

# **FTAI Infrastructure Inc. (FIP) Q1 2024 Earnings Call Transcript**

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**Body**

FTAI Infrastructure Inc. (FIP)

Q1 2024 Earnings Conference Call

May 8, 2024 08:00 a.m. ET

Company Participants

Ken Nicholson - Chief Executive Officer

Scott Christopher - Chief Financial Officer

Alan Andreini - Investor Relations

Conference Call Participants

Guiliano Bologna - Compass Point

Presentation

Operator

Good day and thank you for standing by. Welcome to the Q1, 2024, FTAI Infrastructure Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Alan Andreini, Investor Relations. Please go ahead.

Alan Andreini

Thank you, Dee Dee. I would like to welcome you all to the FTAI Infrastructure, First Quarter 2024 Earnings Call. Joining me here today are Ken Nicholson, the CEO of FTAI Infrastructure, and Scott Christopher, the company's CFO.

We have posted an investor presentation and our press release on our website, which we encourage you to download if you have not already done so. Also, please note that the call is open to the public in listen-only mode and is being webcast.

In addition, we will be discussing some non-GAAP financial measures during the call today, including adjusted EBITDA. The reconciliation of those measures to the most directly comparable GAAP measures can be found in the earning supplement.

Before I turn the call over to Ken, I would like to point out that certain statements made today will be forward-looking statements, including regarding future earnings. These statements by their nature are uncertain and may differ materially from actual results. We encourage you to review the disclaimers in our press release and investor presentation regarding non-GAAP financial measures and forward-looking statements, and to review the risk factors contained in our Quarterly Report filed with the SEC.

Now, I would like to turn the call over to Ken.

Ken Nicholson

Okay, thank you very much, Alan, and good morning everyone. This morning we will be discussing our financial results for the first quarter of 2024, and in doing so, I'll be referring to the earning supplement, which we recently posted to our website.

Before getting into the financials, I'm pleased to report that our board has authorized a $0.03 per share quarterly dividend to be paid on May 29th for the holders of record on May 17th.

Now onto the results. First quarter adjusted EBITDA prior to corporate expenses came in at $37.2 million, up 24% from the first quarter of 2023, and largely in line with EBITDA for the fourth quarter of 2023, when you exclude the impact of several one-time items at our Jefferson Terminal. Our performance for the quarter was driven by continued strength of Transtar, our biggest cash flow generator, and steady operations at Long Ridge, while Jefferson results were impacted by a longer than expected maintenance overhaul at the Motiva refinery, which I'll talk more about shortly.

Looking forward, we expect Q2 to demonstrate continued momentum across our companies and results of new business wins and multiple initiatives, which we implemented last year. We continue to forecast generating in excess of $200 million of run rate EBITDA during 2024.

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In terms of the highlights, at each segment Transtar posted $21.7 million of adjusted EBITDA, generating new records in each of car loads, average rates and revenue. Operationally Transtar had an excellent quarter and would have posted record EBITDA after adjusting for fuel surcharge timing and the receipt of 45G tax credits, which hit the P&L only in the fourth quarter of each year.

Pricing increases in several new business activities, including our new railcar repair facility having already begun to contribute in 2024, so we expect momentum to continue at Transtar in the year to come.

At Jefferson, EBITDA was $6.8 million for the quarter, reflecting the 45-day maintenance overhaul at the Motiva refinery. Had Motiva operations stayed steady, we estimate EBITDA would have exceeded $10 million in Q1. With the outage behind us, Jefferson operations are more active than the ever, and the most recent month of April has posted record volumes and revenues, putting us on-pace to post record results in Q2.

At Repauno we made significant progress on our Phase 2 expansion project that will transform our business and long-term EBITDA generation, and finally at Long Ridge, results reflect consistent operations at a 98% capacity factor, as well as reduced third party gas sales given the lower price environment for natural gas.

We continue to be extremely optimistic about our prospects at Long Ridge, particularly for AI data center demand and believe the opportunity for creating substantial value from behind-the-meter customers is stronger than ever.

Briefly on the balance sheet, total debt of $1.3 billion at March 31 was unchanged from last quarter. $562 million of debt was at the corporate level, while the rest of our debt was at our business units. Transtar continues to be completely debt-free, while approximately $753 million of debt was at our Jefferson segment and $50 million was at Repauno.

This week, we plan to launch a new debt financing at Jefferson, with proceeds used to refinance a portion of our existing debt coming due next year, and to finance construction of dock improvements at our new Jefferson South site in connection with the long-term clean fuels contract we signed last year.

Importantly, as part of the upcoming Jefferson financing, we also plan to incorporate a tender offer for some of our existing debt, allowing us to opportunistically take advantage of the embedded discount and some of our outstanding tax exempt bonds which carry lower coupons. If successful, the tender offer will enable us to reduce our aggregate debt balance in a cash-flow neutral manner, ultimately increasing the equity value of Jefferson. We expect the financing to be in the market over the next couple of weeks and close in late May or early June.

I'll now talk through the detailed results of each of our segments and then I plan to turn it over to questions.

Starting with Transtar on Slide 7 of the supplement, Transtar posted record revenue of $46.3 million and adjusted EBITDA of $21.7 million in Q4, compared with revenue of $44 million and adjusted EBITDA of $23.6 million in Q4. Car load volumes, average rate per car, and total revenue, all came in at new records in the quarter.

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Fuel expenses were slightly higher versus Q4 last year given the typical lag in fuel surges that we received. In Q4 we also experienced lower expenses versus this Q1 due to the impact of these 45G tax credits, which hit our P&L in a positive way in Q4 every year, as opposed to being spread over the entire year. Had fuel expense and the tax credit dynamic been consistent with Q4, our first quarter EBITDA would have been another record result.

We're making great progress under various initiatives to drive incremental revenue and diverse for our customer base. On June 1, we will commence a lease with Norfolk Southern for a 41-mile extension of Transtar's current East Ohio Valley railroad. The extension provides Transtar with additional commercial opportunities, which have potential to contribute meaningful EBITDA in the near-commit term. We expect these new opportunities, together with similar ones at other Transtar railroads, to represent approximately $4 million to $6 million of quarterly EBITDA or $20 million on an annualized basis.

Now, onto Jefferson. Jefferson generated $18.6 million of revenue and $6.8 million of adjusted EBITDA in Q1 versus $19.3 million of revenue and $14.3 million of EBITDA in Q4. During the quarter Motiva undertook the 45-day maintenance overhaul of its large crude distillation unit and coker. The result was a temporary reduction in crude throughput at Jefferson, driving lower volumes and revenues during the overhaul. Had it not been for the turnaround, quarterly EBITDA would have exceeded Q4 when adjusting for Jefferson's Q4 gain on sale.

By the end of the quarter, throughput volumes to Motiva returned to normal, and we saw record volumes of over 200,000 barrels per day in the month of April, a new monthly record, putting us on pace for record 2Q ahead. More importantly, the new business environment at Jefferson remains robust, and we are advancing more opportunities for both conventional energy products as well as clean hydrogen-based fuels.

In addition to the new 15 year contract for the transloading and export of ammonia commencing in 2025, we made good progress on three additional projects and advanced negotiations, which together with last year's ammonia contract represent approximately $75 million of annual EBITDA and will be transformational for Jefferson. As we said last quarter, if we're successful in converting these opportunities to business wins, we will far exceed our prior targets of $80 million of annual EBITDA.

Briefly on Repauno, with Phase 1 operations continuing, our negotiations are nearly complete in connection with our larger Phase 2 transloading system. We expect Phase 2 to quadruple the capacity of natural gas liquids handled at the terminal. I'm confident we'll sign up our first customer to Phase 2 here in the second quarter and start construction immediately thereafter.

In the aggregate, we expect Phase 2 to cost approximately $200 million to build, funded entirely with tax exempt debt, and to generate approximately $40 million of annual EBITDA once complete.

And closing out with Long Ridge. Long Ridge generated $10.4 million in EBITDA in Q1 versus $5.1 million in Q4. Power plant operations were steady at the 98% capacity factor, while gas production continued to be managed down during the quarter in the currently lower gas price environment. Remember, at gas prices of under $1.50 per MMBtu, our profit on third-party sales is less meaningful, so we limit production and opt to keep excess gas in the ground.

Most importantly, we've been actively advancing a handful of significant opportunities with on-site power customers at Long Ridge, which will have a significant positive impact on EBITDA. We continue under a letter of intent with the data center developer for the lease of property and utilization of a substantial portion of our power capacity. The LOI is a key step toward the execution of what we expect to be a long-term binding agreement.

On a macro level, data center demand in the PJM region alone is projected to go from 3 gigawatts of power needs currently to nearly 17 gigawatts over the next five to six years. New renewable resources will simply not be sufficient to meet this demand, and owners of modern efficient gas plants like Long Ridge have the potential to benefit greatly in the coming years.

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To wrap up, we're pleased with the quarter and expect Q2 and the quarters ahead to reflect our continued momentum. I'll turn the call back over to Alan.

Alan Andreini

Thank you, Ken. Dee Dee, you may now open the call to Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And our first question comes from Guiliano Bologna of Compass Point. Your line is open.

Guiliano Bologna

Good morning, and it looks like there's a lot of progress around new initiative, so that's great to see. As a first question, I'd be curious if you can expand a little more on the Jefferson debt transaction that you were referring to. What you are trying to achieve in terms of you capturing the discount, and then what do you think you'll end up doing on the back in terms of new financing to complete that transaction?

Ken Nicholson

Yes, happy to. Good morning, Guliano. So they said that's the financing we expect to launch here in the very, very near term, next few days. The purpose of financing is in part to just refinance and extend maturities on some debt we have coming through next year. But we're certainly going to take advantage of some of the embedded discount in our existing taxes and bonds, and just to put that in perspective.

At Jefferson today, we have a number of tranches of tax exempt debt that hold coupons that are as low as 1.8%. Many of them have a two-handle. And as a result, those bonds are trading at, let's say, a market yield of 5% to 6%, and a very long duration. They've 20 to 25 years left prior to their maturity. And so they trade at meaningful discounts to par in order to yield 5% or 6%. So there's significant opportunity for us to tender for those bonds at a premium to their current trading level, but still at a deep discount to their par amount.

So what we'll simply do is issue new debt to raise the proceeds to buy back the old debt at a much lower price. The net effect of it all is zero impact on cash flow at Jefferson, but a significant reduction in debt. Depending upon the tender and the results from the tender, we think the amount of discount that we might be able to capture is somewhere between $75 million and $125 million.

Guiliano Bologna

That is very helpful. I appreciate that. Then shifting then over to the Long Ridge side. I've been curious. It seems like there's been a lot of action with data center demand in Ohio. Ohio is kind of taking over for Virginia in terms of being a little bit of an epicenter for kind of new data center demands as far as I can move a little further. I'm curious if you are seeing that with the demand for potential data center opportunities behind the meter, at Long Ridge.

Ken Nicholson

Yep. We've definitely seen an increase in the inbound calls from the ultimate users, some of the big AI companies, as well as the infrastructure companies that develop data centers. I would say we've seen a significant pick-up in activity just over the past few months. We're engaged with multiple parties, which is definitely encouraging.

The math, I got to say, is extremely compelling. At Long Ridge today we produce or generate 485 megawatts of power and we sell it into the grid today at just under $0.03 per kilowatt hour. So just to give you a sense of the economic impact of behind the meter customers like data centers, we generate today just under $0.03 per kilowatt hour of revenue at Long Ridge.

The going rate for AI data centers and the cost of power is about $0.08. So almost 3x what we are generating today. There is no material increase in the cost of generation and so you can do the math. That has a massive impact on EBITDA. EBITDA today is, you know on an annualized basis just from the power plant about $80 million. If we get anything close to $0.06 to $0.08 per kilowatt hour, EBITDA would double or triple at Long Ridge.

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So it's a huge opportunity. It's obviously great macro, strong demand, limited supply. We really like to set up and we like what Long Ridge has available. So it's a major priority for the company.

Guiliano Bologna

That's great. And then shifting over to Jefferson, you obviously have a pretty big pipeline with the $75 million of additional opportunities. I'm curious, when I look at those new opportunities, are there any specific commodities that you are planning on transloading or focusing on with related to those new contracts or new opportunities there?

Ken Nicholson

Yeah. There are four total contracts. I would say, in terms of – two of them are for conventional fuels, crude oil and derivatives and two are for clean fuels. In terms of volumes, the clean fuel contracts are materially more volume. So on a percentage basis, we like what it does to Jefferson in terms of the mix of product handle. There's a meaningful shift toward cleaner products, which is a generally good thing.

But two of the contracts are for crude and crude derivatives. Those are both at our main terminal, and those are with – those are new deals with existing customers, whereas the two contracts at Jefferson South are for clean fuels, carbon-free ammonia, blue ammonia, and those are with new customers. One contract has been signed at Jefferson South, the other is advancing pretty rapidly. I think we're a few months away from having that at a point where it's at a final stage and so we're excited about that.

I do think Jefferson South is very promising as a new clean energy hub. It will be just with this first contract that we've already signed for blue ammonia export, it will be the largest gateway for the export of ammonia in the Gulf Coast, and so we're excited to get that project going.

Guiliano Bologna

That's very helpful. And then shifting over to Transtar, you've obviously been working on third-party contracts there. I'd be curious, when you originally acquired Transtar, what percentage of the business was coming from third parties versus now? And then, where do you think that could go by the end of '24?

Ken Nicholson

Well, it was largely non-existent when we acquired the company. I mean, it was just not part of Transtar's business to do any work for third parties. This was an internal subsidiary of U.S. Steel that was deeply discouraged from handling or serving any customers not named U.S. Steel. So it was single digits of revenue from third parties.

Today we're at, I want to say it's somewhere between $22 million and $25 million of annual revenue from third parties. Our long-term goal is to triple or quadruple that number. By the end of this year – we add about $10 million of incremental third-party revenue every year. So by the end of this year, we should be running at about $30 million to $35 million of third-party revenue.

Guiliano Bologna

That's very helpful. The one thing I was just curious, which is a quick follow-up, to make sure I didn't miss it in the prepared remarks. You had mentioned that Norfolk Southern 40-mile extension. I'm curious if you mentioned anything about – around a potential timeline around that. That was the only thing I was curious about there.

Ken Nicholson

We take over that track. The East Ohio Valley Railroad is a current asset in Transtar's relatively short. We connect with the NS up in Mingo Junction and we've been negotiating with NS to get – this is not uncommon for class 1's to hand over or lease some of their lower density rail lines to short lines and regional railroads.

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We take over that line actually on June 1, just in a few weeks, which in and of itself is a good thing. It's a minimal operating expense. It's almost no rent that we'll be paying with this takeover of the line and we'll handle maintenance of the line. We're already handling maintenance on the portion of track that obviously we own, so that's relatively straightforward.

What's most important is there is a large development opportunity located on the new leased track. We've been negotiating with the counterparty, hence the interest in taking over that additional trackage from NS, so that we can actually handle the loading of freight and the assembly of trains for then transporting up to Mingo Junction where we'll hand off the trains to Norfolk Southern.

So excited about it. It's been in the works now for several months, but it is imminent and we'll be taking over that track in the coming weeks.

Guiliano Bologna

That's very helpful. And then one final one. You've obviously discussed a number of very large central contracts at both Jefferson and Repauno. I'm curious if the types of contracts that you are actually seeing are large enough to be 8K events or press release events.

Ken Nicholson

Yeah, yeah. Generally, we wait until the quarter to announce those types of things. I think there are a handful of these projects that are meaningful enough to probably give rise to reporting them intra-quarter by way of a press release and 8K. I think it's just a combination of the size of the transactions and the duration, the certainty with minimum volume commitments, which all of our contracts have today and all the contracts we're negotiating will have.

So I do think it's likely that, as it relates to some of the projects I described earlier, I think it's more likely we'll make a – we'll issue a press release upon execution of those agreements, because they are material enough to do so.

Guiliano Bologna

That's very helpful. I appreciate it and I will jump back in the queue.

Ken Nicholson

Thank you.

Operator

Thank you. This concludes our Q&A session. I'd now like to turn it back to Alan Andreini for closing remarks.

Alan Andreini

Thank you, Dee Dee, and thank you all for joining us today. We look forward to updating you after Q2.

Operator

This concludes today's conference call. Thank you for participating and you may now disconnect.

**Load-Date:** May 9, 2024

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