to expect that the pending Anti-Dumping/Countervailing Duty trade case against extrusion imports will have a significant positive impact on domestic US billet demand beginning in the second half of this year.

In March, the Department of Commerce granted US extruders an early victory by imposing preliminary duties on the subsidy portion of the case and in May we continue to believe that Commerce will also impose antidumping duties on 14 countries. If so, the duties would immediately go into effect and are expected to add strong support to the US extrusion and billet markets.

As a reminder, we did hold back some second half billet volumes for spot sales in anticipation of improving US market conditions and a more constructive pricing environment.
Finally, we continued to discuss with the US Treasury Department the potential to add direct and indirect material costs as eligible costs under Section 45X. In late-February I testified at the joint Treasury and IRS hearing regarding this issue, noting specifically the essential nature of these material costs to aluminum production. Our position is in line with testimony and comments submitted from a broad set of industry participants, ranging from critical mineral producers to our downstream customers, including automotive companies seeking to ensure stable domestic supply chains.

As a reminder, if direct and indirect material costs are ultimately added as eligible costs, we would expect to recognize an additional annual benefit of $50-$55MM for 2023 and similar annual amounts for 2024 and going forward. Any increases in future production at our existing or new US smelting sites would also be eligible for the production tax credit and would be expected to increase our annual benefit on a roughly pro rata basis to the amount of increased production.

Turning to operations, we saw strong and stable performance across our smelters in the first quarter and our Jamalco refinery returned to stable operations and reached profitability in March.

In Iceland, the previously announced 20MW energy curtailment did drive lower volumes from Grundartangi in Q1 as expected. When the power curtailments were initially announced, they were expected to finish by the end of April, but we now expect that they will continue until the

end of May as Iceland has continued to experience an abnormally cold spring, leading to lower snow pack melt loss and reservoir levels. This impact is included in our Q2 guidance.

In better news at Grundartangi, we did cast our first billet out of our new green billet casthouse earlier this month. We are now producing trial orders for our European customer base and expect to qualify with our key customers over Q2 and Q3, before ramping production for normal commercial sales in Q4 and beyond. We are very excited to begin supplying this much needed Natur-Al low-carbon billet into the European market.

Finishing out the energy picture, energy prices in the US continued to be constructive, driven by a moderate spring and natural gas prices below $2 dollars. Given the continued constructive energy markets and recent uptick in LME, we did make the decision to derisk our Sebree energy exposure a bit and hedge forward a small portion of Sebree's power price exposure as well as a corresponding amount of metal price exposure over the next 12 months.

On the raw material side, we have finally begun to see many of our raw material imports reach pre pandemic price levels, with coke and caustic soda prices both falling below $400/MT. Due to our contractual and physical inventory lags, the benefits of these price decreases will take some time to roll through our results, which Jerry will give you a bit more detail on in a bit.

Finally, at Mt. Holly, we made good progress during the quarter towards completing the necessary engineering and procurement plans to enable the potential restart of the remaining 25% of production that is not operating today. As we have discussed before, our experience with these restart projects is that it is best to be thorough in the planning stage rather than to rush the restart and potentially create operational and cost issues down the line. We are hopeful that we will have additional updates for you on our Q2 call later this summer, but do not expect that we will have any significant capital or cash requirements for the restart over the course of 2024.

Jerry will now walk you through the quarter and our Q2 outlook.

Gerald "Jerry" Bialek

Thank you, Jesse. Let's turn to slide 7 to review 1st quarter results. On a consolidated basis, first quarter global shipments were approximately 175,000 tonnes, up slightly from prior quarter despite the power curtailments in Iceland. Realized prices, however, decreased versus prior quarter, due to lower Value-Added and regional delivery premiums, resulting in net sales of $490 million, a 4 percent decrease sequentially.

Looking at Q1 operating results, adjusted EBITDA attributable to Century was $25 million. This was a sequential decrease of $32 million, primarily driven by the recognition of the full-year 2023 IRA Section 45X credit during the fourth quarter, compared with one quarter of 2024 credit recorded in the current period.

Normalizing for the timing of the recognition of the Section 45X benefit in the prior quarter, Adjusted EBITDA improved due to lower energy and raw material costs, which were partially offset by the anticipated lower value-added product premiums.
During the period, we finalized purchase accounting for the Jamalco acquisition and recorded a bargain purchase gain of $246 million. Adjusted net loss was $3 million or

$0.03 per share. The main adjusting item is the deduction of $246 million related to the bargain purchase gain. As a result of finalizing purchase accounting, we have now updated our 2024 outlook for depreciation and amortization to $100-110 million for the year as you can see on slide 19.

We maintained strong liquidity of $302 million at the end of the quarter, consisting of $93 million in cash and $209 million available on our credit facilities.
Turning to slide 8 to explain first quarter sequential improvement in adjusted EBITDA on a normalized basis. In total, adjusted EBITDA for the first quarter was $25 million. Realized LME of $2,190 per tonne was up $8 versus prior quarter, while realized US Midwest Premium of $409 per tonne was down $16 and European Delivery Premium of $223 per tonne was down $57. Together LME and delivery premiums amounted to a $4 million headwind in the quarter. Power costs decreased by $4 million. Realized coke prices decreased $71 per tonne and realized pitch prices decreased $163 per tonne. Together, raw material costs resulted in a $13 million improvement in EBITDA.

Lower value-added premiums created a headwind of $9 million. OpEx was $9 million better than prior period, including the OpEx efficiencies we identified in last quarters outlook, and in addition, some deferred pot relining expense related to the Iceland power curtailment that will now be incurred in the second quarter.
With that, let's turn to slide 9 for a look at cash flow.

We began the quarter with $89 million in cash. Adjusted EBITDA contributed $25 million. Capital expenditures totaled $30 million, $17 million of which relates to the Grundartangi Casthouse project. We increased short-term borrowings to fund normal working capital flows as I pointed out last quarter. At end of quarter 1, we had $93 million in cash.

Let's turn to slide 10 and I'll give you some insight into our expectations for the second quarter 2024. For Q2, the lagged LME of $2,265 per tonne is expected to be up about $75 versus Q1 realized prices. The Q2 lagged US Midwest Premium is forecast to be $417 per tonne, up $8. The European delivery premium is expected at $270 per tonne, or up about $47 per tonne versus the first quarter. Taken together, the LME, and delivery premium changes are expected to increase Q2 EBITDA by approximately $15 million versus Q1 levels.

We expect power prices to be in a range between flat to a $5 million benefit. Collectively, we expect our key raw materials to be about flat. We expect volume to be flat to a slight headwind, given normal summer seasonality at our US smelters. Finally, we expect a headwind of about $10 million related to pot relining expense deferred from Q1 because of the power curtailment in Iceland. All factors considered, our outlook for Q2 adjusted EBITDA is expected to be in a range of between $25 to $35 million.

I want to take a moment to demonstrate the earnings potential of the business at current market conditions. As we have discussed historically, rising LME prices take time to roll through our results due to contractual lags with our customers. If we were simply to adjust this outlook range to current LME spot prices only, the business could generate $75 to $85 million of quarterly adjusted EBITDA, and improvements in

regional and value-added premiums would add additional upside. The work that we've done to stabilize operations and drive efficiencies, along with favorable market conditions, provide exciting opportunities for the business.

And now, I'll turn the call back over to Jesse.

Jesse Gary

Thanks, Jerry. Turning to slide 11, I'm very excited to present our two new exciting growth projects that we announced this quarter. One of our core strategies at Century is to capitalize on our position as the largest producer of primary aluminum in the US market, which is the shortest market for aluminum in the world. Our production footprint in the US is close to our customer base allowing us to offer unmatched flexibility and service to our customers while benefiting from strong regional premiums and long-term trends towards near shoring supply chains and critical mineral production. Both Sebree and Mt. Holly are well known in the market place as tier one suppliers of billets and other value added products.

Demand for aluminum products in the US has continued to grow as long-term trends towards renewable energy and electrification call for increasing amounts of advanced aluminum alloys and green aluminum products. And, in order to capitalize on those trends, we have looked for ways to build on our leading position and meet this ever increasing demand from our customer base.

Turning to slide 12, the first of those opportunities is to make a more substantial foray into secondary aluminum production. This has long been a priority for us and, as we have discussed in the past, we have engaged in some small amounts of secondary production in our existing US casthouses. Through this experience, we were able to engage with our customers and see the growing demand for green, recycled billet production in the US.

Given the differences in supply chain and operational expertise necessary to build and operate a secondary casthouse, we quickly realized finding a partner with experience in this space would be key to successfully entering this new line of business. And as we announced in March, we were thrilled to find the perfect partner in MX Holdings, a long-time operator of secondary casthouse and scrap procurement and trading businesses in the US. MX Holdings strategy and expertise complement our own and we have quickly found that the two organizations share a common set of values and people-centric culture.

Together with MX, we are far advanced in our plans to construct a new 250,000,000 lbs secondary billet casthouse in the Ohio Valley region. The casthouse is being designed with cutting-edge casting and post-consumer scrap processing equipment. When paired with our combined advanced technical expertise, billet produced by the joint venture will deliver exceptional quality and performance and enable our customers to achieve their sustainability objectives for next generation extrusion products.

Engineering work and supply chain planning is near completion and we expect to be in a position to make the final investment decisions in the third quarter. Upon completion in 2026, the casthouse would be the largest American-owned secondary billet casthouse. The joint venture will be complementary to our smelters by offering our existing extrusion customers a complete suite of primary and secondary value-added products as well as the potential for a

closed-loop supply chain solution through scrap tolling arrangements. We expect we will be able to provide you more details on this project on our Q2 call in August.

OK, turning to Page 13, we were thrilled to announce late last month our plan to build a new, state-of-the-art green aluminum smelter here in the US. The Green Aluminum smelter project would nearly double the size of the existing US industry and build on our leading market position to fulfill the ever-growing strategic need for a secure, domestic US supplier of low-carbon, cutting edge primary aluminum alloys and value-added products. The new Green Aluminum smelter would provide our US customer base with a secure domestic source of low carbon and military grade primary aluminum as well as a full suite of value-added products produced with best-in-class technology.

We have been working on this project for quite some time and were extremely proud and grateful to be selected by the US Department of Energy to receive up to $500 million in funding as part of the Industrial Demonstrations Program. The selection process for the DOE grant was extremely competitive, and for our project to be selected for this historic investment is confirmation of both the strategic need for domestic primary aluminum production and the viability of the project.

Combined with the Section 45X production tax credits, this generous grant from DOE shows the significant commitment that the Biden administration has made to ensuring that this critical industry and its workers will be producing this strategic metal in the US long into the future.

I'd also like to thank Dave McCall and our colleagues at the United Steelworkers for their help and shared commitment towards making this project a reality. This Green Aluminum Smelter is expected to create more than 1,000 full-time direct jobs represented by the United Steelworkers and over 5,500 construction jobs.

Of course, this new Green Aluminum Smelter is a tremendous undertaking and one that will take years to complete. As detailed on our announcement of the project, we have already begun engineering work, energy procurement and site selection focused on the Ohio and Mississippi River Valleys and have now narrowed the potential location of the smelter to three states.

Our next immediate steps on the project will be (i) completion of site selection and energy supply negotiations; (ii) finalization with the DOE regarding the terms and timing of the $500 million grant; and (iii) completion of our second phase of engineering work. We expect to make significant progress on each of these initiatives over the next several months and will provide updates on each on our next calls.

I can't tell you how proud we are to be announcing these two projects and helping to ensure the future of the US aluminum industry. We look forward to your questions today and will turn the call over now to the operator.

Questions and Answers

Operator

Thank you. (Operator Instructions) The first question comes from the line of Lucas Pipes of B. Riley Securities. You line is now open. Please go ahead.

Lucas Pipes

Thank you very much, operator. Good morning, everyone, and congratulations on your progress on many fronts. One of them is starting production in Iceland with the casthouse, and it sounds like you'll be ramping up over the course of this year. In Q2, I would imagine you're probably still losing money as you ramp up and I wondered if you could maybe articulate that so I can fine-tune my model and get a better sense for the impact especially as the facility ramps. Thank you.

Jesse Gary

Sure, Lucas. Thanks for the question. You're right that over Q2 and Q3 the casted volumes will be fairly limited, mainly consisting of trial loads for our customer base in Europe.

And so most of those volumes will come over the course of Q2 sent into Europe where they'll be trialed over Q2 and Q3. And then you'll actually start to see the volumes ramp in Q4 as we mentioned and should be going full out in Q1.

In terms of the cost structure, that'll all be included in the guidance that we gave. So there won't be anything incremental to that. It won't be significant again over that period, and then you'll start to see the additional upside for the business of those billet sales starting to hit in Q4, and then full out in Q1 of '25.

Lucas Pipes

Got it. So the big step up would come not from -- not in Q3, it's really kind of in Q4 versus Q3 where we would see that kind of quarter-over-quarter step-up in EBITDA, thanks to this asset.

Jesse Gary

That's correct, Lucas. There will be some sales in Q2 and Q3, but those are really pretty small and really just trial loads into the customers.

Lucas Pipes

Any way to quantify the potential impact in Q4 versus Q3?

Jesse Gary

We'll of course give that guidance on our Q3 call. What I would just say for now is there will still be a ramp up period in Q4, as you start to sell into that customer base. So it won't be the full out quarters worth of volume that will hit in Q1 of '25, but it will be substantially higher than what you'll see in Q2 and Q3.

Lucas Pipes

I appreciate that. Thank you. And then on the project you outlined in the U.S. First, congratulations on that. Very exciting on many different levels. On the new casthouse, it sounds like, if I read it right, we'll start in 2026. And I wondered if you could maybe give us a sense for the economics around that project. What's the capital intensity? How would spending be paced over the next two years? And anything you could share on the return thresholds would be very helpful. Thank you.

Jesse Gary

Sure, Lucas. Yes, you're right. We're really excited about this project. We've been talking for a long time about our aspirations to enter this portion of the business. And we're indeed seeing a lot of increased demand for secondary aluminum, both here in the U.S. and also in Europe and elsewhere. So it's a really good opportunity for us to enter the space. We think it's going to be very well received by the market.

And as I mentioned, it's actually very complementary to our existing billet business in the U.S., because we are able to offer closed loop supply chains to our existing billet customers. And we'll be able to offer that sort of that full suite of both primary and secondary products to all -- to the customer base.

So we do expect that we'll be in a position to make an investment decision, hopefully, in Q2 and Q3. And once we do make that decision, we will provide everyone with an update on exactly what the project looks like and what the expected returns are at that time.

We are continuing to sort of finalize engineering work, as I mentioned on the project, working with our partner at MX Holdings on that, but we're really far advanced on this one and excited about it. I think it's going to be a good project.

Just in terms of very high level spending profile and return profiles, we do think this will be an asset that we're able to secure some pretty attractive financing on, and then, of course, it is a joint venture, 51-49 with us on the small minority side.

And so, that will decrease the cash requirements from our side, and we think with the financing structures we're looking at, we shouldn't have much cash requirements to the project over the balance of 2024. So that's giving you a little bit of sense on the timing. We'll, of course, give more detail there going forward.

And then, in terms of return perspectives, we talked a little bit, without getting into specifics, because we haven't finalized engineering work on the project, but we've talked a little bit about our return requirements in the past when we were talking about the Iceland casthouse, and just

remember there, we said we were looking for unlevered IRRs in the mid-teens. And so that gives you some sense of how we look at these projects going forward.

And then, finally, just one other consideration that we really like about this business, and it's complementary to the rest of our business, is the secondary business is really LME independent, because you're purchasing scrap at a discount to LME in the marketplace, and then converting it and selling it at LME prices to your customer base. So it really becomes a processing and margin business, which will be independent from the rest of our business, which is LME exposed.

Lucas Pipes

Very helpful. Thank you for that. And just to follow up on the financing, should it -- should I expect the vast majority of the capital project-level loan of either secured or unsecured?

Jesse Gary

Yes, we do expect that this will be project-level financing.

Lucas Pipes

All right. I have more questions, but really appreciate all the colors so far, and I'll turn it over. Thank you, and best of luck.

Jesse Gary

Thanks, Lucas.

Operator

The next question comes from Katja Jancic of BMO Capital Markets. Your line is now open. Please go ahead.

Katja Jancic

Hi, thank you for taking my questions. On the green aluminum smelter, can you talk a bit about how much you think this smelter would cost in total?

Jesse Gary

I got you, thanks. Yes, as I said on the call, we're really excited about the green smelter. This has been -- for someone who's worked in the U.S. industry for over 15 years, it's really rewarding to be talking about growth. And when you look at the overall supply situation in the U.S., just over 4 million tonnes short, it's very clear that something like this is needed. And I think the grant that we got from DOE is really recognition that that's recognized all the way up to the national and federal level. The importance of aluminum is a critical mineral to the supply chain.

In terms of process going forward for the smelter, and to your question specifically, Katja, we

are focused on the process ahead of us. As I mentioned on the call, a portion of that in the near term will be site selection and also securing the energy contract. We're pretty far advanced on that front, so we expect to make good progress there. And then, as a part of that is really finishing the second phase of the engineering work for the project. And that will take several months to complete.

Coming out of that engineering work, we'll have a much better sense and narrow down on what the total capital costs for the projects will be. And hopefully, at that time, we'll be able to give you a little bit better sense. But at the moment, we're really just focused on the process of moving the project forward.

We're really excited about the project. We think it's going to have very attractive returns. And obviously, we find ourselves in the environment with the DOE grant, with the 45X benefits, with the shortness of the U.S. market and the corresponding premiums that we're able to recognize in the U.S. And this real opportunity to put a cutting-edge facility here in the U.S. close to our customer bases with the flexibility that we offer to them from our existing cash house of value-added products close to them, we think it's a really attractive opportunity for us.

Katja Jancic

That’s fair. But is it fair to say that it would be a multi-billion dollar project?

Jesse Gary

Yes, it will absolutely be in that range, Katja.

Katja Jancic

And maybe then on -- and I know this is very early, but would you look to potentially even partner with someone on building this project? Would that be a possibility?

Jesse Gary

Yes. We're looking at a variety of different financing alternatives. As I said, we're pretty confident with all of those items that it will be an attractive opportunity. So we think if we did want to bring in a partner, we think that would definitely be something that would be attractive to them. But it's a little too early to talk about exactly what the financing structure would look like.

Katja Jancic

Okay. If I may, one more on Jamalco. What is the utilization rate the facility’s currently operating?

Jesse Gary

So, we're right around that 1.2 million tons of annualized volume that we originally mentioned. And what we've been focusing on and what sort of drove some of the improvements in the return to profitability in March was really the stability of the operations coming out of some of

those disruptions that we had in Q4.

Really proud of the guys and gals for pushing through and reaching that stability again and returning the plant to profitability. And we're excited about what it means going forward.

Katja Jancic

Okay. Thank you.

Jesse Gary

Thank you. The next question comes from the line of Timna Tanners of Wolfe Research. Your line is now open. Please go ahead.

Timna Tanners

Yes. Hey, good morning. I wanted to ask a bit more -- follow-up on those topics. So, on Jamalco, I just wanted to be clear, sorry if I missed it, is the equipment outage resolved and you should be at a more normalized run rate in Q2? Are there lingering issues? Where does that stand?

Jesse Gary

Yes. You're right on, Timna. The equipment issue is resolved. We should be at that normalized run rate in Q2. And we do expect that the refinery will continue to be profitable over the second quarter.

Timna Tanners

Okay. Great. Thank you. So this is -- you guys are busier than ever. I can't recall a time that I've covered you with quite so many projects in play. You've got the new smelter, the Iceland casthouse. I mean, it's quite a bit. And I'm just trying to understand high level. You're deciding to look into a new smelter and add a capacity also through the new casthouse. But you also have capacity offline at Hawesville and at Mount Holly.

So, first off, where do you see all the additional aluminum going? Is it taking share from imports, I assume? Or is there a -- really, I mean, if you're doubling capacity through the new smelter and also adding capacity, like what's the vision there? And also how do you balance the alternatives between restarting existing capacity and looking to add new capacity, and then the primary versus secondary smelters? Just want some more of your thoughts there, please.

Jesse Gary

Yes, sure. Really good question, Timna. And first, I would just like to say one of the -- I agree with you, we're just about as busy as we've been. A lot of that is driven by our excitement and our views of aluminum demand going forward from here.

You see global inventories at post-financial crisis lows and LME stocks themselves lower than we've seen since even before the financial crisis. And we start to see improving demand both

in the U.S. and Europe, and very strong demand out of China. So we are really excited about the future of the aluminum industry. We think we're the right metal to meet a lot of the macro trends we spent a lot of time talking about. And that's really what's driving all of this work from our part because we think there are opportunities out there for us.

And secondly, I'd like to also just give a little bit of recognition to our operations team. We are as busy as ever on the project front, but it's because -- one of the reasons we're able to do that is because the operations have been more stable for longer than we've seen in a long time. And real credit goes to our operating team for achieving that. And we're frankly have been volatile macro environments, but they've kept their nose to the ground and we've really done a good job there.

Okay. So, then to your question, Timna, we do have a lot of projects in front of us. We do think there's a lot of opportunities in the U.S. to fill that 4.1 million tonne short position with U.S. production, and indeed that would -- our design would be to replace imports and take that share. As I said, you will get growth on the demand side, but with volumes like we're talking about with the new smelter, plus the secondary casthouse, plus potential for Mount Holly restart, for instance, there is a lot of ability to come in and start to fill some of that gap.

And we think, when you look at the global trends, as I talked about on the call, between 232, between Russian sanctions, between Mexican tariffs, a lot of the work that's going on in the EU, what's very clear globally is that people are focused on secure supply chains. And because of our operational footprint, we're better situated to offer that to our customers than really anybody else. And we want to execute on that and continue to offer that to our customers.

So we think all of these are viable, and we're looking at all of these. We're continuing to progress the Mount Holly restart. As I said on the call, we're doing the work up front to make sure that we can execute once we're ready to go, but all of the -- we're indeed looking at all of those projects to know.

Timna Tanners

Okay. So that was helpful with regard to how you're thinking about the aluminum market and the obviously vast amount of capacity additions that you're looking at, but if you could talk a little bit about why build a new smelter. You note that there hasn't been one built primary smelter in over 40 years. There's probably a reason for that. Maybe this is a unique opportunity because of the barriers you mentioned, the sanctions and 232 tariffs, et cetera, but why not focus more on secondary as a green alternative, and why build versus restart existing?

Jesse Gary

Yes. It's a good point, Timna. So as you mentioned in your call, there has not been a new smelter built in the U.S., since Mount Holly was built in 1980. And as you might imagine, there's been a lot of advancement on the efficiency side over that time period. So we're ready to build and produce for the long term here in the U.S.

We think those existing sites are viable, but with the new smelter, we'll be able to create a cost footprint that should be first quartile globally. And that's really a game changer for us. And you're right, putting together some of the near shoring trends, the DOE grant, the 45X tax

credits, we think there's a real opportunity right now to engage in that, and that's really why we're looking at that.

Maybe the secondarily versus secondary -- looking at primary versus secondary growth, we think there will be growth in both. There are many applications that do require primary, and so we think that's a good driver here for the primary smelter, and then there's also demand growth and additional calls for secondary aluminum and its recycled nature and green credentials. So we think being able to offer our customers both of those things at home here in the U.S. is a really nice initiative and a nice suite of products that will be helpful when we're making sales for our customers.

Timna Tanners

Okay. I'll leave it there. Thanks again.

Jesse Gary

Thanks, Timna.

Operator

Your final question comes from the line of John Tumazos, of John Tumazos Independent Research. Your line is now open. Please go ahead.

John Tumazos

Hey, Jesse. Could you give us a little primer in pot linings 101? Does the $10 million do the whole thing in the second quarter, or will it continue into the third and fourth quarters? When you reline the pots, do you reline them one month before you expect them to fail or one year before you expect them to fail? And was there a productivity loss in the first quarter delaying the potline reline where the pots had failed or some output that you lost?

Jesse Gary

Hey, John.

Jesse Gary

Sure, John, happy to do it and really just to talk about this generally. So, as we discussed, we did have a bit of an energy curtailment from one of our suppliers in Iceland in Q1 and falling into Q2. And what you do when you get an energy curtailment like that is you generally will take a small portion of your pots offline equal to basically to reduce your energy consumption. And so that's what happened in Q1.

And as you might imagine, when we choose which pots to take offline, we take the ones that would be due for relining during that quarter anyway. So, in Q1, you get a bit of a deferral because you're not relining pots because you've taken them out to meet the energy curtailment. And then, as we get ready in Q2 to put those pots back online, you will reline both the pots you would have relined in Q1 and the pots you are planning to reline in Q2, which is what really

drives that $10 million headwind that you see there.

So that'll be a one-time thing in Q2, will not repeat, and we'll go back to our normal pot relining process going forward.

John Tumazos

Are there any other expenses that might have been delayed, where you'd have a little breathing room now with the metal price rising? For example, is Peter and Ryan or all the engineers working on these projects due for a 10% raise? Are there other cost catch-ups now that things are moving in the right direction?

Jesse Gary

Not really, John. As we look -- go through the cycles, we do try to maintain and run our sustaining CapEx programs on a steady basis. One thing you learn being in this business over long periods of time is while the market is cyclical, you really want to keep these plants operating as stable as possible through the cycles. And so we try not to defer large amounts of that sustaining CapEx over time. So not a whole lot of items that I can think that would fall into that category, it should be pretty clean going forward in that perspective.

John Tumazos

I want to compliment you on working so hard with the secondary aluminum expansions in the greenfield smelter. The market needs it, and it's great that you guys burn midnight oil and do all these things.

Jesse Gary

Thanks, John. We really appreciate that.

Operator

As there are no additional questions awaiting at this time, I'd like to hand the conference call back over to Jesse Gary for closing remarks.

Jesse Gary

Thanks, everyone, for joining the call today. Just before I end the call, I would just like to take a little bit of time to talk about the recent run-up in LME prices, and as Jerry mentioned, how those will impact our outlook going forward.

So, as Jerry mentioned, if you just adjusted -- well maybe first to start, if people will remember, we do have lags with our customers and it's how LME runs through our results and also how regional premiums run through our results.

So, when you look at that for our U.S. volumes, we've got a one-month lag for 50% of the volumes and a three-month lag for 50% of the volumes and Iceland primarily runs on a three-month lag. So you do get a little bit of a delay of the benefit of rising LME running through our

results. Similar on the premiums, you have a one-month lag on Midwest premium and you've got a three-month lag on the European premium. And you can see all these lags on our financial information that's on Slide 20 of the slides.

And so as Jerry mentioned, if you did just assume for a second that those lags didn't exist and instead looked at the second quarter outlook with spot LMEs, you get a much higher estimated result of somewhere between $75 million to $85 million, and that's before additional upside opportunities that we have.

So, for instance, EDVP, if you look at where that is today versus where it is in our Q2 results, it's about $50 higher. And if you look at regional U.S. Midwest premiums, if you look at the forwards, those are trading $0.04 to $0.05 higher from what they were in Q2.

So both of those represent additional upside for our business. And we continue to see and expect that the value-added market will continue to improve over the course of 2024 as well and certainly into our 2025 contracting season for both the Grundartangi casthouse but also the existing U.S. casthouse.

And then finally, we continue to wait on 45X for the updated guidance, but if we do get the broader interpretation of eligible costs there, that would be additional upside to the guide that you see in Q2.

So we're really excited about the business. We think there's a lot of opportunities and we think the business will perform really well and help us produce great results and also as we look to look to execute on these expansion projects.
I do see Lucas has one more question, so happy to take that.

Operator

Thank you. I'll open Lucas' line now. So this question comes from Lucas Pipes of B. Riley.

Lucas Pipes

Thank you so much for taking my follow-up question. Sorry, I was a little late there in getting back in the queue. And Jesse, your comments just now, they're actually answering some of my follow-up questions. So I really, really appreciate all those remarks.

One of the ones I wanted to touch on was just how you think about the balance sheet. In the release, you flag it as a priority to reduce debt. Your shares have traded much better. How do you think about kind of your cost of equity, cost of debt, optimizing the balance sheet in this environment? Thank you very much.

Jesse Gary

Thanks, Lucas. Just very simply there, that's really not something that we're considering at this time. We think there will be plenty of cash flow in order to allocate towards reducing that debt. And so that would be our plan on that.

We're really prioritizing the cash flow we expect for this business, which as I just went through.

We think there's huge opportunity for significant cash flows over the course of the next few quarters, and not really any need to go to the equity markets at this time.

Lucas Pipes

Very, very helpful. Thank you. And then just at the very end of your remarks, you commented on the additional opportunity around 45X, and there was a lot of detail that you provided as to your earnings power in this environment. Very helpful, as I said. Just going back to 45X, if you were to get the full benefit today, what would be the additional contribution? Would be great to have an update on that. Thank you.

Jesse Gary

Sure. And we went through this on the last call in some detail, and there's a slide on that, on Slide 26 in this investor deck. But you can see, if direct and indirect raw materials are included, that would be about an additional $50 million to $55 million uptick in our 2023 credit, and similar sort of uptick going forward for 2024.

Lucas Pipes

And again, this is kind of backwards looking as to that 2023 utilization rate. So, with full Mount Holly restart and maybe Hawesville coming back, we could scale that up proportionately.

Jesse Gary

Yes, absolutely. And obviously, the greenfield is some distance away, but that would also be eligible for the credit.

Lucas Pipes

Very good. Thanks again for taking my follow-up questions. Keep up all the good work.

Jesse Gary

Thanks, Lucas. Appreciate it.

Operator

There are no additional questions waiting. So Gary—Jesse, I'll hand the call back to you.

Jesse Gary

Thank you very much, everyone, for joining. We look forward to talking to you later this summer for our Q2 call.

Operator

Ladies and gentlemen, I'd like to thank you all for joining today's call. Have a great rest of your day. You may now disconnect.