

TROX 1Q14 Post Call Recap

M&A Risk Remains Elevated; Mineral Sands Weakness Offsets Stability in TiO2

- **Citi's Take** — 1Q14 sales of \$418mm came in light relative to expectations (Citi \$443mm, Consensus \$445mm) on weakness in Mineral Sands. Management cited a buildup in industry wide inventories as a headwind. EBITDA of \$77mm was in line with expectations (Citi \$80mm, Consensus \$78mm) as improved TiO2 results (+89% QoQ) offset decline in Mineral Sands (-35% QoQ).
- **Key Operating Statistics**
 - **Sales:** \$418mm (-4% QoQ, -11% YoY)
 - **EBITDA:** \$77mm (-20% QoQ, +6% YoY)
 - **EBITDA Margin:** 18.4% (-360bp QoQ, +289bp YoY)
 - **Net Debt/EBITDA:** 2.8x (+0.2x QoQ, +0.9x YoY)
 - **Cash:** Fell to \$1.40B from \$1.48B (-\$75mm). Driven by WCAP +45mm, CAPEX of (\$31mm), interest of (\$34mm) and dividends of (\$29mm).
- **Segment Highlights:**
 - **Mineral Sands**
 - **Sales:** \$178mm (-28% QoQ, -40% YoY)
 - **EBITDA:** \$60mm (-35% QoQ)
 - **EBITDA Margin:** 33.7% (-379bp QoQ)
 - **Volumes:** -23% QoQ, -12% YoY; **Prices:** -7% QoQ, -32% YoY
 - **Production & Volume Stats:** Will be updated semiannually; next update to be provided with 2Q14 results.
 - **Pigments**
 - **Sales:** \$291mm (+5% QoQ, +1% YoY)
 - **EBITDA:** \$17mm vs. \$9mm in 4Q13 and (\$3mm) in 3Q13
 - **EBITDA Margin:** 5.8% vs. 3.2% in 4Q13 and -1.0% in 3Q13
 - **Volumes:** +5% QoQ, +5% YoY; **Prices:** Flat QoQ, -4% YoY
 - **Feedstock Costs:** \$921/mt in 1Q14 vs. \$1,048/mt in 4Q13 (income statement). Purchased at average cost of \$787/mt in 1Q14. Expect 5-6 month delay before impact of lower feedstock costs benefit pigment margins.
- **Implications** — We maintain sell on TROX 6.375% 2020s (B2/BB-) as we believe current trading levels (\$102-103) don't fully reflect: (1) M&A risk, (2) the potential that TiO2 recovery is pushed out & (3) high total leverage (Debt/EBITDA 6.6x).

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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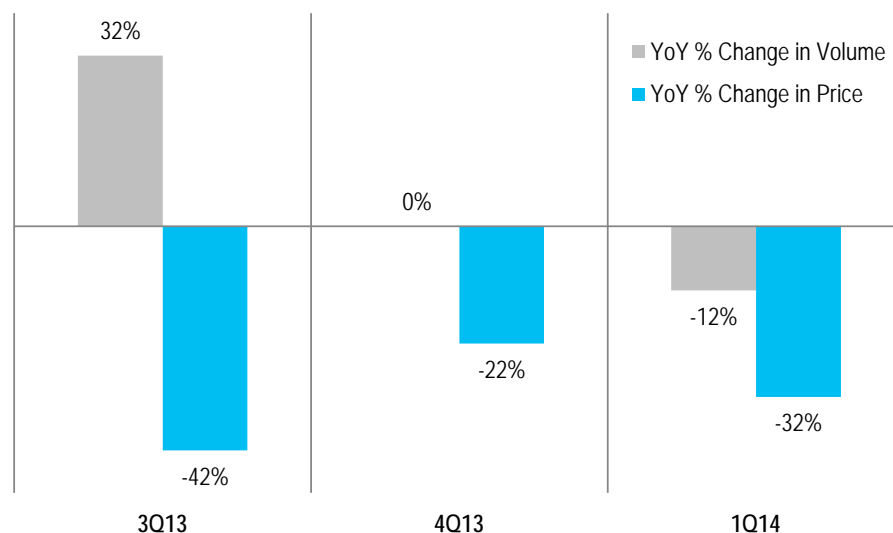
Call Highlights

- **Call Replay:** 877-831-3840, PIN: 45257272
- **Holding On To Cash:** Management intends to hold onto large cash balance, having just repriced term loan, as they continue to explore M&A opportunities... *“whether in the form of a single transaction or a series of transactions to expand our portfolio.”*
- **M&A Options:** CEO Stated 3 Choices for M&A are:
 - (1) Buy TiO₂ assets:
 - Advantage: Includes synergies from operating efficiencies
 - Disadvantage: Not able to utilize US tax attributes because most viable targets are not large US players.
 - (2) Buy Mining/Ore Assets
 - (3) TROX sold to entity that could utilize TROX's NOL's.
 - **Bottom Line:** 100% focused on maximizing shareholder value.
- **Antitrust Commentary:** CEO believes there is still room for consolidation in the market because:
 - TiO₂ is a global market; China becoming bigger producer
 - Chloride and Sulfate technology compete against each other
- **Timing of Tax Effects:** Tax shields total \$9.8B (\$5.15B from Anadarko settlement, \$4.65B prior existing). TROX stated the first \$1.5B of spending from the Anadarko settlement will occur within the first 12-18 months (\$680mm from tort fund, \$750mm+ from government, \$100mm accrued by various parties) of funds being received. This total does not include any environmental remediation spending made by trust on its own which would occur separately.
- **2014 CAPEX:** Approximately \$240-250mm
 - **Fairbreeze:** \$85mm in 2014 (\$365mm in total). Expect mine to begin operating in 2H15 & be fully operational in 2016. Life expectancy of 15 years.
 - **Maintenance CAPEX:** \$110-130mm in 2014
- **TiO₂ Inventories:** Industry inventories at “normalized” levels.
- **TiO₂ Operating Rates:** ~86%

Mineral Sands Drags on Topline

- **Not Selling Chloride Feedstocks Externally For Now:** Given weak pricing for high grade chlorine feedstock management will not selling externally until conditions improve. Believes inventory levels will return to normal by the end of 3Q14.
- **Sales of \$178mm** (-28% QoQ, -40% YoY):
 - **Intercompany Sales:** \$76mm (-36% QoQ)
 - **3rd Party Sales:** \$102mm (-21% QoQ)
 - Titanium Feedstock: \$30mm (-39% QoQ)
 - Zircon & Pig Iron: \$72mm (-10% QoQ)
 - **Zircon:** Volumes -17% YoY, -10% YoY; Price -9% YoY & QoQ.

Figure 1. Mineral Sands: YoY % Change Volume & Pricing



Source: Citi Research and Company Filings.

Relevant Research

- **4/28/14:** HY Chems 1Q14 Preview: Part Deux: Previews for AXLL, HXN, TAM, TROX
- **4/4/14:** Chemical Reactions: Anadarko Settlement & TROX; PCB Book-to-Bill Ratio < 1
- **3/17/14:** TiO2 4Q13 Industry Update - Waiting on M&A
- **2/26/14:** TROX 4Q13 First Look - TiO2 Volumes +23% YoY
- **12/30/13:** TiO2 News – TROX M&A Risk Up - KRO Becomes Potential Target
- **12/13/13:** Tronox Ltd (TROX): Anadarko Ruling - Settlement Range Exceeds Consensus; Downgrade TROX 20s to Neutral from Buy

Appendix A-1

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Data current as of 31 Mar 2014			
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High Yield Credit Research

Analyst: James P Finnerty

Issuer		Issue			
Weighting	Date	Coupon	Description	Maturity	Rating
OW	23-Oct-12	6.375%	Sr Nts	15-Aug-20	Buy (1)
MW	13-Dec-13				Neutral (2)
UW	31-Mar-14				Sell (3)

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