CENTURY ALUMINUM COMPANY: 2nd Quarter 2024 Earnings Call

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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

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

PRESENTATION

Operator

Good Afternoon. Thank you for attending today's Century Aluminum Company Second Quarter 2024 Earnings Conference Call. My name is Forum and I will be your moderator for today's call. All lines will remain muted during the presentation portion of the call, with an opportunity for question and answer at the end. (Operator Instructions)

It is now my pleasure to pass the conference over to our host, Ryan Crawford with Century Aluminum. Mr. Crawford, you may proceed.

Ryan Crawford

Thank you, operator. Good afternoon, 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. I'll start the call today by reviewing our second quarter performance and providing some thoughts on the current market environment before turning it over to Jerry for the detailed financial results and then taking your questions.

Our team produced excellent results in the second quarter, with Adjusted EBITDA of $34MM. Jerry will give you the full details here, but we are really pleased with the continued strong operating performance across our plants.

Overall, improving aluminum prices, both at the LME and regional premium level drove increased profitability in the quarter and will continue to benefit our third quarter financial performance as the strong LME prices observed in the second quarter begin to roll through our lagged contractual pricing and financial results. We also reduced our outstanding debt by nearly $50MM in the quarter, driving strong liquidity of over $340MM.

Turning to slide 5, aluminum prices rose during the second quarter as stronger global demand, especially in China, drove both LME and regional premiums higher. Demand was strongest in areas relating to the green economy, especially in solar energy and other renewable and energy transmission applications. More recently, aluminum prices have retreated as broad macro concerns have weighed on markets.

Over the longer term, we are confident that global trends towards electrification and lightweighting will continue to drive increased demand for aluminum. When paired with inventory levels that remain near historic lows and little expected aluminum supply growth over the next several years, it is easy to see why aluminum markets remain in steep contango and we continue to believe our assets are well placed to benefit from short aluminum markets in the US and Europe.

Turning to alumina, the API rose significantly during the quarter, with Q2 prices averaging 19% higher than Q1 levels, and reaching over $500 per tonne in June. These prices reflect a continued tight market for alumina, as production issues in Australia and China led to a lack of available spot cargoes during the quarter and drove prices higher. Alumina prices have remained near their highs so far in the third quarter, as supply remains constrained.

Given this constrained alumina market, we were very pleased with Jamalco's strong operational performance during the second quarter. As previously noted, our Jamalco operations make us roughly net neutral to API pricing as a company, when combined with our long-term commercial contracts that are linked to the price of aluminum. Jamalco produced at its targeted 1.2MM tonnes per annum production rate in the second quarter.

Over the longer term, while we expect global alumina prices to largely follow aluminum prices, we suspect that alumina will continue to remain exposed to supply driven volatility as refineries without a dedicated source of bauxite remain exposed to the seaborne bauxite market and supply from difficult geopolitical locations. In addition, Chinese regulators announced earlier this year that Chinese alumina refineries would be subject to more stringent energy and emission efficiency standards. We believe these actions will act to constrain Chinese alumina production growth over the near to medium term.

Turning to the global trading environment, the US and EU governments each took additional actions towards near-shoring industrial and strategic mineral production during the quarter that will impact global aluminum flows and supply into our key markets in the US and Europe.

In May, I joined President Biden at the White House, where he announced an expansion of the Section 301 tariffs on billions of dollars of Chinese goods, including many aluminum products. Similarly, in June, the EU announced additional tariffs of up to 38% on Chinese electric vehicles.

In July, the US announced a new "smelted and cast" requirement that ensures that aluminum that was smelted and cast in Russia, China, and certain other countries cannot be transformed into downstream aluminum products in Mexico in order to avoid the 10% Section 232 duty.

Finally, as we anticipated on our last call, in May the U.S. Department of Commerce imposed significant antidumping duties on aluminum extrusions entering the US from 14 countries, including China, Mexico, Columbia and Vietnam. The duties, which went into effect immediately, have started to support domestic extrusion demand and, correspondingly, domestic billet demand.

As a reminder, we did hold back some second half billet volumes for spot sales this year in anticipation of improving US market conditions and a more constructive pricing environment. We have started to see some uptick here on the demand side and continue to expect this will be positive for US billet pricing over the balance of the year and into 2025.

These trade actions, especially when viewed together with the substantial trade measures already in place in the US and EU markets, including the Section 232 tariffs and the EU Carbon Border Adjustment Mechanism and other existing aluminum tariffs, show the significant value of Century's US and EU based production footprint. This allows us to provide short supply chains and better service to our customers, but to also benefit from better pricing environments in these markets.

Turning to operations, we saw strong and stable performance across our operating locations in the second quarter.

In Iceland, as expected, the previously announced 20MW energy curtailment was lifted during the second quarter and Grundartangi returned to full production by quarter-end. Our team did an excellent job restoring production quickly and efficiently once the power curtailment ended. As we have seen at many smelters around the world, restoring production following a curtailment is not easy and I'd like to congratulate the Grundartangi team on a job well done. We expect normal production levels from Grundartangi in Q3.

At the Grundartangi casthouse, we continue to produce trials and to qualify our new Natur-Al green billets with our key customers over Q2 and Q3. We remain very excited to begin supplying this much needed Natur-Al low-carbon billet into the European market.

In the US, energy prices continued to be constructive, driven by natural gas prices near $2 dollars. Operations at Sebree and Mt. Holly remained stable, which is a testament to our operating teams during these very hot summer months.

At Jamalco, as previously announced, we were unfortunately impacted by Hurricane Beryl, when the Category 4 storm made landfall near our port facilities at Rocky Point in Clarendon Parish in early July. The hurricane brought heavy storm surge, significant rain and high winds to both our operations and surrounding communities and we are working with local officials in Clarendon and other parishes to assist those in need.

While we were fortunate to not suffer any significant injuries or damage to the refinery operations, we did temporarily curtail operations at the refinery as part of our standard hurricane preparation procedures. The Jamalco team did a remarkable job restoring operations once the storm had passed and the refinery has returned to full production levels.

In addition, while Jamalco's production facilities escaped significant damage, the port facility was impacted by the storm, where a portion of the alumina conveyor was damaged and is undergoing repair. While those repairs are being completed, Jamalco has secured alternative port arrangements to ensure continued alumina shipments to its customers.

Finally, we made good progress on our growth projects during the second quarter. While we don't have any significant updates at this time, we continue to work diligently on evaluating each and would expect to be able to provide further update on our Third Quarter call.

Jerry will now walk you through the quarter and our Q3 outlook.

Gerald "Jerry" Bialek

Thank you, Jesse. Let's turn to slide 7 to review second quarter results. On a consolidated basis, second quarter global shipments were approximately 168,000 tonnes, slightly lower than last quarter due to typical timing fluctuations. Realized prices increased versus prior quarter, driven by higher metal prices and regional delivery premiums, resulting in net sales of $561 million, a 15 percent increase sequentially.

Looking at Q2 operating results, adjusted EBITDA attributable to Century was $34 million. This was a sequential increase of $9 million, mainly driven by higher realized metal prices and regional premiums.

Adjusted net income was $1 million or $0.01 per share. The main adjusting items were add-backs of $4 million for share-based compensation and $2 million for the unrealized impact of forward contracts, partially offset by a $2 million deduction for lower of cost or net realizable value on inventory.

We improved liquidity to $343 million by the end of the quarter. This is the strongest liquidity position in nearly a decade and consists of $41 million in cash and $302 million available on our credit facilities.

Turning to slide 8 to explain second quarter sequential improvement in adjusted EBITDA. In total, adjusted EBITDA for the second quarter was $34 million. Realized LME of $2,288 per tonne was up $98 versus prior quarter, while realized US Midwest Premium of $416 per tonne was up $7 and European Delivery Premium of $284 per tonne was up $61. Together, higher metal prices and regional premiums contributed

an incremental $22 million compared with the prior quarter. Aluminum production costs were mixed as higher LME market prices increased power costs for our Iceland smelter by $4 million. As a reminder, the power expense for our Iceland smelter is mostly linked to LME prices. Realized coke prices decreased $31 per tonne and realized pitch prices decreased $35 per tonne. Together, other raw material prices improved by $3 million, helping offset the power headwind.

The lower shipment volume was a $7 million headwind to adjusted EBITDA. The decreased volume was due to normal fluctuations in shipment timing. We expect these shipments in Q3 and therefore, no change to our full year volume expectations. As discussed last quarter, we completed the deferred pot relining activities related to the Iceland power curtailment. These activities drove an incremental $5 million of expense in Q2 that will not repeat. With that, let's turn to slide 9 for a look at cash flow.

We began the quarter with $93 million in cash. Adjusted EBITDA contributed $34 million. Capital expenditures totaled $16 million, $11 million of which relates to the completion of the Grundartangi Casthouse project. We reduced short-term borrowings on our revolving credit facilities, with both our US and Iceland revolvers paid down to zero balance at quarter end and experienced normal working capital flows. At end of quarter 2, we had $41 million in cash.

Let's turn to slide 10 and I'll give you some insight into our expectations for the third quarter. For Q3, the lagged LME of $2,440 per tonne is expected to be up about $153 versus Q2 realized prices. The Q3 lagged US Midwest Premium is forecast to be $425 per tonne, up $10. The European delivery premium is expected at $320 per tonne, or up about $35 per tonne versus the second quarter. Taken together, the LME, and delivery premium changes are expected to increase Q3 EBITDA by approximately $30 to $40 million versus Q2 levels.

We expect power prices to be a $5 million headwind. Collectively, we expect our key raw materials to be about flat. The previously discussed timing of shipment volume will be a quarter over quarter tailwind of approximately $10 million. Finally, we expect a headwind of about $5 million related to summer seasonality and administrative expenses as we continue to progress on our growth projects. All factors considered, our outlook for Q3 adjusted EBITDA is expected to be in a range of between $65 to $75 million. The financial impact of hurricane Beryl will be adjusted in results and is reflected as such in our Q3 outlook.

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) Our first question comes from the line of Lucas Pipes with B. Riley Securities. Lucas, your line is now open.

Lucas Pipes

Thank you very much, operator. Good afternoon, everyone. Jesse, I wanted to get your perspective on the power markets. There's been a lot of excitement out there on the need for power in AI. We saw a very constructive PJM auction last week. You are long power at Hawesville with about 500 megawatts and so I wondered about how you think about the optionality around that power infrastructure today and if there has been any interest from third parties. Thank you very much.

Jesse Gary

Yeah, hi Lucas. Thanks for the question. Obviously, as you know, we're constantly looking at the power markets, both here in the US and Europe and really around the world, watching for trends and what's going on out there and obviously, we are aware of a lot of the storyline around the AI build out and really quite substantial estimates of energy required to power all of that. With our own assets, of course, we're always looking at all alternatives, and especially with our curtailed assets in order to figure out how we maximize value. And so I guess what I would just say with Hawesville is we continue to think it's a great option on higher aluminum prices in the future but in the end, we'll maximize value of that asset, and whatever form that may come in is what we'll pursue.

Lucas Pipes

Jesse, I appreciate that color. That's helpful. Thank you. I'll follow up on 45X. It's been pretty quiet in terms of incremental guidance from treasury. One, have you, any update from your side, anything that you might be able to share at this point in terms of a timeline for additional guidance? And then two, there has been increased attention to the new smelter development. And are you able to move forward with that development in the absence of kind of full clarification from treasury on what is going to be included in 45X? Thank you very much.

Jesse Gary

Sure. Thanks, Lucas. Yeah. As you might imagine, we continue to engage with the administration on 45X in many of the same ways that we talked about on previous calls. You know, we think both the timing of the ultimate final regulations as well as the inclusion of raw materials, and the ultimate calculations are very important for the US industry. And so we continue to have those discussions. I don't really have an updated timeline for you at this time, but I would just say we continue to be very engaged and we're very thankful from the administration for their continued engagement on this matter. I think everyone recognizes the importance of the aluminum industry in the United States and is moving forward with that in mind.

Lucas Pipes

All right, well, we'll stay tuned. Jesse, I'll try to squeeze one last one in with the Mount Holly restart of the last 25%. Can you speak a little bit to the margin profile of those incremental volumes will those be kind of above, below, in line with your current EBITDA margin profile? Thank you very much.

Jesse Gary

Sure. Good question, Lucas. And as I mentioned in my prepared remarks, we continue to do work on that project, and we continue to monitor macro conditions as well and put all of those things together in terms of looking at the timing of that restart.

But to your specific question on margins, as we probably talked about in the past, those last tonnes, those incremental tonnes out of smelter are always the most profitable tonnes as you continue to spread what are really compared to other industry, pretty large fixed costs over those incremental tonnes and get the benefit from that from a margin perspective. So as I said in the past, it's really a project we would like to do, and it's one that we continue to get ready for. And when the time is right, we remain confident in our ability to execute that.

Lucas Pipes

Jesse, I appreciate the color. I'll turn it over for now. All the best of luck.

Jesse Gary

Thanks a lot, Lucas.

Operator

Thank you for your question. Our next question comes from the line of Katja Jancic with BMO. Katja, your line is now open.

Katja Jancic

Hi, thank you for taking my questions. Maybe starting on Jamalco, there were some reports that the refinery declared force majeure. Can you talk a bit more if that is correct and why would that be if the volumes or the shipments are normal?

Jesse Gary

Yeah, that is correct, Katja. And of course, you declare force majeure for a variety of reasons. As we said, our main port of export, which is Rocky Point, is out of commission right now and we are running through an alternative port right now. And so the force majeure really related to that setup going forward. But as I said, the plant is back to full production and we continue to have those alternative port solutions in place and to export alumina off the island.

Katja Jancic

The shipments are going as normal right now.

Jesse Gary

Yeah, we don't expect a material impact to our results or to Jamalco's results going forward. You can't say they're exactly as normal when they're running out of an alternative port, but we're continuing to make exports from the island.

Katja Jancic

Okay. And then maybe on to, as a follow up to Lucas' question about Hawesville, have you look at, you know, there's obviously, there's a lot of questions about the power, and have you looked at if that would be an option from a perspective, would the utility or your agreement with the utility allow that?

Jesse Gary

Yeah. As you might recall, Katja, both Kentucky plants have fairly unique energy arrangements where through a variety of contractual arrangements, we have access to what is essentially the wholesale markets in Miso. And so that's been a very advantageous, advantageous arrangement for us, and it's provided us with a lot of flexibility over time. And so as we look at both the future of Hawesville from a variety of perspectives, we continue to think that flexibility will be advantageous for us no matter what the outcome ultimately is.

Katja Jancic

Okay, thank you very much.

Jesse Gary

Thanks, Katja.

Operator

Thank you for your question. Our next question comes from the line of Timna Tanners with Wolfe Research. Timna, now, your line is now open.

Timna Tanners

Yeah. Thank you and good afternoon. Why don't you ask a little bit more about the situation at Jamalco? Is it entirely benign, like, doesn't have impact on Q3? And is there any insurance collectibles on an issue like this, or just wondering a little more color?

Jesse Gary

Sure. Yeah. I mean, we were definitely impacted, right? That's what we said in the press release, and that's what we've said on the phone call. As we said, a portion of the alumina conveyor port was blown away. At the plant itself, we really haven't had any impact other than sort of taking the plant down as part of our hurricane preparations and then bringing it back up. But like I said, we're back at full production today. So while we, of course, would have preferred that the hurricane skirted the island to the south more than it did, I think the team has really done a good job making it work while we get the repairs done at our port at Rocky Point and sort of making these alternative shipping arrangements work. You know, there is, of course, some impact. You know, we lost some volume while we took the plant down for a few days and while we brought it back up, but it's really not material overall to our financial results.

Timna Tanners

Okay, thank you for that. Back to Mount Holly, is it fair to say that if we're here past the middle of the year and you're still mulling over that probably wouldn't see a restart imminently or can you give us a little bit more color about what you're looking for to make that decision?

Jesse Gary

Yeah. So, as with any restart anywhere in the world, we look at a variety of factors, whether the market is calling for that volume at the time, what the return profile is on the CapEx that would go in to enable the restart, what global aluminum prices are, what the Midwest premium is, what value-added premiums are. And so it's really multivariable analysis, and what we've been focused on is just bringing down the time to restart once we do make that decision. And so, as I talked about in previous calls, shortening supply chains for things we need, making sure we have the materials, making sure we can get the people, making sure we have the energy, all of those things that we've been working on over the past few months, and then when the time is right, you know, we'll be ready to act. But I think as I said on the last call, kind of no matter what the decision is, I don't think you'll see a lot of CapEx requirements from us on that project in 2024.

Timna Tanners

Got it. Thanks. And if I could just one high-level question. I'm just curious what you're thinking about the broader aluminum, aluminum markets. I know you had some prepared remarks on this, but it's been really baffling to see aluminum go up and straight back down alumina continue to march forward. And it's great thing that you have the Jamalco as a hedge now, but I mean, how sustainable is this or what have we seen in the past about how long this lasts? If I recall, it's not usually that long, but just wondering if there could be any action to see a change in the dynamic here that's so unusual.

Jesse Gary

Yeah, it's a good point. We haven't seen this relatively high alumina price to aluminum price, which is somewhere in the mid-20 % today, on what we call an LME percentage basis. And so we do think that should be supportive to the aluminum price from here. And the shortages in the aluminum market are quite real today. It is quite tight out there, and that's really what's been

driving up the price and that's for some structural reasons. We've seen shutdowns in Australia, we've seen increasing regulation of alumina production in China and so the market is relatively tight for alumina, and over time, I said, we're in the mid-20% now. The relationship of alumina to aluminum traditionally, that's more in the mid-teens. So it really is quite a high relationship and really should be supportive of the aluminum price from here.

Timna Tanners

Okay, that's it for me. Thanks for the thoughts.

Jesse Gary

Great. Thanks, Timna.

Operator

Thank you for your question. At this time, there are no additional questions registered at this time. So, I will pass back for any closing remarks. Thank you.

Jesse Gary

Thanks, everybody, for joining the call.

Operator

This concludes Century Aluminum Company's second quarter 2024 earnings conference call. Thank you for your participation. You may now disconnect your line.