

CENTURY ALUMINUM COMPANY: 3rd Quarter 2024 Earnings Call

November 4, 2024/4:00 p.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

PRESENTATION

Operator

Hello, everyone. Thank you for attending today's Century Aluminum Company Third Quarter 2024 Earnings Conference Call. My name is Sierra, and I'll be your moderator for today. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end. (Operator Instructions)

I would now like to pass the conference over to Ryan Crawford.

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.

Before we get started, we are very sad to report a safety incident that resulted in a fatality at our Mt. Holly smelter. The loss of a team member is devastating to all of us at Century, and it is especially painful given our collective commitment and focus on safety. Our late colleague's family will remain firmly in our thoughts and prayers.

This event reinforces the need for us to critically examine how we operate and conduct ourselves and commit to making needed improvements without condition. It will require dedication and leadership from every part of our organization and a personal commitment from each and every one of us.

Okay, I'll start the call today by reviewing the strong current aluminum and alumina market conditions before turning to our excellent third quarter performance. I'll also discuss the additional benefits we will receive under the new Section 45X guidance before Jerry takes you through the detailed financial results. I'll then wrap up and open the call for questions.

Century produced excellent results in the third quarter, generating Adjusted EBITDA of \$104MM, which includes the impact of the updated 45X guidance. Overall, improving realized aluminum prices, both at the LME and regional premium level, and falling carbon prices, drove increased profitability in the quarter and will continue to benefit our fourth quarter performance. As a reminder, LME prices roll through our results on a three-month lagged basis, so the benefit from recent spot prices above \$2600 per tonne will not positively impact our financial results until Q1 of next year.

Turning to slide 4, global aluminum prices were largely rangebound during the third quarter before Western central bank actions and Chinese stimulus drove both LME and regional premiums higher. In late September, China announced a number of monetary and fiscal stimulus programs that drove an immediate improvement in global aluminum prices, which rose to average \$2600 per tonne in October.

Turning to slide 5, global demand has already been at record levels in 2024, driven by strong global trends towards electrification and lightweighting. Overall, we estimate that 2024 global demand growth of 3% will accelerate further in 2025 as western markets begin to improve on the backs of central bank action, and Chinese demand growth continues to accelerate as stimulus programs and funds are disbursed.

Meanwhile, aluminum supply remains challenged, with China approaching its 45 million tonne production cap, and limited announced new projects outside of China. We believe demand growth will continue to outpace supply in 2025 and for years to come, moving the market back into deficit. With inventories already near multiyear lows, these supply deficits should continue to create a favorable aluminum price environment in the coming years.

Turning to the bauxite and alumina markets, the spot Atlantic alumina price today stands at \$715 per tonne, an all-time record. Alumina prices continued their upward march in Q3 and into Q4 as a number of market disruptions paired with low alumina inventory levels globally have created a very tight market. There have been a number of supply disruptions this year in

Australia, from the Kwinana refinery curtailment to force majeure events and regulatory issues in bauxite permitting at a number of other Australian refineries. We have also seen refinery disruptions in India, driven by both regulatory and operational challenges.

On the bauxite side, China has become increasingly reliant on the seaborne bauxite market given a 16% decrease in year to date Chinese bauxite production following continued declines in domestic ore quality and increased safety and environmental inspections from regulators.

Both the bauxite and alumina markets have recently been impacted further by supply disruptions out of Guinea, where one of the largest exporters announced a halt to bauxite shipments earlier this month following export permitting issues. To our knowledge, this issue remains unresolved and highlights how sensitive the bauxite and alumina markets remain to geopolitics, with Guinea alone accounting for roughly 30% of global bauxite production and around 70% of Chinese imports.

Just as a reminder, Century no longer has exposure to spot alumina prices following the acquisition of our controlling interest in Jamalco, with all of our smelter alumina requirements sourced directly from Jamalco or under long-term LME linked supply contracts. Needless to say, we are very happy to have Jamalco in our asset portfolio in markets like this.

Turning to page 6, you can see that in the US and Jamaica, our major raw material price inputs continued to be constructive. Natural gas storage levels remain well situated heading into the winter season, with inventories significantly above last year and near 5-year highs, leaving the forward curve well below \$3 throughout the coming winter months. Gas prices at these levels should be supportive for continued low Indy Hub energy prices well into next year.

Turning to operations, we saw strong performance across our smelters in the third quarter. Operations at Sebree and Mt. Holly remained stable in Q3, which is a testament to our operating teams during these very hot end of summer months.

With respect to our Hawesville facility, we have received a number of significant third-party inquiries regarding potential redevelopment of the site. The site has several unique attributes, including its energy infrastructure, that make it attractive for potential acquirors, including, among others, its potential for AI data center development. While we still believe the site has significant value as an option for restart in higher aluminum price environments, we have engaged financial advisors and launched a formal process to evaluate strategic alternatives and potential value to help us in our overall evaluation of the site. We will keep you updated on progress here.

In Iceland, low rainfall and snowmelt over the summer months have left reservoirs below normal levels and led power suppliers to announce curtailments, including Grundartangi, through May of 2025. We currently expect these curtailments will reduce our power consumption by about 30MW in Q4. Volume at Grundartangi should be flat in Q4 vs Q3 as these curtailments were implemented in the third quarter. The financial impact of the curtailment is included in our outlook on page 11 and our updated full-year volume guidance is in the appendix of this presentation.

At Jamalco, the refinery has fully recovered from the impact of Hurricane Beryl in early July. The team did an excellent job quickly restoring the plant to normal production levels and completing required repairs on the port facilities, which returned to normal service in mid-September.

I would like to congratulate the Jamalco team for their exceptional management through the hurricane and its aftermath. Completing the port repairs quickly, safely and without injury is really quite an achievement.

Turning to page 7, late last month, the Department of the Treasury published final regulations implementing Section 45X of the Inflation Reduction Act, which provided additional clarity on the eligibility of certain of our costs for the 10% production tax credit.

We were pleased that the final rules added certain direct and indirect materials as eligible costs for the production tax credit, as we and others had requested in our comments. For aluminum production, the most significant costs that are now eligible are coke, pitch and other operating supplies. From these newly eligible categories, we realized an additional benefit of \$22MM in 2023 and \$13MM YTD in 2024. Jerry will walk you through the details in a moment.

The final regulations left open the question as to whether alumina will be an eligible production cost, reserving this question for further consideration with updated guidance to be published at a later time.

We will continue to work with the Treasury Department regarding inclusion of alumina as an eligible cost for 45X, as there is strong justification that alumina should ultimately be eligible for the tax credit. If alumina is included, that would increase our 45X credit by about \$30 million annually.

Jerry will now walk you through the details on 45X, the quarter and our Q4 outlook.

Gerald “Jerry” Bialek

Thank you, Jesse. Let's turn to slide 8 to review third quarter results. On a consolidated basis, third quarter global shipments were approximately 169,000 tonnes, slightly higher than last quarter. Net sales for the quarter were \$539 million, a decrease of \$22 million sequentially. This was driven by lower third-party alumina sales due to the port repairs at Jamalco, partially offset by higher realized metal prices and regional delivery premiums.

Looking at Q3 operating results, adjusted EBITDA attributable to Century was \$104 million. The \$70 million sequential increase in adjusted EBITDA was driven by additional 45X tax credits, higher realized prices, and lower raw material costs.

Adjusted net income was \$60 million or \$0.63 per share. The main adjusting items were add-backs of \$7 million for Hurricane Beryl related costs at Jamalco that we told you about last call, \$3 million for share-based compensation and \$2 million for the unrealized impact of forward derivative contracts.

Liquidity was \$279 million to end the third quarter. This consisted of \$33 million in cash and \$246 million available on our credit facilities. Our liquidity position remains within our target range but decreased last quarter primarily due to inventory builds at Jamalco and the timing of alumina shipments while port repairs were being completed. We expect those to reverse in Q4 as a full quarter of normal shipments out of the Jamalco port will return inventory to target levels, increasing liquidity.

Turning to slide 9 to explain third quarter sequential improvement in adjusted EBITDA. In total, adjusted EBITDA for the third quarter was \$104 million. Realized LME of \$2,451 per tonne was up \$163 versus prior quarter, while realized US Midwest Premium of \$421 per tonne was up \$5 and European Delivery Premium of \$335 per tonne was up \$52. Together, higher metal prices and regional premiums contributed an incremental \$31 million compared with the prior quarter.

We also realized favorable raw material costs adding \$7 million of EBITDA. The favorable market prices and raw material costs were partially offset with slightly higher power prices, a headwind of \$3 million.

The new 45X rules from the Treasury Department addressing carbon and other operating supplies result in an additional \$22 million credit for the full-year 2023 and an additional \$13 million credit for the 2024 year-to-date. These tax credit amounts are additive to the 45X tax credit that has already been recorded each quarter since the original guidance was released in December 2023. In total, this brought our Q3 adjusted EBITDA to \$104 million. With that, let's turn to slide 10 for a look at cash flow.

We began the quarter with \$41 million in cash. Adjusted EBITDA contributed \$104 million. Capital expenditures totaled \$23 million, which was largely driven by cash outlays for the completed Jamalco port repairs following Hurricane Beryl. Hurricane Beryl also impacted working capital during the quarter, causing a delay in alumina shipments from our Jamalco refinery that will correct in the fourth quarter. Finally, the total 45X tax credit booked in the quarter increased the tax credit receivable on our balance sheet until the direct cash payments are received. Through September 30, we have a 45X receivable of \$133 million awaiting payment from the US government. At the end of quarter 3, we had \$33 million in cash.

Let's turn to slide 11 and for insights into our expectations for the fourth quarter. For Q4, the lagged LME of \$2,430 per tonne is expected to be down about \$20 versus Q3 realized prices. The Q4 lagged US Midwest Premium is forecast to be \$425 per tonne, up \$5. The European delivery premium is expected at \$340 per tonne, or up about \$5 per tonne versus the third quarter. Taken together, the lagged LME, and delivery premium changes are expected to have a zero to \$5 million decrease to Q4 EBITDA compared with Q3 levels.

We expect power prices to remain constructive and to have a zero to \$5 million EBITDA increase in Q4. Collectively, we expect our other key raw materials to be about flat. Volume, operating expenses, and other administrative costs will be similar to last quarter. All factors considered, our outlook for Q4 adjusted EBITDA is expected to be in a range between \$70 to \$80 million. As Jesse mentioned before,

current spot aluminum prices above \$2,600 will not begin to positively impact our financial results until Q1 2025.

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

Jesse Gary

Thanks Jerry. Before we turn the call over to questions, I want to spend a little bit more time on Section 45X and our Jamalco acquisition, which together with the operational improvements our team has driven over the past several years, serve to increase the stability in Century's businesses and earnings power.

With the inclusion of carbon and other operating supplies as eligible costs for the production tax credit, we now expect our total full year 2023 45X benefit to be \$79MM and estimate our total full year 2024 45X benefit to be \$73MM. If alumina is also ultimately included as eligible, we would expect each of those amounts to increase by another \$30MM or so, to total over \$100 million in benefit on an annualized basis.

Please note, these production tax credits for critical minerals do not phase out over time and would be increased pro rata by any additional production that we may bring online in the U.S.

The effect of these credits is to significantly increase the quality and competitiveness of Century's businesses. When paired with our world-class workforce, our privileged positions in very undersupplied US and EU markets, as well as a globally competitive captive supply of alumina from Jamalco, you can see the quality of the earnings power of the business that we have been working towards for quite some time now. We are really proud of what the team has created here at Century and believe this is a business that can now perform very well through the cycles.

We look forward to your questions today and will turn the call over now to the operator.

Questions and Answers

Operator

Thank you. We will now begin the Q&A session. (Operator Instructions) Our first question today comes from Lucas Pipes with B. Riley Securities. Your line is now open.

Lucas Pipes

Thank you very much, operator, and good afternoon, everyone. I have a fairly long list of questions. I'll try to keep them short. But first, Jesse, could you speak a little bit to the process that you have started for Hawesville? When did you kick off that process and when would you expect to complete it? Thank you very much.

Jesse Gary

Sure, Lucas. Yeah. As I mentioned on the call, we've been looking at this for a little while now, and we did receive a number of inbound inquiries with interest in the site. And given the interest level that we saw, we decided it made sense to start a process. Now, of course, repurposing an industrial asset is a bit different than some of the other transactions you've seen in the market, and there is a number of items that will need to be diligenced by the buyers and valued. And so we'll just have to watch and see how long that takes. But what we can say for now is there is significant interest and the process will ultimately help us determine value and make the right decision.

Lucas Pipes

All right. Well, we'll stay tuned for that. I want to touch on the LME-linked supply agreements with alumina really quickly. And Jesse, could you remind us kind of what supply agreements you have in the market today? When they expire? And then from there, I might have a few follow-ups. Thank you very much.

Jesse Gary

Sure. Yeah. We generally source all of our supply, as I said, either from Jamalco or from these long-term supply agreements. The supply agreements, we don't disclose details of, but they are with very creditworthy counterparties, and I think there's over two years left on those contracts before we'll need to renegotiate them.

Lucas Pipes

So this would include both Concord and Glencore, or might there be a difference between the two?

Jesse Gary

We won't break down the individual contracts, but as you can see from our results, the collective nature -- when you put them together, I guess is the way to say it and along with our own internal capture supply we don't have any API exposure.

Lucas Pipes

And that should also hold true for 2025.

Jesse Gary

Yes, in 2026 as well.

Lucas Pipes

All right. Very helpful. Thank you very much for that. In that context, strong aluminum pricing and supply stability on the alumina side price stability, why not move forward with capacity restarts here and now?

Jesse Gary

Well, that's a good question, Lucas. So as we've said for a while now, we want to look and make sure that when we do make the decision to bring capacity back online, the market is ready for it. So for one, we do see strong LME so that's a positive and we've seen rising Midwest premium prices as well over this quarter. But with respect to incremental volume, we would have to go out into the market and source alumina. So there, we would be exposed to spot alumina for that new volume that we're bringing on. So just to be clear, no spot exposure for our existing operations at current levels. But if we were to bring on additional, we have to go out and find that alumina in the marketplace, and obviously, at spot prices, that's a bit of a hurdle.

Lucas Pipes

I appreciate that color. I'll turn it over for now. Thank you very much.

Jesse Gary

Thanks, Lucas.

Operator

Our next question comes from Katja Jancic with BMO Capital. Your line is now open.

Katja Jancic

Hi. Thank you for taking my questions. Maybe just going back to the alumina supply agreements. I think when I look at your filings, you have an agreement that is supposedly valid through the end of this year for 600,000 tons of alumina. Is that just -- does that just roll over, or what's the situation with us? Can you talk a little bit about that?

Jesse Gary

Yeah. That contract has been extended now, Katja, so that extends out for a couple of years from here.

Katja Jancic

And is that the same terms as it was in the past, or any changes there?

Jesse Gary

Yeah, similar terms, and as what's been there in the past.

Katja Jancic

And maybe moving to the value-added premiums. I think now is the time when you're negotiating for next year. Any update on that side, how it's looking for next year?

Jesse Gary

No. As we've seen for the past couple of years, what we call the mating season extends a bit longer into the fall than it used to maybe five years ago. So we're still out there in the market right now negotiating those contracts and expect to have an update on the Q4 call.

Katja Jancic

And one last one, if I may. You mentioned that repurposing an industrial asset comes with -- it's a little different than some of the other assets. Can you talk a bit more about that like what are some of the potential challenges in repurposing these types of assets?

Jesse Gary

Well, I think it's just as simple as -- I think some of the other transactions in the market you've seen has been one data center used for one type of data center application to maybe an AI hyperscaler or something like that, where you can just imagine you're turning over a data center building with racks -- with server racks, et cetera. Whereas if you have an industrial asset, obviously, you used it for its industrial purpose. So we made aluminum. And so while there are assets that have significant value, like the electrical equipment and power infrastructure, there are other areas of the site that would need to be modified in order to work for such a purpose. And so I think as we move forward with the process, that's one area that the buyers are due diligencing and will need to be evaluated in terms of sort of timing to a transaction.

Katja Jancic

So if I'm understanding correctly, this would be in a way, a sale of the whole asset potentially.

Jesse Gary

We haven't settled on any structure, nor we settled on any transaction yet, Katja, and -- but that would certainly be one potential outcome of the process.

Katja Jancic

Okay. Thank you.

Operator

Our next question today comes from John Tumazos with Very Independent Research. Your line is now open.

John Tumazos

Thank you very much for taking my question.

Jesse Gary

Hey, John.

John Tumazos

When does the LME-linked contract expire? Who if you can say is the supplier? And could you tell us if your alumina costs in Jamaica resemble world averages like what Alcoa, or other companies publish?

Jesse Gary

Sure, John. Let me try to take those in order. If I miss one, just redirect me. So the LME league contracts are long-term. They're in place. There's a variety of them, but all of them are through at least 2026.

With respect to the Jamalco cost structure, as we've said in the past, we are very excited about this asset. We think its cost structure will ultimately be globally competitive and what we said as we implement some of our CapEx programs, we do think it can be a second-quartile asset, which would put us right in the range of some of our competitors that you mentioned. And we're already underway. We've been at it a year now and getting that cost structure down and certainly looking good in today's market price environment.

John Tumazos

Congratulations. What you've done with alumina is absolutely superb.

Jesse Gary

Thank you.

Operator

Thank you all for your questions. (Operator Instructions) Our next question is a follow-up from Lucas Pipes with B. Riley Securities. Your line is now open.

Lucas Pipes

Thank you very much for taking my follow-up question. Just one more on the alumina side. As a percentage of LME, what was it roughly this year? Would it be stable next year? Or could there be any adjustment given the recent surge in alumina prices?

I want to echo John's comment. Congratulations on the acquisition of Jamalco and the structure of all the contracts you've done. But I wanted to follow up on this. Thank you.

Jesse Gary

Sure, Lucas. Yeah. I think your question relates to the commercial contracts, whether those could change. And no, those are fixed percentages that were entered into before the current run-up and so they are quite attractive compared to current levels.

Lucas Pipes

Very helpful. Thank you. And then –

Jesse Gary

No.

Lucas Pipes

Sorry?

Jesse Gary

No. I was just going to say no readjustment in those contracts. They're fixed.

Lucas Pipes

Thank you for that. Maybe trying to put it all together. Obviously, you've provided an outlook for Q4 that is still reflecting a somewhat weaker price environment. Looking out to Q1 or a 2025 EBITDA in the current price environment, could you help kind of frame up the sensitivity and what the earnings power might look like? Would appreciate the color. Thank you.

Jesse Gary

Hey, Lucas. So you all can just go to our sensitivities in the appendix and mark -- go ahead and mark whichever of the revenue side or cost side items you want. But just to walk you through it, Lucas. So as you see on Page 11, and the outlook was based on an LME around \$2,400. And so with spots above \$2,600, that's about \$200 dollars per ton of incremental EBITDA, which is about \$90 million of incremental EBITDA on a run-rate annualized basis. And then Midwest premium as well has risen from these levels. In the outlook, it's about \$425 per ton. It's up a couple of pennies from there. So that's maybe another \$20 million or so.

So at spots, you've got an additional \$100 million or so in annualized EBITDA from what's in

the guide. So you can take that \$25 million a quarter and we put you above \$100 million quarterly run-rate EBITDA.

Lucas Pipes

I appreciate all the additional color. Jesse, to you and the team, continue best of luck.

Jesse Gary

Thanks a lot, Lucas.

Operator

Thank you for your questions. There are no longer questions in queue so I'll pass the conference back to the management team for any further or closing remarks.

Jesse Gary

Thank you, operator, and thanks to everyone for joining the call. We really appreciate all the questions as always and look forward to talking to you in the New Year. Thanks.

Operator

That will conclude today's conference call. Thank you all for your participation. You may now disconnect your line.