

August 2, 2022

ALGOMA CENTRAL CORPORATION (ALC-TSX, \$15.80)

Rating: BUY
Target Price: \$22.00

Q2 FINANCIALS PREVIEW

Algoma Central Corporation		ALC		
<i>(Currency is C\$ unless noted otherwise)</i>				
Last Price (\$)		\$15.80		
Target Price (\$)		\$22.00		
Return to Target (%)		39%		
52-Week Trading Range (\$)		\$14.81 / \$18.93		
Average Daily Volume (90-Day)		7.0K		
MARKET INFO				
Basic Shares Outstanding (M)		37.8		
Fully Diluted Shares (M)		43.0		
Market Capitalization (\$M)		\$597.3		
Enterprise Value (\$M)		\$903.6		
Dividend Yield		4.30%		
FYE: DEC 31	F2021A	F2022E	F2023E	
Revenue (\$M)	\$598.9	\$605.7	\$609.8	
EBITDA (\$M)	\$189.0	\$192.7	\$206.3	
EBITDA Margin (%)	32%	32%	34%	
MOST RECENT QUARTER		Mar-22		
Revenue (\$M)		\$85.1		
EBITDA (\$M)		(\$2.1)		
EBITDA Margin (%)		-2%		
Debt (\$M)		\$389.5		
Cash (\$M)		\$83.2		
VALUATION		F2021A	F2022E	F2023E
EV/EBITDA		4.8x	4.7x	4.4x
Average Peers EV/EBITDA		6.2x	4.6x	5.2x
DISCLOSURE CODE:		None		
<i>(Please refer to applicable disclosures on the back page)</i>				
Source: M Partners, FactSet, Bloomberg, Company Documents				



Algoma Central Corporation owns and operates a fleet of dry and liquid bulk carriers on the Great Lakes - St. Lawrence waterway in Canada. The company operates in six segments: domestic dry-bulk, product tankers, ocean self-unloaders, global short sea shipping, investment properties, and corporate. Algoma Central was founded in 1899 and is headquartered in St. Catharines, Canada.

Algoma Central will be reporting Q2/22 financial results on Friday, August 5th after market close. We are expecting a steady quarter from ALC, driven by resiliency in the domestic dry bulk segment; vessel transits on the St. Lawrence were flat in June and down 4% in May. Last quarter, management guided for steady increases for freight rates and customer demand across all of its markets, and we expect that to be demonstrated in the financial results on Friday.

For Q2/22, we are expecting:

- Total revenue of \$164.9M (-2% YoY)
 - Domestic dry bulk revenue of \$98.4M
 - Product tankers revenue of \$30.1M
 - Ocean self-unloaders revenue of \$34.2M
- Total adjusted EBITDA of \$61.8M (flat YoY)
 - Domestic dry bulk revenue of \$31.5M
 - Product tankers revenue of \$9.0M
 - Ocean self-unloaders revenue of \$11.6M
 - Global short sea shipping EBITDA (attributable to ALC) of \$5.8M

Our Thoughts: We would like to reiterate that ALC is fully sheltered from inflationary pressures as fuel cost increases are passed onto customers and labour costs are locked into long-term contracts. Additionally, when we look back at previous recessions ALC's EBITDA has proved to be fairly resilient and exhibit a strong rebound in the year following. ALC's EBITDA declined only 19% in 2009, followed by a +9% growth in 2010 and +66% growth in 2011 (Figure 1). Furthermore, ALC's EBITDA declined only 7% in 2000, before rebounding 31% higher in 2001 (Figure 1). As for freight rates, the Baltic Dry Index remains at decade highs despite heavily pulling back this year – ALC has not yet had the opportunity to renew its domestic contracts at the higher freight rates, however, we think of this may be a major catalyst for 2023.

On July 5th, Algoma announced that it has sold Station Mall, its large regional shopping complex in Sault Ste. Marie. The transaction closed on June 30th and news sources have reported that it sold for \$30M (~\$0.70/share). Pairing this with ALC's historically large cash balance of \$83M in Q1, our expectations for \$130M+ in EBITDA for H2/22 and another low capex year ahead (\$50-60M), we think ALC is poised to continue to returning value to shareholders in the form of quarterly dividends, special dividends and share buybacks. ALC now trades at a discount to its peers, however we think that a premium multiple is warranted due to ALC's proven market share in the Great Lakes and superior margin profile. **We are maintaining our BUY rating and our \$22.00/share target price based on 6.0x 2023E EBITDA.**

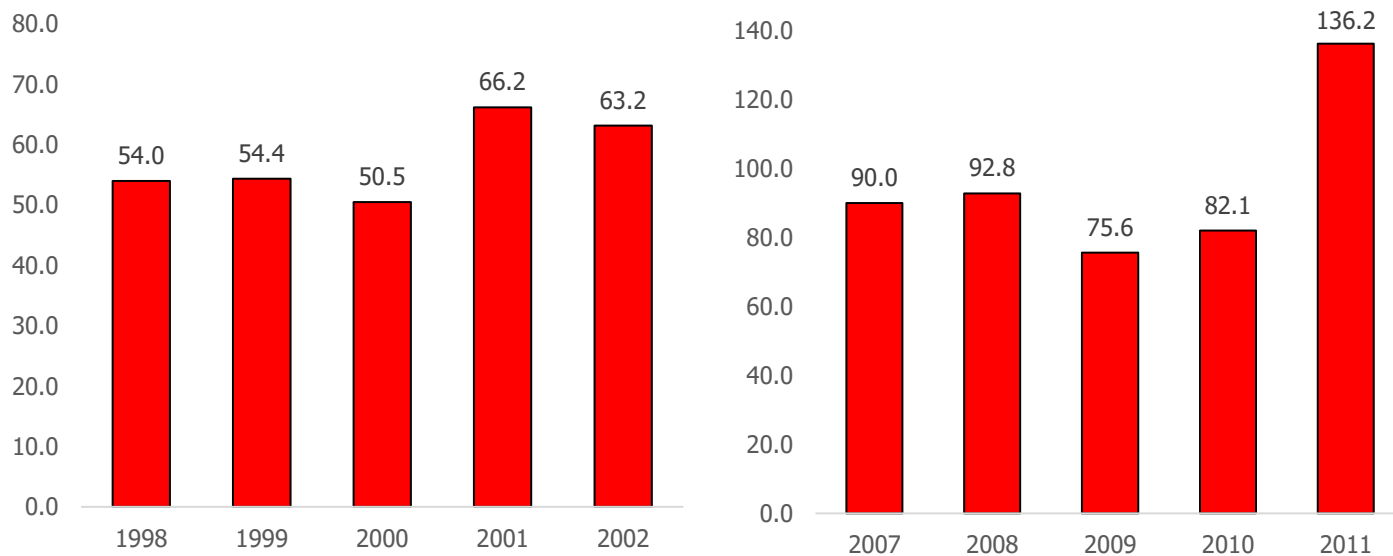


Figure 1: ALC Performance During Recessions

Disclosure Code: None

Disclosure

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Rating System	
Buy:	Price expected to rise
Speculative Buy:	Buy rating with increased risk
Hold:	Properly priced
Sell:	Price is inflated and expected to decrease
Under Review (U/R):	Under review
Not Rated (N/R):	Not currently rated

Summary of Recommendations	
Buy	17
Speculative Buy	1
Hold	0
Sell	0
U/R	1
Total	19