

# **Westlake Chemical Partners LP (WLKP) Q1 2024 Earnings Call Transcript**

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**Body**

Westlake Chemical Partners LP (WLKP)

Q1 2024 Earnings Conference Call

May 1, 2024 01:00 PM ET

Company Participants

John Zoeller - Vice President and Treasurer

Albert Chao - President and Chief Executive Officer

Steve Bender - Executive Vice President and Chief Financial Officer

Conference Call Participants

Matthew Blair - TPH

Salvator Tiano - Bank of America Securities

Presentation

Operator

Good afternoon, and thank you for standing by. Welcome to the Westlake Chemical Partners First Quarter 2024 Earnings Conference Call. During the presentation all participants will be listen only mode. After the speakers' remarks, we will be invited to participate the question-and-answer session. As a reminder, this conference is being recorded today, May 1, 2024.

I would now like to turn the call over to today's host, John Zoeller, Westlake Chemical Partners' Vice President and Treasurer. Sir, you may begin.

John Zoeller

Thank you. Good afternoon, everyone, and welcome to the Westlake Chemical Partners First Quarter 2024 Conference Call. I am joined today by Albert Chao, our President and CEO; Steve Bender, our Executive Vice President and CFO; and other members of our management team.

During this call, we refer to ourselves as Westlake Partners or the Partnership. References to Westlake refer to our parent company, Westlake Corporation and references to OpCo refer to Westlake Chemical OpCo LP, a subsidiary of Westlake and the Partnership, which owns certain olefins assets.

Additionally, when we refer to distributable cash flow, we are referring to Westlake Chemical Partners' MLP distributable cash flow. Definitions of these terms are available on the Partnership's website.

Today, management is going to discuss certain topics that will contain forward-looking information that is based on management's beliefs as well as assumptions made by and information currently available to management. These forward-looking statements suggest predictions or expectations and thus are subject to risks or uncertainties. We encourage you to learn more about the factors that could lead our actual results to differ by reviewing the cautionary statements in our regulatory filings, which are also available on our Investor Relations website.

This morning, Westlake Partners issued a press release with details of our first quarter 2024 financial and operating results. This document is available in the Press Release section of our web page at wlkpartners.com. A replay of today's call will be available beginning two hours after the conclusion of this call. The replay can be accessed via the Partnership website.

Please note that information reported on this call speaks only as of today, May 1, 2024, and therefore, you are advised that time-sensitive information may no longer be accurate as of the time of any replay.

I would finally advise you that this conference call is being broadcast live through an Internet webcast system that can be accessed on our web page at wlkpartners.com.

Now I'd like to turn the call over to Albert Chao. Albert?

Albert Chao

Thank you, John. Good afternoon, everyone, and thank you for joining us to discuss our first quarter 2024 results. In this morning's press release, we reported Westlake Partners' first quarter 2024 net income of $15 million or $0.42 per unit. Compared to the fourth quarter of 2023, our first quarter sales and earnings benefited from a higher sales price for ethylene sold to Westlake per the terms of the ethylene sales agreement as well as a slight improvement in third-party ethylene sales margins.

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The stability of Westlake Partners business model is consistently demonstrated through our fixed margin ethylene sales agreement, which minimizes market volatility and other production risks. The high degree of stability in cash flow, when paired with the predictability of our business has enabled us to deliver the long history of reliable distributions and coverage. This quarter's distribution is the 39 consecutive quarterly distribution since our IPO in July of 2014 without any reductions.

I would now like to turn our call over to Steve to provide more detail on the financial and operating results for the quarter. Steve?

Steve Bender

Thank you, Albert, and good afternoon, everyone. In this morning's press release, we reported Westlake Partners' first quarter 2024 net income of $15 million or $0.42 per unit. Consolidated net income, including OpCo's earnings was $90 million on consolidated net sales of $285 million. The Partnership had distributable cash flows for the quarter of $17 million or $0.48 per unit. First quarter 2024 net income for Westlake Partners of $15 million was unchanged compared to first quarter 2023 Partnership net income. Compared to the first quarter of 2023, the partnership was impacted by slightly lower production and sales volumes, which were offset by a lower interest expense. Distributable cash flow of $17 million for the first quarter of 2024 decreased by less than $1 million compared to the first quarter of 2023, due primarily to lower production and sales volumes.

Turning your attention to the balance sheet and cash flows at the end of the first quarter. We had consolidated cash balance and investments with Westlake through our investment management agreement totaling $150 million. Long-term debt at the end of the quarter was $400 million, of which $377 million was at the Partnership and the remaining $23 million was at OpCo.

In the first quarter of 2024, OpCo spent $10 million on capital expenditures. We maintained our strong leverage metrics with a consolidated leverage ratio of approximately 1x. On April 30, 2024, we announced a quarterly distribution of $0.4714 per unit with respect to the first quarter of 2024. Since our IPO in 2014, the Partnership has made 39 consecutive quarterly distributions to unitholders and we have grown distributions 71% since the Partnership's original minimum quarterly distribution of $0.275 per unit. The Partnership's first quarter distribution will be paid on May 29, 2024, to unitholders of record May 13, 2024.

The Partnership's predictable fee-based cash flow continues to prove beneficial in today's economic environment and is differentiated by the consistency of our earnings and cash flows.

Looking back, since our IPO in July of 2014, we have maintained a cumulative distribution coverage of nearly 1.1x, and the Partnership's stability in cash flows, we have been able to sustain our current distribution without the need to access the capital markets.

For modeling purposes, we have one planned turnaround in 2024 at our Petro 1 ethylene unit in Lake Charles, Louisiana. This turnaround is scheduled to begin in the second half of 2024 and is projected to last approximately 60 days. In prior years where we have had planned turnarounds such as this one, the distribution coverage ratio was impacted for the period before recovering. And for this turnaround, we would expect a similar result. The cost of this turnaround has been included in the amount we charge to Westlake, and has been fully reserved and funded as we commence the turnaround.

Now I'd like to turn the call back over to Albert to make some closing comments. Albert?

Albert Chao

Thank you, Steve. We are pleased with the Partnership's financial and operational performance in the first quarter. In particular, the recent improvement in margins on ethylene sales to third parties, primarily as a result of lower feedstock and fuel costs is encouraging following a period of low third-party ethylene sales margin in 2023.

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While the overall global macroeconomic environment remains unpredictable, our ethylene sales agreement, which provides a predictable fee-based cash flow structure from our take-or-pay contract with Westlake for 95% of OpCo's production will continue to deliver stable and predictable cash flows through economic ups and downs as well as planned and unplanned turnarounds.

Turning to our capital structure. We maintain a strong balance sheet with conservative financial and leverage metrics. As we continue to navigate market conditions, we will evaluate opportunities via our four levers of growth in the future, including increases of our ownership interest of OpCo, acquisitions of other qualified income streams, organic growth opportunities such as expansions of our current ethylene facilities and negotiation of a higher fixed margin in our ethylene sales agreement with Westlake.

We remain focused on our ability to continue to provide long-term value and distributions to our unitholders. As always, we will continue to focus on safe operations along with being good stewards of the environment where we work and live as part of our broader sustainability efforts.

Thank you very much for listening to our first quarter earnings call. Now I will turn the call back over to John.

John Zoeller

Thank you, Albert. Before we begin taking questions, I would like to remind you that a replay of this teleconference will be available two hours after the call has ended. We will provide instructions to access the replay at the end of the call. Andrew, we will now take questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Matthew Blair with TPH.

Matthew Blair

So Albert, you mentioned at the beginning that the Q1 earnings benefited from a higher sales price to Westlake. What was the driver of the higher sales price? And does that represent a renegotiation of the fixed margin contract?

Steve Bender

Matthew, the reference was external third-party sales that were at slightly improved margins relative to prior quarters and not to Westlake itself. That Westlake sale agreement still is in force and is unchanged. But it's just the market for third-party sales has improved.

Matthew Blair

And then could you talk about the outlook for coverage? You're below your 1.1x target. But I guess, we would expect the coverage to improve next quarter as you roll off the Calvert City turnaround from Q2 2023. Is that how you're looking at it as well?

Steve Bender

Yes, Matthew. I do expect that the coverage will trend higher as we roll off that turnaround from last year. And of course, we've had with this planned turnaround this year, three consecutive years of turnaround. So you're right, we'll see improvement in Q2. And I would expect, as we enter the second half of '24, that coverage will also be impacted as we do the turnaround for Petro 1. But as in prior years, we have a rebound of coverage. And as you know, we have ample capacity under our reserves to be able to continue to make distribution. So I don't see any issues with those issues.

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Operator

Our next question comes from the line of Salvator Tiano with Bank of America Securities.

Salvator Tiano

So my first question is, as you think about the options to either expand the company or its earnings, and you mentioned that you can consider projects to expand ethylene capacity or even M&A, does any of this would make sense if you still get $0.10 from per pound from Westlake? Or does it have to be accompanied by a better margin in your agreement with the sponsor?

Steve Bender

No, it doesn't have to necessarily be a different margin associated with those sales to Westlake. Rather it just has to do with the valuation we receive for those units and the valuation of that transaction in any undertaking. So whether it is an increase in ownership of OpCo or acquisition of other assets such as LACC or any other asset, it just revolves around the valuation of those transactions will drive the value, and therefore, the ability to grow the earnings, and therefore, distributions.

Salvator Tiano

And with regard to, I guess, sustainability. I know many of the companies -- petrochemical companies are looking into a lot of things, including some options for their ethylene crackers, electrifying them or using hydrogen. I understand that obviously, you would have to work with Westlake Corporation for that but is it something that would make sense for the specific assets that are included into Westlake Partners?

Steve Bender

Yes. And so we do have an ongoing very public statement about reducing our Scope 1 and Scope 2 emissions. And so as we think about the Scope 1 emissions, we certainly continue to invest in capital that allow us to reduce those Scope 1 emissions. As we think about Scope 2 emissions, we'll certainly look at opportunities to invest or undertake transactions that allow us to also reduce those Scope 2 emissions. As you might have seen, Westlake Corporation has made good strides in reducing its Scope 1 emissions. And certainly, part of that is attributable to the efforts of the ethylene crackers.

Operator

Thank you. At this time, the Q&A session has now ended. I will now turn the call back over to John Zoeller.

John Zoeller

Thank you again for participating in today's call. We hope you will join us for our next conference call to discuss our second quarter 2024 results.

Operator

Thank you for participating in today's Westlake Chemical Partners First Quarter 2021 Earnings Conference Call. As a reminder, this call will be available for replay beginning two hours after the call has ended, and may be accessed until 11:59 PM Eastern Time on Wednesday, May 15, 2024. The replay can be accessed via the Partnership website. Goodbye.

**Load-Date:** May 1, 2024

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