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Tronox Holdings Plc (TROX)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, and welcome to the Tronox Holdings Plc Fourth Quarter and Full Year 2020 Earnings Call and Webcast. All participants will be in listen-only mode. [Operator Instructions] Please note, today's event is being recorded.

I'd now like to hand the conference over to Jennifer Guenther, Vice President of Investor Relations. Ms. Guenther, please go ahead.

Jennifer Guenther
Vice President-Investor Relations, Tronox Holdings Plc

Thank you, and welcome to our fourth quarter and full year 2020 conference call and webcast. On our call today are John Romano and Jean-François Turgeon, Co-Chief Executive Officers on an interim basis; and Tim Carlson, Chief Financial Officer.

We will be using slides as we move through today's call. Those of you listening by Internet broadcast through our website should already have them. For those listening by telephone, if you haven't already done so, you can access them on our website at investor.tronox.com.

Moving to slide 2. A reminder that comments made on this call and the information provided in our presentation and on our website include certain statements that are forward-looking and subject to various risks and uncertainties, including, but not limited to, the specific factors summarized in our SEC filings. This information represents our best judgment based on today's information. However, actual results may vary based on these

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risks and uncertainties. The company undertakes no obligation to update or revise any forward-looking statements.

During the conference call, we will refer to certain non-US GAAP financial terms that we use in the management of our business and believe are useful to investors in evaluating the company's performance. Reconciliations to their nearest US GAAP terms are provided in our earnings release and in the appendix of the accompanying presentation.

Moving to slide 3, it's now my pleasure to turn the call over to John Romano. John?

John D. Romano

Interim Co-Chief Executive Officer, Executive Vice President & Chief Commercial & Strategy Officer, Tronox Holdings Plc

Thanks, Jennifer, and good morning, everyone, and thank you for joining us today. For today's call, I'll first provide a review of the year and the quarter and walk through the commercial performance summary, and then I'll turn the call over to JF to discuss our operational performance, synergies, and key capital projects for 2021. Tim will then review our financial position and outlook.

But before we turn to the financial highlights, I wanted to take a moment and review the priorities we laid out in 2020 in response to COVID-19. Throughout the pandemic, our focus has been on the safety, health, and well-being of our employees and their families, operating safely in all respects with managing our ongoing operations and protecting, preserving, and strengthening our business and laying the foundation for the future. JF and I are very pleased with the organization's delivery of these priorities.

Safety has always been one of our first priorities at Tronox. And in 2020, we achieved a record safety year. We are very proud of this accomplishment, especially considering the challenging external circumstances presented over the last year. I'd like to take this opportunity to thank all of our employees for their continued commitment to safety. We are on a journey to zero, and that journey starts with the performance records like we had in 2020.

At the start of the pandemic, our operations were designated as essential, allowing us to continue to operate producing reliable tons for our customers. Additionally, and importantly, we've kept an eye on protecting, preserving, and strengthening our business and laying the foundation for the future.

We continue to increase our focus on sustainability. For the first time in 2020, we published a GRI report for the combined legacy Tronox and Cristal organization. And for 2021, we'll be adding to our annual bonus metrics on carbon reduction. Sustainability will continue to be at the heart of everything we do at Tronox.

Now turning to slide 4, I'll review the fourth quarter highlights. Our strong fourth quarter results reflected the benefits of our vertically integrated business model and optimized operations during the continuation of a market recovery across all products, end markets, and geographies. Revenues in the quarter increased 13% year-over-year, or 16% sequentially, driven by improved TiO2, zircon, and feedstock and other volumes. I'll cover more on the market recovery in a few minutes.

Adjusted EBITDA for the quarter was $204 million with an adjusted EBITDA margin of 26% compared to an adjusted EBITDA of $156 million in the year ago quarter. This represents our strongest adjusted EBITDA margin quarter performance of 2020 and our strongest adjusted EBITDA performance since closing the Cristal acquisition, a demonstration of the power of the combination and the delivery of the transaction synergies.

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We delivered $243 million in total synergies in 2020, exceeding the $220 million run rate synergy target we set for 2022 at Investor Day in 2019, two years earlier than anticipated. EBITDA synergies were $193 million of the $243 million, ahead of the $185 million target we laid out in the third quarter earnings call. JF will provide more details on synergies and our expectations for continued incremental synergies later in the call.

We generated $57 million in net income for the fourth quarter versus $1 million in the year ago quarter. Our adjusted earnings per share for the quarter was $0.19 compared to $0.07 in Q4 of 2019. We generated $160 million in free cash flow for the year, evidence of the strength of our portfolio even in a challenged macro environment.

JF, Tim, and I remain committed to deleveraging and reducing our gross debt to $2.5 billion by 2023. We will make an additional $300 million discretionary debt repayment by the end of the first quarter from cash on the balance sheet, in addition to the $200 million discretionary debt repayment we made in December.

Moving to slide 5, as I mentioned previously, our commercial performance was extremely strong on the back of a continuation of the market recovery. Revenue of $783 million was 13% higher than $693 million for the year ago quarter, driven by volume improvements across all products and favorable FX rates. TiO2 pigment sales of $587 million were 8% higher, driven primarily by a favorable deviation from the typical fourth quarter seasonality.

Sales volumes improved most significantly in Asia Pacific, followed by South and Central America, Europe, Middle East, and Africa versus the year ago quarter. TiO2 selling prices were stable when adjusted for currency, as expected, and attributable, again, to the continued success of our margin stability program.

Zircon sales of $94 million were 32% improved versus a year ago. Zircon sales volumes were 48% higher when compared to Q4 of 2019, driven by a significant improvement in market demand, primarily in China. Zircon selling prices were 10% lower than the year ago quarter, consistent with the trends from previous quarters in the year due to a decline in zircon pricing late in the fourth quarter of 2019 and early in 2020.

In feedstock and other products, sales of $102 million increased 31%, largely due to improved pig iron sales volumes. The fourth quarter was the final quarter for our mandated CP slag sales per the FTC consent order, which will have a temporary drag on our Q1 adjusted EBITDA margin, as the margin benefit from the internal feedstock will not be realized until the second quarter when the TiO2 is sold.

This is due to the 60- to 90-day period it takes feedstock to move through our portfolio. Utilizing the feedstock internally will improve our vertical integration to approximately 85% in 2021. The quarter's performance represented a continuation of the third quarter improvement due to the market recovery, a trend we've seen continuing into the first quarter.

Organic market demand has remained incredibly strong, which has continued to drive improved volumes on a year-over-year basis. If the current favorable trajectory continues through the end of the quarter, we anticipate TiO2 sales volumes for the quarter to increase 11% to 15% sequentially.

We have experienced a few disruptions thus far in the quarter across the shipping sector and we're working to mitigate those logistical disruptions to ensure we land comfortably inside the range for the quarter. We expect zircon demand to remain strong in the quarter as well, which should result in record zircon volumes.

I'll now turn the call over to JF for a review of our operating performance and profitability in the quarter, as well as a review of our synergies and key capital projects. JF?

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Jean-François Turgeon

Interim Co-Chief Executive Officer, Executive Vice President & Chief Operating Officer, Tronox Holdings Plc

Thank you, John. Good morning, everyone. Moving to slide 6, I will walk you through our operational performance for the quarter. Adjusted EBITDA of $204 million was 31% higher than a year ago quarter, as John mentioned, a record quarter for Tronox, with benefit from volume and mix improvement, $31 million in incremental synergy in the quarter, and favorable FX rate.

We also received a $12 million reimbursement from claim related to the Ginkgo concentrator failure we inherit as part of the Cristal transaction. $8 million of the claim was recognized in other income, as it pertained to period prior to the acquisition, and $4 million was recognized as reduction to cost of goods sold in the fourth quarter.

This was offset by a lower zircon price, as John outlined previously, and increased production costs driven by the adjustment of our operation to accommodate the effect of the pandemic versus Q4 2019, as we forecast on our previous earnings call, which improved sequentially due to the lower idle facility charge.

Overall, our operation remained stable in the quarter. And with our outstanding safety performance for the year, I'm extremely proud of our organization for this incredible accomplishment [ph] because of (00:11:33) to the commitment by the Tronox team. I'm also very pleased with the accomplishment of the organization in, again, over-delivering on our synergy target.

Turning to slide 7, we delivered $243 million in total synergy in 2020, exceeding the $220 million run rate synergy target we set for in 2022 at Investor Day in 2019, as shown in the slide captured on the left side of the page. The chart on the right side of the page outline the breakout of EBITDA synergy across the key buckets.

While the majority of the synergy saving were in SG&A in 2020, an increasing amount are being realized from operation, feedstock, and supply chain. Given the majority of our target synergy were from true cost saving and not tied to volume, we were able to deliver very strong performance two years ahead of our original schedule.

We expect to continue to realize incremental synergy in 2021 and 2022. The pacing will depend on the pace of the market recovery, as volume will drive increased opportunities. We currently anticipate $60 million of incremental synergy in each of 2021 and 2022.

The continued delivery of incremental synergy, combined with the momentum on the commercial side of the business, we anticipate will result in Q1 2021 adjusted EBITDA of $200 million to $210 million. While synergy has been a significant part of the Tronox story for the last two years, the next step of the Tronox story will be in our capital project in 2021, which I review on the next slide.

Please turn to slide 8. As we discussed on our third quarter earnings call, two key capital projects will continue the advancements of our vertical integrated strategy, expected to enhance our position as a leading TiO2 producer and the industry leader in financial performance.

Project newTRON is our global, multiyear digital transformation strategy initiatives aimed to reduce operational costs to enable Tronox to maximize the benefit of vertical integration and achieve a sustainable first quartile integrated cost position.

This project will introduce proven, enhanced automation technology, implement process improvement, and deploy operational excellence across the portfolio of our mining, upgrading, and pigment asset, reducing our production cost per ton of TiO2.

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We expect capital expenditure associated with this project of approximately $75 million in each of 2021 and 2022. This project will drive cost reduction of $150 to $200 per ton, with project return starting this year. Additionally, there are incremental cost reduction opportunity on an additional $150 per ton in the second phase of newTRON with the rollout of the project across more of our site.

Also, Atlas Campaspe is the next mine development in our pipeline of high-value mine project, available to maintain our feedstock integration from existing asset. This project will replace supply from our existing Snapper/Ginkgo mine, which are nearing end of life.

This mine site, located in Eastern Australia, is abundant in natural rutile and high value zircon, and will be a significant source of high grade ilmenite suitable for direct use, synthetic rutile production, or slag processing.

The project ensure that we maintain the current level of feedstock integration and zircon supply to strengthen our strategy of vertical integration. Capital expenditure associated with our mine development will total approximately $75 million in each of 2021 and 2022. In total, we expect capital expenditure of approximately $350 million in 2021.

Our annual maintenance and EHS capital expenditure are approximately $125 million per year. Our high return project and cost improvement activities, such as small debottlenecking project, typically are approximately $75 million to $125 million, bringing our normal capital expenditure in a given year to $200 million to $250 million.

Project newTRON and the Atlas Campaspe project drive the balance of the increase to the $350 million in 2021. We will continue, as we did in 2020, to manage our capital as required, depending on the global macroeconomic condition and resulting market demand.

I will now turn the call over to Tim Carlson for a review of our financial position. Tim?

Timothy Craig Carlson

Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

Thanks, JF. On slide 9, in the top-left quadrant, we have outlined our liquidity and capital resources at the end of the quarter. We have $1 billion in total available liquidity, including $619 million of cash and cash equivalents. Our cash is appropriately distributed amongst our global operations and we have no trapped cash.

Moving to the top-right quadrant, our total debt at the end of the fourth quarter was $3.3 billion and our net debt was $2.7 billion, resulting in a trailing 12-month net leverage of 4.1 times. We have made a $200 million discretionary debt repayment in December and are anticipating an incremental $300 million discretionary debt repayment before the end of the first quarter from cash on the balance sheet, as we announced in January.

As you will see in the chart, we have no maturities on our term loans or bonds until 2024, and we have no financial covenants on our term loans or bonds. Our capital allocation policy remains unchanged. We continue to prioritize disciplined capital spending on high-return projects, including those JF just outlined, and deleveraging with a targeted net leverage of 2 to 3 times and gross debt of $2.5 billion.

Moving to the lower half of the page. Capital expenditures in the fourth quarter were $66 million, and our depreciation, depletion, and amortization expense was $85 million. Year-to-date, capital expenditures were $195 million, which represents a reduction of $80 million from the midpoint of our original target for the year due to prudent management of our growth in cost improvement capital as a result of COVID-19.

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Our free cash flow for the quarter was $133 million. Improvements in EBITDA, inventory levels, and accounts payable, partly offset by increased capital spending, resulted in improved fourth quarter free cash flow. While our outstanding receivable balance increased at year-end, given increased revenues, we continue to have no accounts receivable aging concerns.

Turning to slide 10, I'd like to review our outlook. As John mentioned, due to the expected continuation of strong sales trends from Q4 2020, we expect TiO2 sales volumes to increase 11% to 15% sequentially. As JF mentioned, we anticipate Q1 2021 adjusted EBITDA of $200 million to $210 million, driven by strong commercial performance and continued delivery of incremental synergies.

Partly offsetting some of the benefits in Q1 will be headwinds from FX, primarily the South African rand and the Australian dollar. As a reminder, a ZAR 1 movement on a quarterly basis is equivalent to approximately $6 million to $7 million of EBITDA and a AUD 0.01 movement is equivalent to approximately a $1 million to $2 million impact on a quarterly basis.

In addition to FX, we will see slightly increased cost of goods sold in Q1 versus Q4, as we lose the benefit of lower-cost TiO2 tons produced in Q2 that were sold in Q4. So in Q1, we will be selling TiO2 which was produced at higher costs in Q4, given we reduced our production levels to align with market demand.

Along the same vein, we'll have no margin contribution from CP slag sales in the first quarter, which will be a high single-digit headwind. This is a onetime impact in the first quarter and we'll see the benefit of using the low-cost feedstock in Q1 production when TiO2 is sold in Q2. As a result of these two items, we should see EBITDA margins improve for the remainder of the year.

Given the continued market improvement, we want to remind the audience of our business sensitivities, the impact of TiO2 volume, and price movements. Given our vertically integrated business model, we expect EBITDA margins of 25% to 30% on incremental TiO2 volumes.

Additionally, for Tronox, a $100 per ton move in TiO2 price is approximately equivalent to $90 million in EBITDA on an annualized basis. We hope that a reminder of these figures will help investors more accurately understand impacts to our EBITDA performance.

Moving on to our estimated uses of cash for full year 2021. We expect cash interest expense between $160 million and $170 million, cash taxes of $20 million to $40 million, capital expenditures of $350 million, and net pension contributions of less than $10 million. We do not expect working capital to be a use of cash and we're currently managing it to be a source of cash in 2021. High-return internal investments and debt pay down remain our highest capital priorities.

And finally, as we announced in January, we have increased our annualized dividend from $0.28 to $0.32 per share, equivalent to a 14% increase, effective when the normal Q1 2021 dividend is expected to be declared during the quarter.

I will now turn the call back over to John.

John D. Romano

Interim Co-Chief Executive Officer, Executive Vice President & Chief Commercial & Strategy Officer, Tronox Holdings Plc

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Thank you, Tim. Before concluding our prepared remarks, I wanted to close by revisiting our strategy on slide 11. While we at Tronox have gone through some interim senior management changes, our strategy and business model remain unchanged. It is still focused on these pillars to become an advantaged global TiO2 leader.

Our focus on capital expenditures will be dedicated to pursuing these pillars. newTRON directly addresses several of those components. As JF outlined, the project will transform our operations through automation and digitalization, both of which are foundational in reducing our cost and enabling Tronox to be a technology leader. And Atlas Campaspe will reinforce our distinct advantage to feedstock integration.

We will continue to invest in these projects and delever with incremental free cash flow, while continuing to improve our safety track record and drive progress and enable achievement across all of these pillars.

As we've conveyed on this call, we have a great year in front of us. Our strategy drives our ability to leverage our unique portfolio to optimize our assets and secure our position as the most adaptable, resilient TiO2 industry leader, and allow us to continue to deliver industry-leading financial performance.

That concludes our prepared remarks. And with that, I'd like to open the call for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Yes. Thank you. We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from John McNulty with BMO Capital Markets.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah, good morning. Thanks for taking my question. I guess, maybe the first one would just be on the volume strength that you're looking at for the first quarter. So you're looking for a pretty strong sequential improvement. I guess, how do you think this – and it's certainly stronger than the normal seasonality. I guess, how do you think about – or how are you thinking about the seasonality and how it plays out throughout this year in 2021? Should we see kind of the usual jump from 1Q into 2 and 3Q, and then it fade again? Or is it going to be a little bit different this time? I guess, how are you thinking about that?

John D. Romano
Interim Co-Chief Executive Officer, Executive Vice President & Chief Commercial & Strategy Officer, Tronox Holdings Plc

A

Yeah. Look, this is John Romano. So I'll answer that one. So, the fourth quarter, as we mentioned, strayed significantly away from normal seasonality. We had a fourth quarter that was very strong, and the first quarter is coming out to be very strong as well. So, I would say that the normal seasonality is not in place because of the strong demand that we're seeing. There's, I'd say, a fair amount of upside even moving into the second quarter based on the volume patterns that we're seeing right now. So, normal seasonality, I would say, is not the case in Q4 and not what we're projecting in Q1 either. So, I hope that answers your question.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah. No, that's helpful. And then, I guess, can you speak to how you're thinking about pricing as we look through the year? I mean, we've certainly started to see some pretty chunky price increases and announcements on a global basis. So, I guess, can you kind of speak to how you're thinking about pricing progressing throughout the

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year? And then how some of your longer-term contracts that you're locking in, like how should we be thinking about what impact that may have on your pricing for this year?

John D. Romano
Interim Co-Chief Executive Officer, Executive Vice President & Chief Commercial & Strategy Officer, Tronox Holdings Plc

A

Yeah. So, we're experiencing good development on pricing globally in every market segment that we're selling into in the first quarter, and some of that depends on where we are. In China, we saw – we do have an operation there, and we saw that pricing moving up towards the end of last year and into the first quarter. We're seeing pricing move in Europe, Middle East, Africa, APAC, and North America. So we're seeing pricing moving up across the spectrum.

With regards to long-term contracts, and I assume you're referring to margin stability, we do have some of those contracts in place. But as we think about the momentum on pricing moving into 2021, we're not going to be running probably at the pace of increase that we were back in the last financial crisis in 2010 when it recovered, but we expect an opportunity to see good movement on pricing moving into the year.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Thanks very much for the color.

John D. Romano
Interim Co-Chief Executive Officer, Executive Vice President & Chief Commercial & Strategy Officer, Tronox Holdings Plc

A

You're welcome.

Operator: Thank you. And the next question comes from Frank Mitsch with Fermium Research LLC.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Hey. Good morning, folks. Nice end to the year. I was struck by the comment on zircon volumes in 1Q being expected to be a record. I guess I've been kind of accustomed that that would be kind of a lumpy type of business, very strong in one quarter and not so strong in another quarter. And, obviously, you're coming off a very strong fourth quarter. So can you talk about the end uses there and what's driving that very strong volume you're expecting in 1Q? And then, if you could talk about the sustainability as you see it?

John D. Romano
Interim Co-Chief Executive Officer, Executive Vice President & Chief Commercial & Strategy Officer, Tronox Holdings Plc

A

Hey, thanks, Frank. This is John again. So, yeah, we did have a very, I'd say, strong recovery in the fourth quarter and moving into the first quarter. China is a big driver of demand on zircon, and we've seen a significant uptick there. So it's not only in China, it's pretty much in every market that we're selling into.

We reference a lot of things that are going on with stimulus, whether it's TiO2 or zircon. Stimulus has driven, I think, a lot of the uptick, but it's not the only thing that's driving it. There's an increase in demand. So, it's clear that we have some inventory and we're able to take advantage of that inventory and converting it into cash as the market is recovering.

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And like we said in the prepared comments, based on the trajectory of the demand we're looking at right now, we would expect Q1 to be a record zircon sales quarter.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Interesting. Thanks. And I guess, JF, if I could follow-up on the Atlas project, which is going to replace capacity that's – the mine that's near end of life. How does that impact your vertical integration? How should we think about the cost structures that the Atlas project will have on Tronox?

Jean-François Turgeon
Interim Co-Chief Executive Officer, Executive Vice President & Chief Operating Officer, Tronox Holdings Plc

A

Thanks, Frank, for this question. Look, like every mine, when they reach their end of life, the cost structure is always higher than when you start with a brand new mine, because at the beginning of the operation of a mine, you're in the high-grade zone. So, you have to see that our cost position, from a mining point of view, will improve as we start Atlas and we close the Ginkgo/Snapper mine.

We'll also benefit from more product coming out of the Atlas mine in the first three years of the Atlas operation because, look, a mine has a life of its own. And, obviously, that investment is a long-term investment for the next 10 years. And the Atlas deposit is better than the Snapper/Ginkgo, specifically in the first three years of operation, so I think that's going to be positive for us. But we obviously need to build the mine first. I hope that helps.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Got you. No, that's very helpful. So you're expecting additional capacity at least at the beginning of it and overall lower cost to Tronox.

Jean-François Turgeon
Interim Co-Chief Executive Officer, Executive Vice President & Chief Operating Officer, Tronox Holdings Plc

A

That's right.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Great. All right. Thank you so much.

Operator: Thank you. And the next question comes from Hassan Ahmed with Alembic Global.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Good morning, guys. A question around your Q1 guidance. Initially, when I read the press release, the earnings release, looking at relatively sort of flat EBITDA sequentially with a backdrop of 11% to 15% TiO2 volume increments surprised me a little bit. But, obviously, on the call, you guys have talked about a series of one-offs, be it the CP slag side of things, be it selling sort of higher cost TiO2 produced in Q4 in Q1, and then obviously the whole FX side of things as well.

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What I'm trying to understand is that, if some of those one-offs weren't there in Q1, how would – I mean, could you give us some sort of a measure of what sort of lost EBITDA you may have on the back of these one-offs, be it the absolute measure or be it what sort of margin compression is being caused by these one-offs?

Timothy Craig Carlson
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc

A

Thanks for the question, Hassan, it's Tim. The three items that we mentioned, and you just summarized FX, no feedstock sales, and then higher cost TiO2, I'll address each one of them. The FX impact in the quarter is going to be worth about – we're estimating, given the current rates, about $10 million of a headwind. The lack of the feedstock sales in Q1, given the end of the FTC consent order, we'll get the benefit of that, obviously, in Q2 and Q3 and Q4 when we sell – when we use that feedstock internally. So that will be a high single-digit headwind, EBITDA headwind in the quarter.

And then lastly, the TiO2 cost structures, Hassan, as we talked about in our Q3 and our Q4 calls, as we reduced our production to match market demand, we had an increase in the over-absorption on a per unit basis, which cost us about 1 to 2 margin points in the quarter. So we should see that reversing in Q2 as well. So, once the two items flow through, we'll see a continued improvement in EBITDA in Q2, 3, and 4, and depending on one ends up with FX, we'll either have a headwind or a little bit of a tailwind there.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

That's very helpful, very helpful. And as a follow-up on pricing, it seems that there were some price hikes on the table for January, and that's obviously not even the seasonally strong period. And it seems as things are evolving with demand looking as robust as it is, possibly there are more price hikes to come.

I'm just trying to understand the realization of these pricing increments, keeping in mind, the margin stability measures you guys have. So, could you sort of help us think through how we should think about how you guys – the mix of longer-term contracts as a percentage of maybe your overall portfolio? Is it 10% that are sort of long-term contracted for? Is it higher than that, lower than that? Just some sense around that, please.

John D. Romano
Interim Co-Chief Executive Officer, Executive Vice President & Chief Commercial & Strategy Officer, Tronox Holdings Plc

A

Yeah. Thanks, Hassan. This is John again. So from the standpoint of margin stability, and we typically haven't provided a lot of guidance on how many customers we have on that, our program is a little bit different. These are win-win situations that we've negotiated over time. I would say that, we've got, like I mentioned earlier, plenty of runway on price moving into the quarter and in the second quarter from the standpoint of our ability.

It also depends on the regions that we're selling into. Margin stability is not something that everybody is accustomed to or wants. So, ours was not a mandated. It was a choice with regards to what unique kind of setup we could have with individual customers. So I would say, depending upon the region, we've got – specific to Asia Pacific, there's not a lot of margin stability in there.

And I mentioned earlier on China, for instance, our pricing is moving very quickly there. We have a plant there. We've been moving that price as costs have moved up since, I'd say, the fourth quarter into the first quarter. And we're seeing Chinese TiO2 pricing from our facility and exports now approaching chloride pricing. So, I'd say, there's still some upside with regards to where that's going, and it's having an influence on our ability to move the price on the chloride side as well.

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Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful. And is it fair to assume that even these long-term contracts will have some sort of pricing escalators maybe a couple of times a year, which you could revisit based on maybe some sort of competitive pricing index or something like that?

John D. Romano
Interim Co-Chief Executive Officer, Executive Vice President & Chief Commercial & Strategy Officer, Tronox Holdings Plc

A

I'm not going to go into the details of the contracts, because there – but ours, I would say, again, it's not a standard process that's generated by an index. These are contracts that are individualized with customers. But they do have opportunities to move pricing during the year.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Perfect. Okay. That answers it. Thank you so much.

John D. Romano
Interim Co-Chief Executive Officer, Executive Vice President & Chief Commercial & Strategy Officer, Tronox Holdings Plc

A

Thank you.

Operator: Thank you. And the next question comes from Josh Spector with UBS.

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah, hey, guys. Thanks for taking my question. Just on TiO2 volumes, based on your 1Q guide, I was wondering if you can give us a feel of where your capacity utilizations are expected to be in the next quarter. And kind of with that in mind, how are you thinking about potential growth from 1Q through the rest of the year and maybe even over the next couple of years?

Jean-François Turgeon
Interim Co-Chief Executive Officer, Executive Vice President & Chief Operating Officer, Tronox Holdings Plc

A

Josh, it's JF. Look, obviously, as Tim mentioned, we had [indiscernible] (00:38:20) production in Q2 and Q4 last year. But when we saw this strong pickup in demand happening, we have restart all of our asset and we are in the process of having all of our plants running at full capacity. I would say the exception is our Yanbu Plant in the Middle East, and we're not as quick as bringing that plant to full capacity because of the COVID-19 situation.

And I think you remember that at our Investor Day, we said that we would use the know-how of our Hamilton Plant to help bring the volume out of that facility at the same level as Hamilton. And the travel restriction have kind of delay a little bit our success in doing that. But it's certainly something that we're working on at the moment. And as the market continue to increase and we have more demand for our product, we'll ramp up the capacity of all our asset to meet that demand.

Joshua Spector
Analyst, UBS Securities LLC

Q

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Okay. Thanks. That's helpful. And just on the zircon side, I guess two quick things. I mean, kind of the follow-up from Frank's question about the strength of volumes in 1Q, where do you think zircon volumes could be for 2021? I guess, I kind of think about the 40- to 50-ton range is kind of a more normalized quarterly basis. Do you get back to there in 2Q/3Q or does that sustain higher?

And then, related with that, pricing has continued to kind of come down pretty modestly the past couple of quarters sequentially. What turns that around? Or does that turn around, in your view, over the next couple of quarters here? Thanks.

John D. Romano
Interim Co-Chief Executive Officer, Executive Vice President & Chief Commercial & Strategy Officer, Tronox Holdings Plc
A

Yeah. So, from a volume perspective, I would say that, again, we're going to – I'm not going to suggest we're going to have record sales quarters every quarter. And I think to the point that was made earlier about shipments being somewhat lumpy, we are still having some disruptions. I even referenced that on the call with regards to some of the shipping channels.

But I would expect 2021 is going to be a better year than 2020, by all measures, on zircon. And our volumes in the first quarter are typically not peak, but we also – I think there's a bit of inventory rebuilding from our customer base, the fact that there are shipping issues and a lot of these shipments are based on bulk shipments.

We did a lot of work in the fourth quarter to reposition volume, so that when the market did rebound, we have volume located where we could have the customer able to buy that, as opposed to having it in South Africa. So, I would say that based on what we're seeing right now, we should see some of that additional volume creep outside of the Q1 into Q2 as well, and 2021 is definitely going to be a better year for us on volume.

As far as pricing goes, if we're looking into the second quarter, I would expect that we would start to see some upside potential to move price on zircon moving into Q2.

Joshua Spector
Analyst, UBS Securities LLC
Q

Thank you.

Operator: Thank you.

John D. Romano
Interim Co-Chief Executive Officer, Executive Vice President & Chief Commercial & Strategy Officer, Tronox Holdings Plc
A

Thank you.

Operator: I'm sorry. Thank you [Operator Instructions] And the next question comes from Roger Spitz with Bank of America.

Roger Spitz
Analyst, BofA Securities, Inc.
Q

Thanks very much. Good morning. Can you give an update on the Jazan smelter? I'm not sure I saw any mention of it in the press release.

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Jean-François Turgeon
Interim Co-Chief Executive Officer, Executive Vice President & Chief Operating Officer, Tronox Holdings Plc
A

Roger, it's JF. Look, as we said in our last quarter, we were expecting Jazan to start toward the end of the second half of this year. There's a little bit of a delay. That delay is created by logistic issue that the main contractor, Metso Outotec is experiencing. I think we talked about important modification that were being made by the provider of the technology to the smelter.

And because of COVID-19, some shipment of equipment that are critical have been delayed, and those shipment were happening through the Christmas/New Year. And we're now expecting that we should be in a position to start the commissioning in the third quarter of 2021. So we're talking about six weeks delay versus what we had originally anticipated, and it's all related to COVID-19.

Roger Spitz
Analyst, BofA Securities, Inc.
Q

And related to that, I think, if I remember correctly, you were looking for one up and running at least in the first phase, $12 million a quarter EBITDA benefit. Is that still the case? And should we think about, with this modest delay, that we really won't see that big, if any, EBITDA realized in 2021 from the Jazan smelter?

Timothy Craig Carlson
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc
A

Hey, Roger, it's Tim. That is correct, just given the delay, the EBITDA realization will be delayed as well. But our overall assumptions, as it relates to the returns from that project, remain unchanged once we get to sustainable operations, which we're expecting in – JF, mid-2022?

Jean-François Turgeon
Interim Co-Chief Executive Officer, Executive Vice President & Chief Operating Officer, Tronox Holdings Plc
A

That's right. We always said that when we start the commissioning, within a year after the start-up, we will know if the project is successful or not. And, obviously, if successful, as part of the agreement that we have with Tasnee, we will acquire the facility. And if not successful, well, we'll reevaluate our options.

Timothy Craig Carlson
Senior Vice President & Chief Financial Officer, Tronox Holdings Plc
A

Yeah. So that EBITDA benefit is probably 2023, Roger, and not 2022, just given the delays that JF talked about.

Roger Spitz
Analyst, BofA Securities, Inc.
Q

Got it. Thank you very much.

Operator: Thank you. And the next question comes from Travis Edwards with Goldman Sachs.

Travis Edwards
Analyst, Goldman Sachs & Co. LLC
Q

Hey, good morning. Thanks for the color this morning. Just maybe a follow-up on Jazan and overall vertical integration. I think after canceled TTI acquisition, just wanted to ask and see if you're comfortable now with the current level of vertical integration, if there are other projects outside of what you've already highlighted that you're

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considering in order to get that higher. I think in the past you were looking to get to sort of 90%, 95% with Jazan and TTI. So wondering if your plans there or strategy have changed after dropping the recent acquisition. Thanks.

Jean-François Turgeon
Interim Co-Chief Executive Officer, Executive Vice President & Chief Operating Officer, Tronox Holdings Plc
A

Well, thank you for the question. Look, it's clear that we were disappointed not being able to realize this unique opportunity with TTI. It would have helped the chance of Jazan to be successful because of technology transfer, and it would have been in-line with our vertical integration strategy. But as the regulator did not agree with our view of the industry, we had to turn around and change what to do.

And it's clear that developing Atlas Campaspe as a project is a solution for us that will give us natural rutile, that will give us zircon, and keep us in line with our vertical integration strategy. So instead of doing it through acquisition, we're doing it with brownfield development of our own mining asset.

At 85% vertically integrated, we think that this is the best position for the company, because, obviously, our mine will run at full capacity in any market situation. And, look, we don't have to buy a lot of feedstock on the market to run our asset at full capacity. So I hope that answer your question, Trevor (sic) [Travis] (00:47:11).

Travis Edwards
Analyst, Goldman Sachs & Co. LLC
Q

Yeah, that's really helpful. And I guess a quick follow-up, that 85% is pro forma for your current projects being completed, is that correct or is that where you sit today?

Jean-François Turgeon
Interim Co-Chief Executive Officer, Executive Vice President & Chief Operating Officer, Tronox Holdings Plc
A

No. That's where we sit today. As we said, the Atlas Campaspe will replace the Snapper/Ginkgo mine. So we're producing from Snapper and Ginkgo at the moment. Look, I mentioned that Atlas will produce more, but we're also planning to increase our pigment capacity going forward. So, that's why we will remain at about 85% even with an increased production from the mine.

John D. Romano
Interim Co-Chief Executive Officer, Executive Vice President & Chief Commercial & Strategy Officer, Tronox Holdings Plc
A

And we also ...

Jean-François Turgeon
Interim Co-Chief Executive Officer, Executive Vice President & Chief Operating Officer, Tronox Holdings Plc
A

And, look, we...

John D. Romano
Interim Co-Chief Executive Officer, Executive Vice President & Chief Commercial & Strategy Officer, Tronox Holdings Plc
A

Just a quick add on that, JF. And we mentioned in the prepared comments, the fact that the agreement that we had with the FTC to continue selling CP slag has ended. So we'll be internalizing that, and that gets us to the 85% as well.

Travis Edwards
Analyst, Goldman Sachs & Co. LLC
Q

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Got it. That's very helpful color.

Jean-François Turgeon
Interim Co-Chief Executive Officer, Executive Vice President & Chief Operating Officer, Tronox Holdings Plc
A

And maybe – yeah. We're also working on de-bottlenecking our existing asset to grow the mining and upgrading site at the same rate that we're growing and de-bottlenecking our pigment plant.

Travis Edwards
Analyst, Goldman Sachs & Co. LLC
Q

Got it, all helpful color. Maybe one more quick one, if I may. You just touched on maybe some of the potential logistical constraints impacting your operations in the 1Q timeframe. I was just wondering if you could elaborate a little bit on that, what's in your control, what's not. And do you expect it to be a concern sort of beyond the next couple of weeks, or is this pretty temporary?

John D. Romano
Interim Co-Chief Executive Officer, Executive Vice President & Chief Commercial & Strategy Officer, Tronox Holdings Plc
A

So, look, the logistical issue has been going on, I'd say, consistently through COVID. Speaking specifically to this, for us, it's been a lot of ocean freight, having a lot of rollovers, and things of that nature. So, it's not something that, I would say, is critical at this particular stage, but it's out there. There's no question that there are issues. It's absolutely not a demand issue when I referenced that, that's why we had that variance on the guidance of 11% to 15%, depending upon how we manage those.

So, again, we feel like we'll come comfortably into the range, the ranges that we provided on the call. But I would expect, as we have continued to see these logistical issues around ocean freight lines continuing to be congested, port congestion, that's probably going to continue into Q2 as well. But we're managing it.

Travis Edwards
Analyst, Goldman Sachs & Co. LLC
Q

Awesome. I appreciate the time this morning. Thank you.

Operator: Thank you.

John D. Romano
Interim Co-Chief Executive Officer, Executive Vice President & Chief Commercial & Strategy Officer, Tronox Holdings Plc
A

Thank you.

Operator: And the next question is a follow-up from John McNulty with BMO Capital Markets.

John P. McNulty
Analyst, BMO Capital Markets Corp.
Q

Yeah. Thanks for taking my follow-up. Just a question on project newTRON, I think you indicated that you could start seeing some of the returns actually even in 2021. Can you help us understand how much of that might be coming in? And then, how it phases into that $150 to $200 per ton by the end of 2023? Is there a way to think about the sequencing of that?

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Jean-François Turgeon
Interim Co-Chief Executive Officer, Executive Vice President & Chief Operating Officer, Tronox Holdings Plc

A

Yes, John. Look, I'll try to give you a bit of color around that. Look, newTRON is the automation of our plant and the automation of our process and system. And the first big initiative in newTRON is linked to supply chain. And when I said that we will get benefit, it's on the supply chain front in 2021. Look, it's obviously more toward the fourth quarter of the year that you will see those benefits. So there's none of those benefit in Q1 and Q2.

It's a multitude of small project, newTRON, but the pipeline is very healthy. And we feel confident that it is significant, the savings that we will see, even in 2021. And it's, obviously, raising significantly in 2022 to reach about $150 to $200 per ton toward the end of 2023. So, you should see an evolution from Q4 this year and every quarter going on, all the way to the last quarter of 2023. So, that could help you color how to distribute the saving per ton going forward.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. And that's in addition to the $60 million of incremental benefits that you think you're going to get this year and next year on the synergies and cost-saving initiatives from Cristal, is that right?

Jean-François Turgeon
Interim Co-Chief Executive Officer, Executive Vice President & Chief Operating Officer, Tronox Holdings Plc

A

That's right. That's correct. I mean, that – look, as we said, the synergy that we have achieved up to now were really real cost saving. The synergy that we see going forward are more linked to debottlenecking opportunity like we talked at Investor Day, transfer of best practice that takes longer to be implemented, but that will still be implemented on top of newTRON, which really is a different technology approach.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Perfect. Thanks very much for the color.

Operator: Thank you. And this concludes our question-and-answer session. I would like to turn the conference back over to Jean-François Turgeon, Co-Chief Executive Officer, for any closing remarks.

Jean-François Turgeon
Interim Co-Chief Executive Officer, Executive Vice President & Chief Operating Officer, Tronox Holdings Plc

Thank you, Keith. In closing, I want to convey how extremely proud John and I are of how dedicated our entire Tronox team has remained throughout 2020; prioritizing safety and looking out for the health and well-being of one another, while continuing to deliver safe, quality, low-cost, sustainable ton for our customers. Thank you to our colleagues around the world.

Our performance speaks to the resilience of our business and the dedication of our people. Tronox is very well-positioned in the recovery. We are looking forward to the continued demonstration of the power of our vertically integrated portfolio. Thank you to everyone on the call for your question and interest in Tronox. Have a good day.

Operator: Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

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