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RESEARCH NOTE

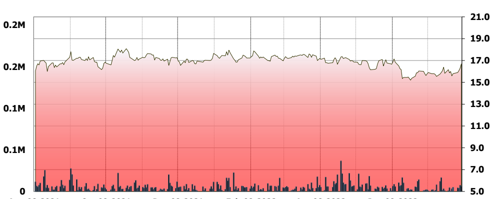
August 8, 2022

ALGOMA CENTRAL CORPORATION (ALC–TSX, $17.25)

Rating: BUY
Target Price: $22.00

DIVERSIFICATION STRATEGY PROVING FRUITFUL

Algoma Central Corporation			ALC
(Currency is C$ unless noted otherwise)			
Last Price ($)			$17.25
Target Price ($)			$22.00
Return to Target (%)			28%
52-Week Trading Range ($)		$14.81 /	$18.93
Average Daily Volume (90-Day)			7.0K
MARKET INFO			
Basic Shares Outstanding (M)			37.8
Fully Diluted Shares Outstanding (M)			43.0
Market Capitalization ($M)			$652.1
Enterprise Value ($M)			$951.7
Dividend Yield			3.94%
FYE: DEC 31	**F2021A**	**F2022E**	**F2023E**
Revenue ($M)	$598.9	$615.7	$619.1
EBITDA ($M)	$189.0	$195.5	$205.3
EBITDA Margin (%)	32%	32%	33%
MOST RECENT QUARTER			**Jun-22**
Revenue ($M)			$183.5
EBITDA ($M)			$61.4
EBITDA Margin (%)			33%
Debt ($M)			$395.7
Cash ($M)			$96.0
VALUATION	**F2021A**	**F2022E**	**F2023E**
EV/EBITDA	5.0x	4.9x	4.6x
Average Peers EV/EBITDA	6.2x	4.6x	5.1x
DISCLOSURE CODE:			None
(Please refer to applicable disclosures on the back page)			
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. Catharine's, Canada.

Algoma Central Corporation announced Q2/22 financial results on Friday after market close that beat our expectations on revenue and were in line on EBITDA. ALC reported revenue of $183.5M (+9% YoY, +15% over 2019), beating our estimate of $164.9M and EBITDA of $61.4M, in line with our estimate of $61.8M (-1% YoY, +17% over 2019). Similar to Q1, the quarter was driven by an increased proportion of revenue coming from the international businesses which has been capitalizing on higher freight rates and volumes. Management remains confident that it can continue to post impressive financial results as economic conditions evolve.

Domestic Dry-Bulk: DDB EBITDA came in at $28.0M vs. our estimate of $31.5M and $37.3M in Q2/21. Revenue came in at $99.3M vs. our estimate of $98.4M and $96.9M in Q2/21. The increased revenue was driven by higher fuel recoveries and slightly increased base freight rates; this was offset by 11% lower volumes and 9% lower revenue days. The decrease in volumes were in response to lower demand in the salt and construction sectors. This plays into the normalizing trade mix theme that management has reiterated the last few quarters. The EBITDA miss was driven by unfavourable lay-up and maintenance timing compared to 2021 as well as inflationary pressures. Management is expecting strong volumes across all commodities in H2, leading to increased fleet utilization; however, management caveats that it expects grain volumes to decline in the fall.

Ocean Self-Unloaders: OSU EBITDA for Q2 came in at $18.0M vs. our estimate of $11.6M and $10.3M in Q2/21. OSU revenue was $50.3M vs. our estimate of $34.2M and $40.0M in the same quarter last year. The large beat was driven by increased pool volumes, higher freight rates and the increased fuel prices. Management expects higher costs throughout the remainder of the year and a sizeable dry-docking period in Q3.

Product Tankers: PT EBITDA was $7.2M vs. our estimate of $9.0M and $8.3M in Q2/21. Revenue for the segment came in at $31.9M vs. our estimate of $30.1M and $28.7M in the same quarter last year. The miss was due to inflationary pressures and a 4% decrease in revenue days in response to unplanned outages on two vessels. Management highlighted that demand is recovering and it expects the fleet to be well utilized in H2/22.

	Revenue ($M)			EBITDA ($M)		
Segment	**Q2/22**	**MPI Est.**	**YoY**	**Q2/22**	**MPI Est.**	**YoY**
Domestic Dry Bulk	$99.3	$98.4	+3%	$28.0	$31.5	-25%
Ocean Self-Unloaders	$50.3	$34.2	26%	$18.0	$11.6	+75%
Product Tankers	$31.9	$30.1	+11%	$7.2	$9.0	-13%

Figure 1: Quarterly Financials

Global Short Sea Shipping: GSS EBITDA attributable to ALC came in at $12.1M vs. our estimate of $5.8M and $8.1M in Q2/21. GSS reported revenue of $71.5M vs. our estimate of $68.5M and $66.5M in Q2/21 (attributable to the JV). The sizeable beat was driven by a 28% revenue increase from the cement fleet which was caused by the addition of three acquired vessels and

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continued rate improvement. Revenue from the handy-size fleet grew YoY while the mini-bulker fleet's revenue regressed YoY due to its reduced fleet size. The EBITDA improvement was due to the decreased number of vessels in the mini-bulker segment. Management is looking for strong rates in H2 with potential for a gradual pullback if global markets slow. The cement segment is expected to remain strong and the addition of two handy-size carriers (which entered the fleet in May) are expected to improve revenue.

On June 30th, Algoma closed the sale of Station Mall, its large regional shopping complex in Sault Ste. Marie. The asset was sold for $30M (~$0.70/share), representing a $14.4M realized gain in the quarter.

Subsequent to the quarter, ALC entered into an agreement to acquire a used vessel for $17.8M and a yet to be constructed vessel for $62.5M. We think that it makes sense to commit more capital to the international businesses given their stellar financial performance this year, capitalizing on the increased freight rates.

Our Thoughts: When we look back at previous recessions, ALC's EBITDA has proved to be fairly resilient and exhibits a strong rebound in the years following (Figure 2). ALC's EBITDA declined only 19% in 2009, followed by a +9% growth in 2010 and +66% growth in 2011. Furthermore, ALC's EBITDA declined just 7% in 2000, before rebounding 31% higher in 2001. 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 this can be a major catalyst for 2023.

Pairing this with ALC's historically large cash balance of $96M, our expectations for $140M+ in EBITDA for H2/22, and the international business firing on all cylinders, 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 slight 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.**

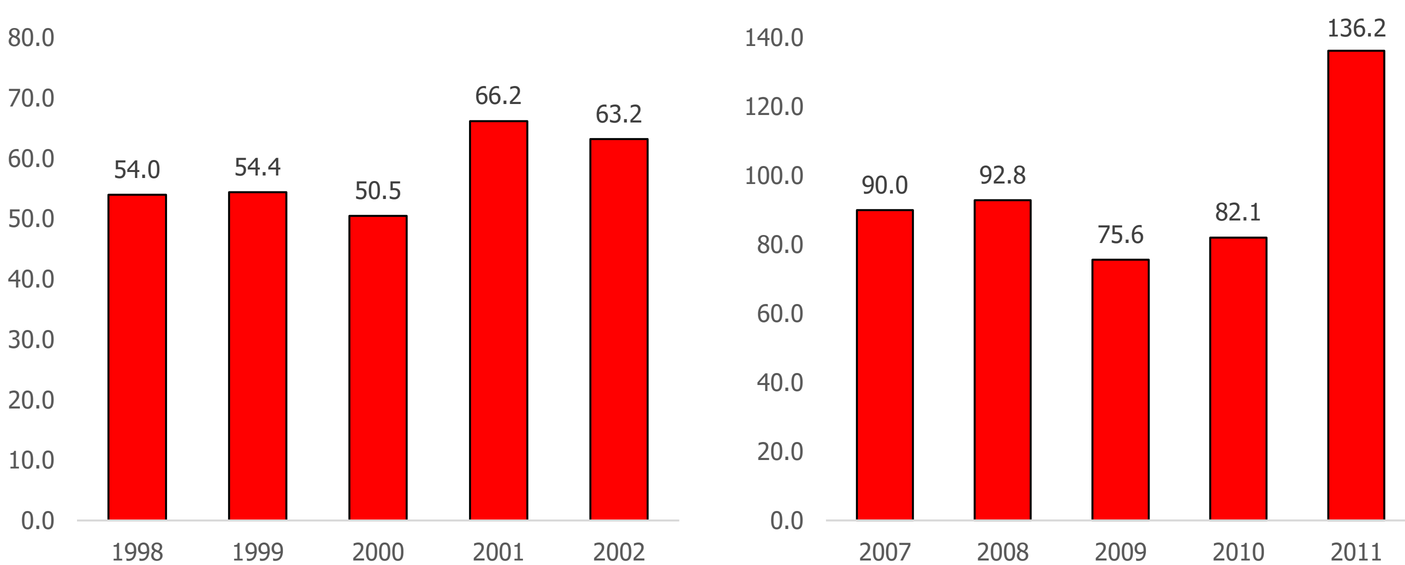

Figure 2: ALC EBITDA During Recessions

Income Statement:	1Q21A	2Q21A	3Q21A	4Q21A	FY21	1Q22A	2Q22A	3Q22E	4Q22E	FY22	FY23
Domestic Dry Bulk	24.6	96.9	109.6	107.7	338.7	24.6	99.3	105.7	102.5	332.0	330.5
Product Tankers	18.2	28.7	21.2	26.4	94.5	18.0	31.9	25.4	26.4	101.8	103.9
Ocean Self-Unloaders	32.5	40.0	41.2	42.6	156.3	40.3	50.3	33.0	51.8	175.4	181.2
Investment Properties	1.6	1.4	2.0	1.5	6.6	1.5	1.3	0.5	0.5	3.8	1.0
Corporate	0.7	0.7	0.7	0.6	2.8	0.6	0.7	0.7	0.7	2.6	2.6
Consolidated Revenue	**77.6**	**167.7**	**174.7**	**178.9**	**598.9**	**85.1**	**183.5**	**165.2**	**181.9**	**615.7**	**619.1**
Consolidated EBITDA	**-6.7**	**61.9**	**69.4**	**64.4**	**189.0**	**-2.1**	**61.4**	**67.3**	**68.9**	**195.5**	**205.3**
EBITDA Margin	*-9%*	*37%*	*40%*	*36%*	*32%*	*-2%*	*33%*	*41%*	*38%*	*32%*	*33%*

Figure 3: Projected Income Statement

Disclosure Code: None

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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