

5 August 2013 | 7 pages

Chemicals - Major (Citi)  
North America

## Rockwood (ROC) 2Q13 Post Call Recap

### Alert: TiO2 Recovery in 2H13; Seeking IG Ratings

- **Citi's Take:** 2Q13 EBITDA came in slightly below our/consensus estimates due to the unexpected loss in ROC's TiO2 segment despite a 30% YoY increase in revenues. In spite of the poor quarterly results, management expects ~10% EBITDA margins for TiO2 in 2H13. Investors await further news regarding the eventual outcome of non-core assets that have yet been sold.

- **Key 2Q13 Operating Statistics:**

- **Sales:** \$972mm (+7% YoY) vs. our estimate of \$953mm (Street \$955mm)
- **EBITDA:** \$166mm (-21% YoY) vs. our estimate of \$175mm (Street \$175mm)
- **EBITDA Margin:** 17% (-737bp YoY, -95bp QoQ)
- **Liquidity:** Cash of \$322mm vs. \$491mm in 1Q13. Free cash flow in 2Q13 at \$19.8mm, compared to \$39mm in 2Q12.
- **Net Debt/EBITDA:** 2.9x (+127bp YoY, +46bp QoQ)

- **Conference Call Highlights:** (webcast replay)

- **TiO2:** Sees 2H13 EBITDA margins in 10% range with EBITDA of \$50-60mm. 2Q13 volumes up 26% YoY. ROC inventory days down to 55 days at end of quarter.
- **Lithium/Potash:** New dynamics in potash ([Global NPK Weekly: Commentary on Fertilizer Stocks - Uralkali Shocks the Potash Market](#)) will impact ROC, which has the ability to produce 100k tons of the material as a byproduct of lithium processing. Management believes the direct impact of lower potash prices will not be material. However, they see a potential silver lining to the event, as lower potash prices could restrict the amount of lithium produced in Chile by some competitors, for whom lithium is a byproduct of potash production.
- **Asset Sales:** Expect to receive \$2.4B (after-tax) of Cash in 2H13. Stated ROC is required to pay down entire term loan (\$911mm). Post TL pay-down, management stated they will make the case for an upgrade to Investment Grade to respective rating agencies. Expect Advanced Ceramics sale (EUR1.49B) to close in August and Clay Based Additives sale (\$635mm) to close in October. ~\$183mm remains on \$400mm share repurchase authorization.

- **Latest Reports:** [High Yield Chemicals 2Q13 Earnings Preview](#)

- **Credit Implications:** We continue to rate the 4.625% Sr. Nts due 2020 (Ba2/BB) a Buy based on (1) Possible upgrade to IG post the company paying down TL and (2) potential for company to be acquired by higher rated entity when divestitures are completed.

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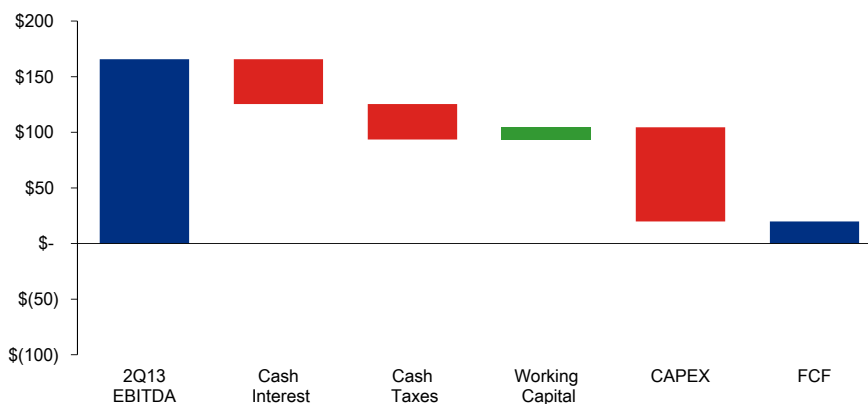
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Figure 1. ROC 2Q13 Earnings Summary

	Actual 2Q13	Street 2Q13	Street Range	SEQ 1Q13	SEQ % Chg	YoY 2Q12	YoY % Chg	Comment
Revenue	\$972	\$955	918-980	\$935	4%	\$906	7%	Includes Advanced Ceramics
EBITDA	166	175	172-180	168	(1%)	221	(25%)	Miss
Adj EPS	\$0.73	\$0.76	.70-.84	\$0.68	7%	\$1.24	(41%)	Miss (within range of ests)
EBITDA (%)	17.0%	18.4%	na	18.0%	-95bp	24.4%	-737bp	
Total Debt	\$2,222			\$2,222	0%	\$1,767	26%	
Net Debt	1,900			1,731	10%	1,423	34%	
Debt/EBITDA	3.38x			3.12x	26bp	2.01x	137bp	
Net Debt/EBITDA	2.89x			2.43x	46bp	1.62x	127bp	targeting 1.5x
Cash	\$322			\$491	(34%)	\$343	(6%)	
SALES	2Q13	Citi HY		1Q13	SEQ Chg	2Q12	YoY Chg	
Lithium	126	129	(3%)	119	6%	125	0.9%	
Surface Treatment	191	185	3%	185	4%	184	4.0%	
Performance Additives	193	195	(1%)	177	9%	206	(6.1%)	
TiO2 Pigments	276	265	4%	273	1%	212	30.3%	
Advanced Ceramics	150	144	4%	143	5%	143	5.0%	
Corporate	37	35		39	(5%)	37	(1.3%)	
Total	\$972	\$953	2%	\$935	4%	\$906	7%	
EBITDA	2Q13	Citi HY		1Q13	SEQ Chg	2Q12	YoY Chg	
Lithium	49	48	3%	47	4%	48	2%	
Surface Treatment	43	41	7%	40	10%	39	11%	
Performance Additives	39	37	6%	36	10%	38	3%	
TiO2 Pigments	(10)	13	(172%)	9	(210%)	55	(117%)	Sees 10% margins in 2H13
Advanced Ceramics	50	43	15%	47	7%	48	4%	
Corporate	(6)	(7)	(13%)	(9)	(33%)	(7)	(10%)	
Adj EBITDA	\$166	\$175	(5%)	\$168	(1%)	\$221	(25%)	
EBITDA Margin	2Q13	Citi HY		1Q13	SEQ Chg	2Q12	YoY Chg	
Lithium	39%	37%	198bp	40%	-60bp	39%	38bp	
Surface Treatment	23%	22%	70bp	21%	129bp	21%	148bp	
Performance Additives	20%	19%	137bp	20%	16bp	19%	174bp	
TiO2 Pigments	(3%)	5%	-844bp	3%	-659bp	26%	-2.9kbp	
Advanced Ceramics	33%	30%	307bp	33%	53bp	33%	-34bp	
Adj EBITDA Margin	17%	18%	-131bp	18%	-95bp	24%	-737bp	

Source: Citi Research, Bloomberg and Company Filings.

Figure 2. ROC 2Q13 FCF



Source: Citi Research & Company Filings.

## Appendix A-1

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##### High Yield Credit Research

Analyst: James P Finnerty

Issuer		Issue				
Weighting	Date	Coupon	Description	Maturity	Rating	Date
OW	23-Oct-12	4.625%	Sr Nts	15-Oct-20	Buy (1)	23-Oct-12

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