

# **CF Industries Holdings, Inc. (CF) Q2 2024 Earnings Call Transcript**

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**Body**

CF Industries Holdings, Inc. (CF)

Q2 2024 Earnings Conference Call

August 8, 2024 11:00 AM ET

Company Participants

Martin Jarosick - IR

Anthony Will - CEO

Christopher Bohn - EVP and COO

Bert Frost - EVP, Sales, Market Development and Supply Chain

Gregory Cameron - EVP and CFO

Conference Call Participants

Andrew Wong - RBC Capital Markets

Josh Spector - UBS

Steve Byrne - Bank of America

Chris Parkinson - Wolfe Research

Adam Samuelson - Goldman Sachs

Ben Theurer - Barclays

Richard Garchitorena - Wells Fargo

Edlain Rodriguez - Mizuho Securities

Vincent Andrews - Morgan Stanley

Jeff Zekauskas - JPMorgan

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the CF Industries First Half and Second Quarter 2024 Earnings Call. All participants will be in a listen-only mode. [Operator Instructions]

I would now like to turn the presentation over to the host for today, Mr. Martin Jarosick with CF Investor Relations. Please go ahead.

Martin Jarosick

Good morning, and thanks for joining the CF Industries Earnings Conference Call. With me today are Tony Will, President and CEO; Chris Bohn, Executive Vice President and Chief Operating Officer; Greg Cameron, Executive Vice President and Chief Financial Officer; and Bert Frost, Executive Vice President of Sales, Market Development and Supply Chain.

CF Industries reported its results for the first half and second quarter of 2024 yesterday afternoon. On this call, we'll review the results, discuss our outlook and then host a question-and-answer session. Statements made on this call and in the presentation on our website that are not historical facts are forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict.

Therefore, actual outcomes and results may differ materially from what is expressed or implied in any statements. More detailed information about factors that may affect our performance may be found in our filings with the SEC, which are available on our website. Also, you'll find reconciliations between GAAP and non-GAAP measures in the press release and presentation posted on our website.

Now let me introduce Tony Will.

Anthony Will

Thanks, Martin, and good morning, everyone. I'm going to start with a big welcome to Greg Cameron, who joined the CF Industries team as our Chief Financial Officer in June as being his first earnings call with us. Greg brings a strong background in executive leadership finance and clean energy. He is succeeding Chris Bohn, who was promoted to Chief Operating Officer. So welcome, Greg, and congratulations, Chris.

Turning to earnings. Yesterday, we posted financial results for the second quarter of 2024, in which we generated adjusted EBITDA of over $750 million. This brought adjusted EBITDA for the first half of this year to $1.2 billion. We're very pleased with our performance during the quarter, both in terms of how well we operate and also the progress we have made on our decarbonization and clean energy projects.

With that, Chris is going to provide more detail on our operating results as well as on our strategic initiatives. Chris?

Christopher Bohn

Thanks, Tony. The CF Industries team delivered outstanding operational performance during the second quarter. We operated our ammonia plant at 99% utilization rate in the second quarter following a challenging first quarter of production outages. This utilization performance includes the Waggaman ammonia production facility which has been operating approximately 10% above nameplate capacity following its first significant CF led maintenance event.

Most importantly, we operated safely. Our 12-month recordable incident rate at the end of the quarter was 0.17 incidents per 200,000 labor hours, significantly better than industry averages and one of the company's lowest incident rates ever. We continue to advance the series of strategic initiatives. These include our industry-leading carbon capture and sequestration projects that will generate low carbon product and significant 45Q tax credits.

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The Donaldsonville project is on track with sequestration expected to begin in 2025. We also recently announced the carbon capture and sequestration project at our Yazoo City, Mississippi complex. We will invest approximately $100 million in the site to enable ExxonMobil to transport and sequester up to 0.5 million metric tons of carbon dioxide annually. We expect sequestration at Yazoo City to begin in 2028.

Additionally, commissioning for our green ammonia project at Donaldsonville is ongoing as we work to integrate safely, the electrolyzer into our ammonia operations. We continue to evaluate construction of a greenfield low-carbon ammonia facility in Louisiana with Global Partners. We have made additional progress on our auto thermal reforming ammonia plant FEED study, which should be complete before the end of the year. We remain focused on a disciplined approach based on the return profile of new capacity, the technologies needed to meet customers' carbon intensity requirements and the global demand outlook.

With that, let me turn it over to Bert to discuss the global nitrogen market.

Bert Frost

Thanks, Chris. The North American spring application season saw strong demand for urea and UAN driven by higher-than-expected planted corn acres in the United States. This demand absorbed urea and UAN imports that were significantly higher in 2024 than the prior year. Spring ammonia applications were low this year following a strong fall 2023 application season. However, industrial demand and exports offset the lower spring volumes. As a result, we believe the North American nitrogen channel exited the spring application season with low inventories across all products.

This supported our ammonia and UAN fill programs, which achieved prices that were well above last year's programs, but also represent value for farmers despite lower corn prices. Corn prices have been declining due to anticipated high production of corn in the United States and Brazil this year. As a result, the outlook for farm economics is softer compared to recent years. We have begun to see this ripple through different parts of the agricultural value chain. We don't expect to see a major impact for nitrogen given the non-discretionary nature of our products, but we may see changes in buyer behavior.

Globally, the nitrogen supply demand balance tightened as the second quarter progressed. Natural gas curtailments in Egypt resulted in widespread nitrogen production outages from late May to early July, reducing global supply. The continued absence of urea exports from China also helps tighten the global market. We expect exports from China to resume at some point in the second half. However, we believe total volumes for the year will be much lower than the 4.3 million metric tons of urea exported in 2023, given the Chinese government's focus on domestic fertilizer availability.

Brazil and India will be a key focus of the global nitrogen market in the coming months. We continue to project that urea consumption and imports in Brazil will grow in 2024. Imports of urea to India will be lower than in previous years as domestic production has ramped up. However, India has imported less than 2 million metric tons of urea so far in 2024. As a result, we believe substantial import volumes are required in the coming months to meet urea demand in India.

On a longer-term basis, we anticipate growing demand for low-carbon ammonia and low carbon nitrogen fertilizers for traditional applications. We've had a growing number of conversations with customers who want low carbon versions of the products they buy today. This is because the consumers of agricultural and industrial products, including ethanol producers such as POET are increasingly focused on reducing the carbon footprint of their supply chain, which lower carbon fertilizers will do in a quantifiable and certifiable manner. We expect even greater interest as we bring low carbon ammonia and fertilizers to the market.

With that, Greg will cover our financial performance.

Gregory Cameron

Thanks, Bert. For the first half of 2024, the company reported net earnings attributable to common stockholders of approximately $614 million or $3.31 per diluted share. EBITDA and adjusted EBITDA were both approximately $1.2 billion. For the second quarter of 2024, the company reported net earnings attributable to common stockholders of approximately $420 million or $2.30 per diluted share. EBITDA and adjusted EBITDA were both $752 million.

As you can see on Slide 5, the largest driver of adjusted EBITDA variance between these periods in the same periods in 2023 with lower product prices, partially offset by lower realized natural gas costs in our cost of sales.

Our trailing 12-month net cash from operations was $2 billion, and free cash flow was approximately $1.2 billion. We continue to return substantial capital to our shareholders. Over the previous 12 months, we paid $341 million in dividends. We also repurchased 13.1 million shares, approximately 7% of outstanding shares at the start of the period for $1 billion. We have approximately $1.9 billion remaining on our share repurchase authorization, which we intend to complete by its expiration in December of 2025.

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Share repurchases, coupled with disciplined investments in growth continue to offer strong returns for our shareholders. We believe our enterprise value remains significantly undervalued. This is reinforced by two recent acquisitions in our industry. The first one focused on traditional nitrogen products and the last driven by low carbon ammonia that transacted at valuations consistent with our view of our assets, but significantly above our current enterprise value.

With that, Tony will provide some closing remarks before we open the call to Q&A.

Anthony Will

Thanks, Greg. A year ago on our second quarter earnings call, I expressed dissatisfaction with our safety record as we had experienced an unacceptable number of very preventable injuries. I am really proud of the team for their response and focus on this front, and we have achieved fantastic results both on safety as well as our asset utilization and onstream factors. So, really well done to Chris, Ashraf, Sean, Kelvin and the entire manufacturing team.

I also want to recognize the rest of the organization. We are operating extremely well, not only in manufacturing but across the whole company. Our price realizations were strong. We ended the quarter in a fantastic position from an inventory perspective and we are doing a great job on the supply chain side of logistics and gas procurement.

Before we turn to your questions, I do want to highlight one other thing that Greg touched on during his remarks. We have seen two significant transactions recently by knowledgeable successful companies acquiring production assets in North America. One transaction, as Greg mentioned was by a long-term entrenched industry participant in the agriculture side of the business, the other by an energy company looking to capitalize on clean energy attributes of low carbon ammonia.

Both transactions place values on production assets in North America, roughly new build or replacement cost of those assets. So it is clear that knowledgeable companies looking at the space see higher cash generation and more persistence of that cash generation than the general market recognizes. With our operations really hitting on all cylinders and our world-class EBITDA to cash conversion efficiency, we are in a unique position to continue creating significant value for our long-term shareholders.

In fact, over the last 15 years, we have leveraged our cash generation to buy back half of the outstanding shares of the company, while increasing our production capacity by over 1/3. This formula of adding capacity in a disciplined way, while reducing the outstanding share count has driven the best total shareholder return results in the industry. As we look forward, we see the opportunity to continue with this winning approach, providing superior returns for our shareholders.

With that, operator, we will now open the call to your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Andrew Wong with RBC Capital Markets.

Andrew Wong

It sounds like you're receiving more interest in low carbon ammonia from the agriculture side of things, which I think is a bit of a shift from about a year ago when we were all kind of talking about more interest on the industrial side of things. So can you talk about that shift and what that might mean for pricing of low-carbon ammonia?

Bert Frost

This is Bert. I think it's -- the question is a focus of where we are driving our business in all different formats. So energy is a focus, industry is a focus and ag is a focus. And because we're netback-driven or value-driven, we're going to pursue each of those vectors with vigor in the context of what it can do for the company to move these products. As Chris mentioned in his remarks, we're leading the industry in bringing these products to market and also discussing that with our customers.

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And as I said in my remarks, the feedback is, as folks and customers are looking at their scope missions in their process, whether that CPGs or an industry or ag or ethanol low-carbon products will play a valuable part of that solution. And so that's where we're talking about increased activity. Regarding pricing, we believe and we have already been discussing that in the context of those discussions that a valuable part of our component, not only what we received from the tax credits. But as we put these products to market, we're expecting to receive a superior value to conventional.

Anthony Will

And Andrew, I'm just going to tack on one other thing. It's not that we've seen a diminution or reduction on the industrial or energy side for these products. It's just what has happened is on the agricultural side, we've seen demand develop that we hadn't previously recognized. What we're also seeing is a lot of interest from other potential industrial companies and looking at new low-carbon intense ammonia production for a variety of potential industries that they're focused on as well. So we're not only seeing it in terms of demand across the product space, but also demand from companies that are looking to vertically integrate their inputs.

Christopher Bohn

Yes. And I would just one point to that. I think the agricultural side is also seeing how they can benefit through the industrial side. So for example, with some of the incentives related to the 40B and the 45Z, how low corn production or agricultural production could work into fuel standards, whether it be sustainable aviation fuel. So it's seeing the whole value chain and where they participate in that.

Andrew Wong

And then maybe building on top of that then, you talk a lot about the potential for more ammonia supply and the potential for oversupply. But given we're seeing building demand trends around different industrial applications and maybe on the ag side as well. Like is it possible this is an area where maybe the demand for low carbon ammonia could be strong enough to maybe just tighten the overall market just because of how long it takes to build on these plants. And obviously, we know that, that doesn't always go smoothly.

Anthony Will

I think what we're seeing right now is just based on kind of expected nitrogen demand growth even in traditional applications. Looking forward, expected new demand is outpacing the amount of new construction that is already occurring. And so we expect a natural tightening in the S&D balance even before you layer on top new sources of demand for decarbonized products. So we absolutely think there's going to be a tightening in the overall S&D balance on the nitrogen side. And that's one of the reasons we're so optimistic about what the future looks like for us.

Operator

The next question comes from Josh Spector of UBS.

Josh Spector

I actually want to follow-up on a comment Tony, you made towards the end and Greg talked about it with the value of transactions that are out there. And I mean, I guess, to the extent you're willing to kind of opine a little bit here, I mean, the OCI transaction, obviously, there's like hydrogen feed and some other shared economics in that facility, but it was call it, now $2,100 a ton nitrogen, the Koch acquisition that was done was maybe closer to $4,000 a ton. So I wonder if you could talk about those two different dynamics and what view is the right value for your assets given that quite a wide range that's been provided by the market lately.

Anthony Will

Yes, Josh, I think it's a great question that you bring up, but I think you're thinking about this a little wrong. So the way to think about the Woodside OCI transaction as you take a conventional plant and you basically cleave it in half between the front end of the plant and the back end of the plant. And what's essentially happened is I think Linde is putting about $1.8 billion in the ground to create the front end of a plant. And now you've got Woodside that's paying $2.35 billion for the back end of that plan. So you add those together to really look at what an integrated plant looks like, and your north of $4 billion.

Now the piece that Linde is building is a bit larger from a capacity standpoint than just the requirements of the back-end ammonia plant but you do get efficiencies of scale when you start getting into a large production volumes. And so that doesn't scale on a linear basis. If you drop that plant down to kind of just what's required on the input basis, you're still probably talking about $1.3 billion to $1.5 billion. So you're looking at an integrated equivalency plant that's probably pushing [3.75 to 4] on that basis. So you really need to think about it in terms of what the total cost of construction of that plant is.

And by the way, Linde has got a take-or-pay on the inputs that they're providing to across the fence line to what's now going to be the Woodside plant. And they're expecting a good rate of return on that. So you can't just look at the back end of the plant and try to do the math on it. You really have to look at what they're paying for the hydrogen, the nitrogen, the oxygen and then capitalize that back into the full cost of what a plant is.

Christopher Bohn

Yes. And I think what you'll find when you do that, Josh, is that it's pretty similar to what the Iowa transaction was as well. And that really leads to Tony's comments that you have two sophisticated buyers who are making these investments, one for agricultural, one for energy, but they both see the sustainable free cash flow generation that underlies those assets. And specifically, our assets are similar, if not identical, in some cases to that, but all the way on the low end of the cost curve in the first quartile.

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Josh Spector

Definitely a different way to look at it. I want to follow-up and just ask a little bit more longer term on the blue ammonia off-take or really your decision on FID for the greenfield facility. Just I think you've been helpful about thinking about the milestones needed within Japan, Korea, et cetera, to kind of say when they're comfortable knowing what they're willing to pay in terms of contract for difference to maybe enable some of those contracts. So is there any update you can provide on the time line there beyond your FEED study that will be required for decisions to be made?

Christopher Bohn

Yes. So Medi published yesterday, I would say the closest thing to the time line that they have right now. So they put out some of the requirements for the carbon intensity and then it's in public comment period right now for the next 30 to 60 days. So if you think about it, it's really -- public comment is this good for Japan in total, bringing in low-carbon ammonia and co-firing with coal.

Once that period has gone through and Medi is the Ministry of Economic and Trade for Japan. They're the ones that are going to be making the recommendation to the government for the contract for difference, just to be specific on that. So once they have that time line, applications and submissions will go in. So that will be like the end of October, November for our projects with our partners. Medi then will have probably three months to four months to choose which projects both from a hydrogen side and a low carbon ammonia side that they would give the contract for difference for.

So we're looking now at a more, I would say, more clarity on call it, mid-Q1 for that to be determined. But as Tony mentioned, I think the one thing that we're seeing is a little bit more interest around from other industrials globally on this low carbon front, both from an agricultural but also from industrial applications as well. So, a lot of activity that we're feeling pretty good about with our project. But again, all this is based on waiting for the FEED study to be completed by the end of the year.

Operator

Next question comes from Steve Byrne with Bank of America.

Steve Byrne

Bert, you were talking about the strong ammonia applications last fall. Would like to drill into your brain on what your expectations are for this coming fall. You got the outlook for grower margins looks tighter and you got the soybean corn ratio looks like there might be a shift back to soybeans. Do you have a view on whether -- on the strength of the fall season? Or could the uncertainty lead to kind of a shift more towards next spring?

Bert Frost

So regarding the fall of 2023 was a big season for us. And in the spring this year, as I mentioned was lighter. However, for the fall programs, whether that be urea, UAN or ammonia, there's been very good uptake and it's a good value. The value that we put out for the fall application program was well received from a broad array of customers. And so we're expecting a solid fall application weather permitting.

And the outlook -- yes, the grower outlook at $4 corn today were sub-$4 in the cash market, forward market for this 2025 is in the $4.50 range, which is acceptable. And so it's a question of how farmers are managing their economics. But fertilizer in general, that's [NP&K] on a revenue basis is still in that 20% range, which is acceptable, we think that nitrogen is a good value today. And will be well uptake, and we're expecting 90-plus million acres of corn for next year, which will then support, I think, not only ourselves but the imports that come in and so we're positive for 2025 in the fall application of 2024.

Steve Byrne

And Chris, I wanted to just drill into the FEED studies a little bit with you. You have the FEED study for a new SMR plant, which you know that technology well, and you're working on one with an ATR. And you need a carbon capture control technology to add on to the SMR, is it fair to assume that what you're looking for there might have something like a 75% control just so that the overall carbon capture is roughly the same as the ATR approach? And are you looking at a variety of technologies and maybe even something that would be more modest in control, maybe lower CapEx if the Japan authorities don't require 90%, 95% to qualify as flue?

Anthony Will

Yes Steve, I'm going to start, and then I'll hand the question over to Chris. So we are going through a flue gas capture FEED study right now. And part of that is does it make sense if we were going to do a new build on an SMR, but part of it also is informing us in terms of the path forward of how we're going to long-term approach getting to net zero by 2050. And there's definitely going to have to be a flue gas capture component of ultimately how we get there, in order to make it work. So this is not only good for the current but good for the long-term as well.

And as you say, I think you can design these things at different levels of carbon reduction coming out of the flue. The problem is that sort of thing affects the geometries of the vessels. And so, if you were going to go to all of the pain and hassle of an expense of putting in flue gas capture. It's fairly shortsighted, I think to undersize that unit or to make it so that it's not terribly efficient because then ultimately, if your goal over long-term is to get to net zero, you're going to have to mostly replace or rebuild all of that capital you've already put in the ground.

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But it is certainly something that we're looking at and evaluating. We actually believe that the value of a superior decarbonized product is going to be such in the marketplace from a demand standpoint that extracting as much carbon out of it as you can is going to pay for itself. Not only do you get the 45Q benefit, but also the market demand for -- and premium that would be accompanying a decarbonized product, I think will carry the day.

Christopher Bohn

Yes. Really not much to add from that, but just to agree with Tony, that I think over time, the carbon intensity and the more you can reduce it, the more incentives or the more premium you'll get for that. If you look at the CBAM, that will be going in place really at the end of 2025 here beginning in 2026, with some of the carbon charges to it is going to be based on carbon intensity and how much you get charged based on that.

So having the lowest you possibly can -- will be better. Same thing as we look in Asia primarily is for the biggest reduction that we -- the biggest reduction of carbon is going to be the most beneficial for us.

Operator

The next question comes from Chris Parkinson with Wolfe Research.

Chris Parkinson

Let's switch it up a little bit. When I'm thinking about the second half of 2024 and into 2025, can you just update us on your current views of both, let's say, your production rates in both India and China as well as import trends in India and export trends or lack thereof in China. Just what is your latest thought process based on the developments over the last few months?

Bert Frost

When you're looking at India, there has been, as we communicated a growth in domestic production, which has been the Made in India movement by Prime Minister, Modi. And they've been successful in that. However, taking a step back and looking at those investments, with the cost of LNG being 60% of their gas needs, those are expensive operations, not only from a CapEx position but from an operational and a delivered basis. But doing what it is, that's what they've chosen to do.

And so exports or imports to India have declined over time, and we're projecting those to be in the 5 million to 6 million ton range for 2024. To date, and that's a January to date, India has imported about 2 million tons, including their NIFCO tons. And so we would expect over the next several months, September, October, November, December, you would probably see approximately 3 million tons. And so India is still a significant importer but has now fall into the second place as Brazil has taken over the lead for the largest importing country at approximately 8 million tons. And that's been a tremendous growth of demand reflected in their exports of corn and other products. So Brazil is the agricultural powerhouse we've been projecting for years, and we'll continue to grow in their imports of nitrogen.

When you look at China, just the second part of your question that has been a great moderator to the -- or the supply of urea for the world. China has been in the 3 million to 5 million-ton export range for the last several years. And this year, it's almost insignificant because it's almost zero of their exports to date. We have talked about them being in the 2 million to 3 million-ton range. I don't think that's a questionable volume.

And so when you put that in perspective of if the world export vessel traded market is approximately 55 million tons, taking 3 million to 4 million tons out of that supply is a great supporter of the current price structure where we are, that as well as the Egyptian loss of production in May through July, as what has been supporting the price structure that we have today.

Chris Parkinson

Just a quick follow-up. Over time, you've traditionally converted correct me, if I'm wrong, about 70, and if you adjust for a tax in a few years ago, probably close to 80% of EBITDA and free cash flow. Can you just help us, especially given your remarks about some transactions in the space? Can you just give us how the market should be thinking about buyback activity versus potential CapEx outflows in terms of the cadence, not only '24, but also when CapEx could even rise in the future. So just help us think about the balance of capital allocation over the next 18 months or so, just given that conversion rate.

Christopher Bohn

All right. I'll start with the CapEx part, Chris. Our CapEx that we have is right now in the range of $550 million. As you know, having followed our company long enough that Q3 is when we do a lot of our planned maintenance. So we'll see probably a little heavier spend in Q3 here along with some of the production being a little bit lower. But with the full year being at gross ammonia production of the 9.8 million tons we talked about.

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As we get into an FID and say it's a positive FID to move forward with a new plant, the spending really occurs over five years, and it's almost just like a standard distribution a little bit with the beginning spend being relatively thin and then getting into years back half of the second year, third and fourth year, heavier and then the tail back on the fifth year.

So a bit longer of a spend trajectory than the actual construction of plant itself is how we plan that out based on whatever our share component of that will be.

I'll let Greg talk about maybe share repurchases.

Gregory Cameron

Yes. So as I said in the remarks, we have about $1.9 billion left in our current authorization, and we plan to complete that opportunistically by the end of December of 2025.

Anthony Will

And I would just add one thing, Chris, which is the good news, you mentioned our best-in-class EBITDA to cash conversion. And I think somewhere fairly traditionally in the 60% to 70% range is pretty normal for us. We were a little lower given kind of some of the operating challenges we had in Q1 with the weather-related outages and then the ripple on in terms of what that meant from some of our industrial ammonia contracts. But I would expect us to kind of get back into that range. That's pretty normal for us. And at that kind of conversion efficiency and cash generation, it's not an either/or question. It's both.

And even if illustratively you're talking about a greenfield project if we decided to go forward with it that's in the range of what the Woodside/Linde project is trading at. If we're only doing kind of 50% of the capital on that spread over four or five years, it's not such a heavy capital load on us given our cash generation that we can't continue to do pretty significant share repo at the same time. So our view is it's the formula that we have used in the past of disciplined and addition of capacity while reducing our share count, we think works on a go-forward basis and we expect to continue to generate superior returns.

Operator

The next question comes from Adam Samuelson with Goldman Sachs.

Adam Samuelson

Bert, in your prepared remarks, you alluded to potential changes in buyer marketing patterns over the balance of the year. And I just wanted to clarify, is that a lot of the global pieces that you were just answering response to Chris' question? Or was there shifts you're seeing amongst your U.S. domestic customers in the fertilizer space? And if so, could you just elaborate a little bit on what is changing in terms of how people are buying fertilizer for the second half of the year?

Bert Frost

Yes. There's been a trend with buyer behavior of deferring or delaying purchases over the last couple of years. And I think as a reflection of the ag market cycle and lower corn prices to farmers, and therefore, lack of farmer liquidity or maybe financially stressed, those purchases could be delayed to the retail sector. And so based on that, we've gone into a little more of a defensive mode. We've worked on our -- we've kept our inventories low, and we have moved our programs forward and a successful launch of our fall and fill programs, as I mentioned, and so how we're operating is in the context of if that eventuality of delayed purchases were to happen, we won't be constrained as a company.

So we've leveraged the utilization that's at our fingertips. So exports, distribution, modes of distribution, production allocations as well as our communication with our customers to make sure we always position CF Industries in the most opportunistic way.

Adam Samuelson

And if I can just ask a follow-up. I believe you had the supply agreement for ammonia to Mosaic for most of the last decade. I believe that you've exercised your right to terminate that supply agreement beginning in January. Just how do we think about the non-trivial amounts of your own ammonia volumes, how do you think about -- how you're thinking about marketing that next year or you working to renegotiate the terms of that agreement?

Bert Frost

Mosaic has been a fantastic customer. And that was a partnership that was a result of us selling the assets to phosphate production assets to them in Florida which they were, I think, a more economic owner of as well as then associating the ammonia contract, a long-term very large supply contract which was beneficial to CF when we were starting up our new production assets in Donaldsonville to have an outlet.

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As we've rolled forward, I think both companies realized that we were the one to execute the contract and to terminate it. But we're in negotiations and conversations with them to continue supply, and we anticipate Mosaic to always be a fairly large customer of CF Industries, and we have a great relationship with them, and they're doing a good job.

However, there are additional tons, which we have been working on over the years to market. And we do have additional outlets. We've been active in the export market, both with moving ammonia to different locations as well as augmenting our industrial contracts and customers to have a more balanced portfolio.

Christopher Bohn

Yes. And I think as Europe implements the financial aspects of the CBAM, going forward to there may be more alternatives that provide a higher netback for that low carbon ammonia that will be in production next year for Bert and his team to evaluate as well.

Operator

The next question comes from Ben Theurer with Barclays.

Ben Theurer

First of all, congrats on a very strong second quarter. Just wanted to give your thoughts around just the cost piece of it, gas pricing and obviously, would it potentially does in Europe right now from a capacity point of view. You've highlighted in your prepared remarks, it was an offsetting a little bit the price decline clearly during the quarter from an EBITDA perspective and also on a first half basis. So as we see it right now, where do you think the spread is going to trend out just also given the geopolitical tension in the Middle East? And have you done any sort of like contracting, hedging et cetera, just to lock in those lower costs that are prevailing right now in the North American market, my first one.

Christopher Bohn

So Ben, this is Chris. I'll start with the European side. So as you mentioned, we continue to see Europe being challenged by the energy costs even before some of the geopolitical events that have happened over the last few days in Ukraine and also in the Middle East. So that's something that we see continuing.

And then on top of that, we've done a pretty in-depth analysis of the European assets and we're seeing pretty large maintenance events that are going to be coming forward for some of the plants, and they have to make the decision whether you make those significant capital investments or whether you curtail or shut down completely.

I mean, as we've talked about before, the best example of that is what we've done in the U.K., where some of those capital expenditures were going to be so large. We are better off importing ammonia and then just upgrading it from there. So our expectation is between now and 2030 that we see even more tightening in the supply market in Europe related to those two factors, both the energy and then just the additional capital costs coming.

And that really is what we see as an opportunity for us out of Donaldsonville, where we have the export capability, and we'll be the first to have low-carbon ammonia and low-carbon products. So we almost see it as a carbon arbitrage opportunity given that we'll be the first mover on low carbon to Europe.

But I'll let Bert talk about our hedging strategy.

Bert Frost

Where we are on gas and you see it reflected in our Q2 exceptional performance and great job to the gas team is we're wide open in the cash market, and we're believers in the future of North American production. Today, we're running at a rate of about 102 Bcf and with exports still in the 12 Bcf to 13 Bcf per day and the spreads, you're still injecting and building inventory and that's what's driving and keeping the Henry Hub price lower.

And so the spread against the international market, TTF or JKM, Europe and Asia is over $10, and that's an exceptional place for us to be as operators of these assets. But when you look at the trends, you've seen what happened in Egypt when it turns to summer and they want the gas for electricity or other purposes. They're now a large importer of LNG or Trinidad on the gas constraints that we're experiencing with our own assets.

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And so what will happen when you combine the EU and North Africa and Trinidad combined with their production assets and the global S&D for the products that those plants produce, it places, again, like Chris said, an exporter or a producer like CF Industries in a fantastic place outside of what could happen in the Middle East with all the disruption in Gaza and the Red Sea. So I think we're well positioned.

Anthony Will

I'd also add that what we're seeing and some of this is being driven by machine learning and AI applications and the proliferation of that is the number of data centers that are going up globally is significant and the expected energy draw against those per data center installation is really large. And I think some of the estimates that we've seen is by the end of this decade, there's going to be about 4 Bcf of incremental gas conversion into electricity just for data centers in the U.S. alone.

And so the energy is not -- or the world is not reducing the electricity demand to the contrary, it's going up quite heavily. And so to be in a place in that environment where energy is short and tight where we have the kind of resource base that we do have in the U.S., you really couldn't be in a better place. And I think that's one of the reasons why assets over here are trading the way they are.

Ben Theurer

And then just following up, you've talked a little bit about the Waggaman integration, but just wanted to understand where you're at in terms of like efficiency at Waggaman versus your own legacy assets? Where is still the potential? And just like from an operating run rate perspective. Where are you at right now? And where do you want to be maybe by year-end or in the first half of '25?

Christopher Bohn

So what I would say, Ben is right now, the plant is currently operating at about 10% above its nameplate capacity. And that's pretty much in lockstep with a lot of our legacy plants that we have in the CF network. We haven't really evaluated doing any debottlenecks there at this particular time. I think our goal is just to have upstream on time to be the plant operating more consistently, which it has been since we took it down. If you recall, in the first quarter, it was one of the sites where we had an outage.

Our team pulled-forward some of the work and got in there and accomplished a significant amount of maintenance work during that particular time frame. And since then, the plant has been operating fantastic. So from that integration standpoint, we feel very comfortable that where we're running now is where we'll run for the remaining part of the year. As time goes on, we'll look at other projects that may involve with debottleneck and definitely will involve carbon sequestration.

Anthony Will

The other thing I'd just add is from an efficiency standpoint, I think I'm right in saying that is the most efficient plant we have in the entire network. And we're running at, I think, under 30 MMBtu per ton of ammonia, where the legacy systems, not including the recent expansion plans, but the legacy systems are more like 33, 32, and even the expansions are in the 30 range. So not only is it a fantastic plant from being able to operate above nameplate, but it's the most efficient plant in the system. And we've got a really engaged workforce down there. We could not be happier with that acquisition.

Operator

The next question comes from Richard Garchitorena with Wells Fargo.

Richard Garchitorena

So I was wondering if you could maybe give us an update in terms of how you're thinking about the market environment for clean ammonia today versus when you started your process to build out the strategy. Obviously, the recent OCI transaction would confirm, I guess, value that's out there. And then also, we had conflicting views out there in terms of the viability more green ammonia than blue ammonia, but maybe just some updated thoughts would be great.

Christopher Bohn

Well, I'll start. One, we're extremely positive. We think the transaction, I should say, is positive for the industry with Woodside because it's pretty much validates not only our clean energy strategy but the conversations they're having globally, they're seeing the sort of the same type of demand shoots and new centers starting to evolve, whether it be in power generation or in just marine fuel or just in really placing or supplanting higher carbon nitrogen today. So very positive on that.

I think what we've seen change over the time is what Bert talked about in the beginning is that we are largely industrial focused. And we are seeing the pull happen more from power gen and marine side and even sustainable aviation fuel. Now what we're seeing is the agricultural side is probably seeing where they fit into that. And then there's also the demand pull side that's coming more from the CPGs who want a lower carbon product as they're moving forward.

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Bert Frost

I agree with Chris. In terms of where we are in our evolution in this process, we're focused on the business and where we can generate higher revenues and higher profitability and clean products are going to be a part of that. And it's amazing the receptivity from the processors.

Again, when you look at the corn value chain in and of itself of what low-carbon product low-carbon ammonia or ammonia to upgrade it as UAN or as ammonium nitrate. What that can do in that value chain for corn or wheat as you take it through to the farmer and the farmer does beneficial practices that are being focused on today through the processor and as we sequester that CO2 from, let's say, the ethanol producer, you have a very -- a very low carbon finished product that can go into sustainable aviation fuel or ethanol. And those -- that's where we're focusing our attention on the ag cycle.

Christopher Bohn

And I would say the discussion about blue and green, I would just call it, it's all going to be, as I mentioned earlier, on a carbon intensity. I think to get to zero carbon even as we start to commission our particular plant down there, which is about only 20,000 tons a year. The cost of green is just very significant. And the energy pull on that, but not -- without having the renewable energy sources in place, it's going to be very difficult to leapfrog low carbon and get right to zero. I think as time goes on and by time meaning decades, you'll start to see it evolve to that. But today, when you can get to 65% to 95% carbon reduction that's what's going to lead the day today.

Bert Frost

And I think that's where you see the stalling globally of the green projects where you see CF and others leaping ahead with low carbon products.

Richard Garchitorena

And then during the quarter, you also moved forward Yazoo City with CCS. Given how well Waggaman is running, can you maybe talk about potential moving forward with other projects on CCS maybe in that regard?

Christopher Bohn

Yes. As we've talked about all along, we have a hierarchy of plants that we were hitting that were the most attractive and the soonest to execute so we could move on those. The first being Donaldsonville, the second being Medicine Hat, Yazoo City, so we've executed with Yazoo City, so we're working on Medicine Hat. Waggaman, our initial goal there was just the utilization rate and getting that stable and moving forward with the projects we have in place from a maintenance standpoint. But that definitely is probably the next on the list after Medicine Hat that we begin to look at CCS in that particular region.

Operator

Next question comes from Edlain Rodriguez with Mizuho Securities.

Edlain Rodriguez

Tony, a quick question for you. Like you talked about like the stock being undervalued and those two transactions clearly prove you right. The question is, how do you unlock the value? Like what do you need to do? Or what can you do to make investors see the light?

Anthony Will

Yes. I mean I think from our perspective, Edlain that we're going to continue to do what we have done, which is just continue to buy the shares out of the marketplace. We've taken 50% of the company's outstanding share count out already, and that has benefited significantly the long-term shareholders that have been with us on that journey, and we're going to continue to do that.

And eventually, those that are left will be able to recognize and see the amazing amount of aggregate cash flow and the few number of shares out and that will by definition have to translate into a share price that is, I would say, more reflective of the value of the asset base. But until that time, we're happy to be patient and continue to buy shares out and for the benefit of our long-term believers.

Operator

The next question comes from Vincent Andrews with Morgan Stanley.

Vincent Andrews

Can I just start off by -- I just want to clarify a few things that have come up on the blue project, one would be that is FID still intended for later this year? Or did the Medi thing push it into 1Q? And I guess, on top of that, it sounds like you're seeing a lot more demand from multiple actions versus previously. So is there any scenario where the scope of the plant increases? Or is there a second plant? Or does that incremental interest make you willing to move forward maybe with -- maybe ahead of Medi or without take-or-pay contracts or has anything changed in sort of the way that you want to have everything postured before making FID.

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Christopher Bohn

Yes. So I think the Medi decision time frame is one aspect that's in our partnership with JERA, where they would feel comfortable moving forward once they know what the contract for difference is. However, in saying that what is really the gating item initially right now is completion of the FEED study and our understanding that's going to inform what is the CapEx, what is the volume we can get off of that. And then out of that, what is the return profile.

And if that's significantly above our capital -- our cost of capital, there's other partners that we're also in discussion with that could accelerate that. So I wouldn't say it's 100% pinned to Medi just given some of the other activity that we've seen around that. I think given the size of the project, there's two ways we look at partnership. One would be in an equity investment and one would be a long-term off-take no differently than we've done in the past with CHS and as Bert talked about earlier with Mosaic.

To move to a second plant right away, I think we would need probably really to be ensured that we had partnerships and the cash flow. As Tony said, we're looking at this in a very disciplined way while continuing to do capital allocation back to the shareholders, but also grow and we think right now, our focus is on that first plant at the blue point side.

Anthony Will

Yes. And I would just echo that, which is having partners that are in there with us not only on to kind of share the capital commitment, but also take the product off-take is an important aspect of this from our standpoint, just in terms of risk mitigation. And so the Medi thing relative to JERA being a potential partner does elongate that time horizon. But as Chris mentioned, there's a lot of other interest from other parties that we feel like if the project holds water from a return profile perspective. There won't be an issue with respect to us having others join us.

Operator

The next question comes from Jeff Zekauskas with JPMorgan.

Jeffrey Zekauskas

I think you sold $47 million of emissions credits -- is that $47 million that net benefited EBITDA in the quarter? Or is the number larger or smaller?

Anthony Will

No, that does. And it's actually fairly comparable to what we did a year ago. Those were credits that were -- that were provided by the U.K. government as part of the overall ETF submissions scheme in the UK. And we are, at this point, given the fact that our ammonia production is offline kind of largely through that bank of credits. But on an account basis quarter-over-quarter from last year versus this that number didn't change dramatically.

Jeffrey Zekauskas

And looking at the language that you described Donaldsonville and the Mississippi plant, it looks like the Deville carbon dioxide will go into enhanced oil recovery, whereas the Mississippi plant will have carbon dioxide that's sequestered.

In the new plant that you want to build the new greenfield plant, does it make a difference to the carbon footprint if you have to go an enhanced oil recovery route versus a sequestration route? Or how much of a difference does it makes?

Anthony Will

Yes. It matters a little bit in terms of the value of the 45Q tax credit. The payments higher, if you go into a Class 6 well than EOR. The agreement that we have with ExxonMobil was contemplated on a Class 6 well, and so that is still for both plants, both Deville and Yazoo City. So that is still the expectation of where we're going to end up longer term.

There is a question in terms of whether Class 6 permitting will be completed by the time that we're ready to begin injection from our side. And so there may be some transition period that we are talking about whether that makes sense to accelerate and go into EOR for a period of time before Class 6. But more to come on that front. Our perspective is the world is going to continue to need that oil. And whether it's our CO2 or whether it's CO2 that comes out of naturally occurring sources like Jackson Dome in Mississippi or other places, that oil is going to get produced.

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This is a net reduction in the amount of emissions that we're providing that's going into the ground and staying there and the oil is coming out anyway. And so our perspective is this is nothing but good for the environment. I think different potential customers may have different perspectives on that. And we've got to align with customer requirements. But in the near-term, the difference really is about the value of the 45Q tax credit. But longer term, the intent of all of our agreements is Class 6 permitting.

Jeffrey Zekauskas

No, I get it that there's a different remuneration if it's sequestered versus EOR. But what I was wondering is in terms of the way the carbon footprint is thought of by, say, the Japanese are they going to make a different calculation or you make a different calculation.

Christopher Bohn

Yes. I think that's what Tony was trying to explain that certain customer bases are going to view EOR differently than a permanent sequestration. So as you look to Asia, it's more permanent sequestration is a requirement. I think as you look here in the U.S. and some of the other regions around the world, EOR given his point that he made, it's still sequestering CO2 will be acceptable. We look at it both on a strategic basis from that, but also on the economic as he explained as well.

Operator

Ladies and gentlemen, that is all the time we have for questions today. I would like to turn the call back to Martin Jarosick for closing remarks.

Martin Jarosick

Thanks, everyone, for joining us today. We look forward to seeing you at upcoming conferences.

Operator

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

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