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Albemarle Corporation (ALB) CEO Luke Kissam on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-06-19 Earnings Summary

Press Release *Slides*

EPS of $1.53 beats by $0.03 | Revenue of $879.75M (13.11% Y/Y) misses by $-7.81M

Earning Call Audio

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Albemarle Corporation (NYSE:ALB) Q3 2019 Earnings Conference Call November 7, 2019 9:00 AM ET

Company Participants

David Ryan - Vice President, Corporate Strategy and Investor Relations

Luke Kissam - Chairman, President and Chief Executive Officer

Scott Tozier - Executive Vice President and Chief Financial Officer

Netha Johnson - President, Bromine Specialties

Eric Norris - President, Lithium

Raphael Crawford - President, Catalysts

Conference Call Participants

Dylan Campbell - Goldman Sachs & Company, Inc.

Matt DeYoe - Bank of America

Joel Jackson - BMO Capital Markets

Matthew Skowronski - UBS

Arun Viswanathan - RBC Capital Markets Wealth Management

Michael Harrison - Seaport Global Securities LLC

David Begleiter - Deutsche Bank Securities Inc.

Jim Sheehan - SunTrust

Dmitry Silversteyn - Buckingham Research

Prashant Juvekar - Citi Investment Research

Colin Rusch - Oppenheimer & Co. Inc.

Kevin McCarthy - Vertical Research Partners

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Third Quarter 2019 Albemarle Corporation Earnings Conference Call. At this time all participants lines are in a listen-only mode. After the speaker presentation there will be a question-and-answer session. [Operator Instructions]. Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Mr. Dave Ryan, Vice President Corporate Strategy, Investor Relations. Sir, you may begin.

David Ryan

Thank you and welcome to Albemarle's third quarter 2019 earnings conference call. Our earnings were released after the close of the market yesterday and you'll find our press release, earnings presentation and non-GAAP reconciliations posted on our website under the Investors section at www.albemarle.com.

Joining me on the call today are Luke Kissan, Chief Executive Officer; Scott Tozier, Chief Financial Officer; Raphael Crawford, President, Catalysts; Netha Johnson, President, Bromine Specialties; and Eric Norris, President, Lithium. As a reminder, some of the statements made during this conference call about our outlook, expected company performance, production volumes and commitments as well as lithium demand may constitute forward-looking statements within the meaning of federal securities laws.

Please note the cautionary language about forward-looking statements contained in our press release, that same language applies to this call. Please also note that some of our comments today refer to financial measures that are not prepared in accordance with GAAP. A GAAP reconciliation can be found in our earnings release and the appendix of our earnings presentation, both of which are posted on our website.

Now I will turn the call over to Luke.

Luke Kissam

Thanks, Dave. Good morning, everybody. On today's call, I'm going to provide a quick recap on quarterly performance, but want to spend the bulk of my time on the long-term position we're taking and how the recent strategic decisions we've made support that view. Scott will provide more detail into our third quarter and full-year performance. Excluding currency impacts, third quarter revenue grew by 14%, adjusted EBITDA by 12% and adjusted diluted earnings per share by 22% year-over-year, excluding currency impact, each of our GBU delivered year-on-year EBITDA growth. Increased volume across all of our businesses and favorable year-over-year pricing in Lithium and Bromine contributed to that growth. With that, let me take a step back and set the stage for where we are today.

As you know the lithium market is dynamic. It offers a very strong future growth opportunity and the long-term secular growth trends remain fully intact. However, we are - and we will be dealing with the challenging market conditions for the next 12 months to 18 months. Since late July, we have announced several significant strategic actions to successfully position our business for the long term. Last quarter we announced the decision to defer work on a price only 125,000 metric tons of conversion capacity, freeing up about $1.5 billion of our $5 billion five-year capital investment plan. This will enable us to generate free cash in 2021 and is the right path to take, based on current supply-demand dynamics and provides us with the financial flexibility to take advantage of any opportunities we see.

Importantly, this decision does not affect current customer commitments. We are in the position to deliver on all committed contracts and we have the ability to add capacity if current market dynamics improve. As you know we have access to geographically diverse high quality, low cost lithium resources and the financial flexibility to build or buy conversion capacity in the future, if doing so creates value for our stakeholders.

As we will discuss in detail at our upcoming Investor Day in December, battery technology continues to advance. We expect carbonate demand to continue to grow, but expect hydroxide demand to be much stronger. To that end, we're focused on remaining, an agnostic Lithium producer, whether our customers want carbonate or hydroxide or other lithium products, we have access to the world's best bromine and hard rock and the industry leading conversion expertise to deliver on their needs, and we remain committed to investing, to maintain our competitive composition and deliver a truly differentiated customer value proposition.

When we shared our strategy in 2017, we told investors that we would take advantage of opportunities that accelerate and strengthen our long-term growth strategy. To that end, we announced last week, the completion of our joint venture agreement with Mineral Resources. Well, we have a majority interest in a 60%, 40% ownership structure. All in, our investment of $1.3 billion consist of a cash payment of $820 million to MRL for 60% of the Wodgina mine in contribution of a 40% interest in our 50,000 metric ton hydroxide facility currently under construction in Kemerton, Western Australia.

We believe our investment in this new joint venture named MARBL Lithium will produce substantial long-term value. The JV provides access to a high quality hard rock source, further diversifying our global Lithium resource base and strengthens our position in the long-term by giving us the ability to increase capacity, to support future market demand, with the combined operating expertise of Albemarle and MRL, the top tier Wodgina mine, and our market knowledge we are well positioned to benefit from a rapidly growing market, which is increasingly emphasizing hydroxide.

The joint venture supports our long-term view, but in the short term, we made the decision to idle production of the Wodgina mine until market conditions support production economics. The returns for this project will still be very attractive. We anticipate that when the JV is producing lithium hydroxide at a rate of 100,000 met tons annually, the return on invested capital will be a healthy 17% to 19% or roughly two times our cost of capital.

Staying with Lithium, I want to address pricing and contracts. As we commented in our preliminary earnings announcement, current market conditions are challenging and we're experiencing pricing pressures in China and on our technical grade products. Today, our pricing strategy under our long-term battery grade contracts have hailed. As you can see on pages 10 and 11 of our earnings presentation, Albemarle's third quarter Lithium pricing was up slightly year-over-year despite a significant year-over-year decline in market conditions.

Recently reported China carbonate prices appear to have stabilized in the range of $7 a kilo. We expect that this price level is at or near the marginal cost of production and do not expect China carbonate prices to drop further in any material way. However, China carbonate at $7 a kilo puts pressure on pricing across the global lithium portfolio, including the fixed and variable pieces under our long-term agreements.

We know that our long-term agreements are of great interest, concern and focus. So let me broadly address the matter here. As we have been in the past, we are in active discussions with customers on our agreements, those discussions involve price, volume, allocations between carbon and hydroxide, length of the contract and the value that Albemarle offers for quality, security of supply, flexibility between carbonate and hydroxide sheer volume of product needed and the ability to meet the customers' growth expectations. It is obviously not in our best commercial interests to discuss contract negotiations publicly. So we are not going to do it. These are active discussions with many moving pieces. As the dust settles on these negotiations, we'll give you a better look at what this means for our annual outlook, rest assured that we understand the value we bring to the supply chain and we intend to capture our fair share in these discussions.

Now let me switch gears and talk a little bit about 2020. As a part of our strategy, we continue to assess our business portfolio. We have received multiple inquiries about our Fine Chemistry Services and Performance Catalyst Solutions businesses. So, we have initiated two processes to pursue these opportunities. They are both profitable businesses with strong operating teams. So if we can come to agreement on a valuation that we feel is appropriate, we will pursue a divestiture, if we are not able to secure valuation that we believe to be appropriate or in the best interest of our stakeholders, we will continue to operate these businesses. We would expect both of these transactions to be 2020 events.

In terms of how we see our portfolio performing in 2020 versus 2019, our preliminary view today is that we expect Catalysts, Bromine and Fine Chemistry Services to be essentially flat. There are some gives and takes in each, but right now, assuming no overall economic slowdown, these businesses should net to approximately flat. Lithium will be lower year-over-year due to pricing pressure across the portfolio and are not having new conversion capacity to drive any significant volume growth. We have initiated a structured program across the company to capture sustainable cost savings and expect this program to deliver over $100 million in sustainable cost savings over the next two years.

Taking all this into account, our preliminary view is that our full year 2020 EBITDA performance could be lower than full year 2019 results by around 10%. In closing we are taking swift actions to navigate the market challenges that we see in 2020 and emerge even stronger to capture the long-term growth opportunity in a profitable manner. We will continue to build on our strength in manufacturing excellence in Bromine and Catalysts and we will transform processes for lithium, similar to our other businesses to ensure best-in-class operations. We can - we will continue to be conscientious in our asset management and capital plan and seek to be nimble in response to changing and dynamic market conditions.

With that I will turn the call over to Scott.

Scott Tozier

Thanks, Luke, and good morning everyone. For the third quarter, we reported net income of $155 million or $1.46 per diluted share. Adjusted earnings per share were $1.53, an increase of about $0.22 per share compared to third quarter 2018 or 17% growth. Our businesses delivered about $0.23 per share of growth with double-digit earnings growth in both Bromine and lithium and high single-digit growth in catalysts. Our lower effective tax rate contributed about $0.06 and a lower share count as a result of our 2018 share repurchase program contributed about $0.03, those gains were partially offset by $0.04 of higher depreciation and unfavorable foreign exchange, which was a 7% headwind compared to third quarter 2018.

Regarding our business, performance Lithium reported third quarter net sales of $330 million and adjusted EBITDA of $127 million. Excluding the unfavorable impact of currency, lithium sales were up 23% and adjusted EBITDA was up 9% year-over-year. This growth was due to increased volume and favorable pricing, despite the impacts we communicated in our earnings pre-release. And as a reminder, these included, first a volume shortfall, which impacted the third quarter by about $15 million in EBITDA. This was primarily due to Typhoon Tapah, which caused lithium shipments from ports in Shanghai to be delayed into October, and we expect this to be fully recovered in the fourth quarter.

Second, the use of tollers to meet customer commitments and address operating issues in Chile. This resulted in an EBITDA reduction of around $10 million. The technical team in Chile has focused on reliability improvements, which have enabled operating rates to now reach full capacity, given customer commitments, tolling is expected to continue into the fourth quarter. Third impacts also included a $7 million out of period adjustment regarding lithium carbonate inventory values that was identified and corrected during the third quarter close process.

And finally, an overall 1% increase in lithium pricing versus prior year. However, continuing price pressure on lithium sales in China unfavorably impacted EBITDA by about $5 million versus our expectations. Finally, adjusted EBITDA margin was 39% and it would have been 40% if we excluded the $7 million out of period adjustments. Bromine reported third quarter net sales of $256 million and adjusted EBITDA of $89 million, up 11% and 14% year-over-year excluding unfavorable currency impacts.

Adjusted EBITDA margins were strong at 35%, up nearly 90 basis points benefiting from 7% higher pricing, a favorable product mix and high plant utilizations, price and volume were favorable across geographies and most of our products. So, we continue to see weakness in the automotive and construction sectors, flame retardant demand for electronics and drilling fluids in the oilfield market remains strong.

Catalysts, third quarter net sales were $261 million and adjusted EBITDA was $67 million, up 5% and 8% respectively compared to the third quarter of 2018, excluding unfavorable currency impacts. And adjusted EBITDA margins were 26%. Favorable pricing in Fluid Catalytic Cracking or FCC catalysts was offset by lower volumes due to the delays in the startup of two customers new FCC units. We currently expect both of these units to be in operation in 2020. Clean-fuel technology or hydroprocessing catalysts benefited from higher sales volumes and a favorable product mix.

On the innovation front, on October 31, Exxon Mobile and our Albemarle together launched a transformative hydroprocessing suite of Catalysts and service solutions for the refining industry called the Galexia platform. The new platform helps refiners realize the full potential of specialty Catalysts and enhance client performance by analyzing and identifying operational opportunities that extract greater value.

Corporate costs in the third quarter were $39 million, an increase of $16 million over the same period in 2018, primarily driven by unfavorable currency losses of approximately $11 million. Our cash from operations was approximately $346 million for the nine months ended at the end of September and a decrease of $31 million versus the same period in 2018, primarily due to the timing of payables and the collection of certain receivables.

Capital expenditures through September, were $608 million. Expenditures for the La Negra lithium carbonate expansion and the Kemerton lithium hydroxide project remain on track and we now expect full year 2019 CapEx to range between $900 million and $950 million. At the end of the quarter, our net debt to adjusted EBITDA was 1.6 times with the close of the MRL deal, we estimate our gross debt to adjusted EBITDA ratio to move from 1.9 times to around 2.8 times and net debt to EBITDA to be around 2.6 times.

We have funded our payments associated with the new joint venture by borrowing approximately $1 billion under an unsecured credit facility. We expect that this borrowing along with other corporate funding activity may ultimately be converted to long-term debt given attractive economics. As communicated in our pre-release on October 24, we expect 2019 pro forma net sales to be $3.6 billion to $3.7 billion, reflecting 7% to 10% growth. Adjusted EBITDA to be $1.02 billion to $1.06 billion equating to 2% to 6% growth and adjusted EPS of $6 to $6.20 or 10% to 14% growth.

Drilling down into the businesses, we expect that bromine will continue its strong performance and deliver adjusted EBITDA growth in the low double-digit percent for the full year. The Catalyst business has improved since our second-quarter outlook and we now expected to be down low-single digits on a percentage basis, excluding divested businesses.

And finally Lithium is expected to grow EBITDA in the low to mid-single digit percent range and deliver full-year adjusted EBITDA margins of around 40%. You've likely seen reports of civil unrest in Chile and are wondering how this is affecting our operations. And first, I'm happy to report that all of our employees are safe. At this time, our plants are operational and shipments are moving on schedule. We have lost approximately 500 metric tons of production since the unrest started, but it will not materially impact our financial results. We will continue to monitor this fluid situation very closely.

Based on our current geographic sales, production mix year-to-date in our expectations for the rest of 2019. We currently expect our full year effective tax rate to be about 18%, excluding special items, non-operating pension and OPEB items. This rate is in part a reflection of strong operating performance at our bromine plants. To close, we will be prudent in these challenging times, act on cost reduction measures to align our cost structure and maintain our leadership position to deliver value to our stakeholders. We look forward to sharing more details with you at our Investor Day on December 12 in New York City.

And with that, I'll turn the call back over to Dave.

David Ryan

Operator, we are now ready to open the lines for Q&A. But before doing so I would like to remind everyone that please limit questions to two per person to ensure that all participants have a chance to ask questions. Then feel free to get back in the queue for follow-ups if time allows. Please proceed.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from Bob Koort from Goldman Sachs. Your line is open.

Dylan Campbell

Good morning. This is Dylan Campbell on for Bob. And when we look at kind of the 10% decline that you're looking at for 2020. Give us a sense of just kind of what moving pieces are embedded in that guidance in terms of the rollover in terms of lithium volume growth, and then, I guess, the growth for the Catalysts and Bromine businesses.

Luke Kissam

Yes, so, this is Luke. Let me try that at a high level, if you look at page 11 on our, on the earnings presentation, you can see that year-over-year lithium prices is down about 30% and Albemarle has been flat to up slightly on our year-over-year comparisons each quarter on lithium pricing. And so the big mover that we're seeing on the down for the profitability from '19 to '20 all comes down to lithium pricing and how much of that we can offset with cost reductions. On catalysts, when we look next year, we'll have probably higher volume in FCC catalysts and it depends on HPC, how those bills - how they time out that we get some in its second half of next year, they roll into 2021. So again Catalysts or be there is some moving bits and pieces there but FCC would probably be stronger from a volume and price standpoint and HPC, probably a little bit weaker, but we're working hard to get some of those additional loads in 2020.

And then on bromine, we don't have any additional volume, I mean we're running flat out right now and allocating every bromine molecule we have. So it all comes down to what do we see from an overall economic condition. What happens in the electronics, what do we see from automotive, we see a little pickup and this pricing hold. And then that's offset by cost actions. So those are the big moving pieces is preliminary right now, we will obviously have more information as we finish this quarter and head into - head into next year. So we'll update that on our - at our year-end earnings call.

Dylan Campbell

Okay, thank you. That's helpful. And then considering the situation, I guess if, assuming that the market tightens once again, how do you preserve, I guess, some type of upside, considering the fact that, and the majority of your volumes are going through your contracting structure?

Luke Kissam

Well, under those contracting structures, we have the ability to raise price on - a certain percentage of that volumes just like we have in the past. So we would, if the conditions tightened, we'll certainly be looking at pricing actions that we can take to raise those prices.

Dylan Campbell

Okay, thank you.

Operator

Thank you. Our next question comes from Stephen Byrne from Bank of America. Your line is open.

Matt DeYoe

So, this is Matt DeYoe on for Steve. I want to talk a little bit about the potential fallout to you in the industry from the EU proposal to ban certain flame retardants and consumer electronics and display applications, kind of broadly what percent of demand goes into that market? Do you - if you think consumer electronics companies, can they adopt to new standard more globally?

Luke Kissam

Yes, I will let Netha start and then I'll to go into the specific and then I'll tell you at a high level where we are.

Netha Johnson

Yes, we've looked and looked at that and we expect it to have minimal impact on our business going forward starting when it goes into effect in 2021, customers will make some alternate substitutions there but we've looked at that and we think we have our alternative past there to replace that business.

David Ryan

So at a high level, we've been dealing with the, if you look at Tosca in the US, if you look at some of the European Regulations globally. All of these flame retirements have been under review for, since I joined Albemarle in 2003 and we've done - we've done a really good job of moving away from some of the products that we're smaller so we getting a larger molecule, so it's harder formed bio-cumulate if at all. And we are constantly evolving our technology to be able to meet the needs that the customers have. So what you see in Europe, it's a small piece today, we believe it's controlled in that sense, and we continue to innovate to bring products to the market to meet what's really needed and is a serious issue related to flame retardants.

And so I think that it's - it won't have an effect in 2020, maybe a small effect if anything around the edges and long-term will continue to innovate to provide the really needed flame retardants, that our customers need.

Matt DeYoe

All right, thank you. And then if I can touch on the contract. So I think past discussions stipulated that the contract terms could be in renegotiated if customers could find [ph] like product and - like both like quality and like quantity. As you're seeing demand slowdown for EVs and the market kind of softened here. Is what's happening more proliferation of technology and such that different producers can now hit the specs? Or are you just seeing more supply to a market from the same four or five incumbent tech savvy producers?

David Ryan

Well, I think all those four, five takes savvy producers you're talking about have sufficient volume. It's - what you're seeing is there is an oversupply in the market today and then I talked about it, carbonates sell in the China right now at $7 a kilo that's probably below some of the cash conversion costs for some of those China converters. So I would - you should not have the impression that there is any technological advance by some of the marginal producers is not, it is where it's been. The specs are getting tighter and ultimately long term, it's going to be for those EV battery grade - you're going to see those big four or five able to meet those specs on a consistent regular basis with the volume. There is other volume out there that is not the EV spec and that's where you're seeing in the technical grade and some other lower specs for other uses, you're seeing those lower producers, lower technology producers being able to come in at a price that they're comfortable with.

Matt DeYoe

All right, thank you.

Operator

Thank you. Our next question comes from Joel Jackson from BMO Capital Markets. Your line is open.

Joel Jackson

Good morning. If I - if I take a $100 million EBITDA guide down in lithium, it looks like you're guiding down to average price decline next year of 15% to 20%. Can you maybe give a little more color, how do we break down the price declines between your contracted and your non-contract base? So this is a very, very massive 30% drop, your non-contracted base and a small decline in your contract base or is it going to be similar. Do you think, across both contracted and non-contracted? Thanks.

Luke Kissam

Yes, so as I said, I'm not going to get into discussions about specific contract because we're in the middle of negotiation and that then do us any good. So, I hope you'll understand that. So let me back up and just say at a high level, there is pricing pressure across the portfolio. The most pressure is coming in carbonate, particularly in technical grade and in China, but that is having a ripple effect across the portfolio. So you're going to see it as you said, different levels of price movement, according to different products and according to that end market, but that's about it - that's about as much as I am comfortable going into, given the fact that we're in the middle of discussions.

Joel Jackson

Appreciate that. Second question on Kemerton. So it looks if - it looks like you have almost enough spodumene at Greenbushes to support the Kemerton in the next wave - for hydroxide in 2021 and beyond there, maybe not quite enough to get the 50,000 tons, I mean 45,000. Does that mean you look for operational improvements at Greenbushes, will you source external carbonate, it doesn't seem like it makes sense to restart Wodgina, that run at very low rates just supply the extra marginal spodumene there.

Luke Kissam

Yes, so I can't see us buying carbonate from other parties to do anything. We'll have sufficient carbonate supply to do whatever we need to do from a - from a spodumene standpoint because of our geographic diversity that we have around the globe, what we'll do is we'll source spodumene from the source that gives us the highest net back to Albemarle and our stakeholders. So we are all in - we'll see where the market shakes out and where we are at that point in time, but you are right that we have flexibility for sourcing that not other producers have.

Joel Jackson

Thank you.

Operator

Thank you. Our next question comes from John Roberts from UBS. Your line is open.

Matt Skowronski

Hi, this is Matt Skowronski on for John. In your pre-announcement, you mentioned lower prices in China were $5 million hit the EBITDA in the third quarter, where prices move from 3Q average level and if this remain - if prices remained at this level throughout 2020, what would the impact be?

Luke Kissam

Ask that question one more time please. I'm not sure I'm following you.

Matt Skowronski

So you mentioned that Chinese prices were a $5 million hit to EBITDA lower pricing, where prices moved from that level. So are they lower or they higher than 3Q '19? And then...

Luke Kissam

Yes, if you look at page 11, you will see that most of that over in a lot of the price decline that we've seen year-over-year, it accelerated in the third quarter. So you see - you saw an acceleration of price decline overall for the market for lithium products in the third quarter. If they were down 30% and some of those it was 15% of that down was about half of it was - you saw in the third quarter year-over-year. So prices have continued to decelerate going into the fourth quarter. Eric, do you want to talk about some details?

Eric Norris

I would just offer that in looking at price in China, if you were asking that question, but we are talking about price three months ago, we would have talked to - talking about an $8 or $9 price and now we're talking about a $7 price. So that's your difference right there. In China, the small part of our business, but it is a part, and that's the impact it's had on our P&L.

Matt Skowronski

Thanks for that. And then you noted your bromine assets are operating at a higher than expected volumes, just going off of a comment that you just made, are these kind of normalized levels now?

Luke Kissam

Yes, I think we've been able to get some nice get rights in our JBC expansion that we did last year, that's enabled us to run it a little bit higher rates than we expected when we set the plan in place, and that will be the new run rate going forward, but we always do productivity enhancement and utilization increases and we'll continue to do that and we're very confident in our manufacturing capability to, to get out increased volumes from those manufacturing enhancements.

Matt Skowronski

Thank you.

Operator

Thank you. Our next question comes from Arun Viswanathan from RBC Capital Markets. Your line is open.

Arun Viswanathan

Good morning. I guess, I just wanted to ask about the lithium environment. Do you think as you look into next year, what are some of the drivers, you're watching to see if things are stabilizing or even potentially turning around, I mean, is it just EV demand or is that macroeconomic growth? Or what else are you kind of looking for us or maybe supply disruptions or anything else?

Eric Norris

Hey, Arun, it's Eric here. I think the big drivers for us are not necessarily about demand. We feel fundamentally that while we've seen a pause in China, that's a pause and our long-term view for the global EV growth remains intact. So our focus is on supply and inventory that's in the channel. And there - we believe on our assessment. There is not a lot, there's not enough new supply or let's put it this way. The new supply coming in will lot, there's not enough new supply or let's put it this way. The new supply coming in will not exceed the demand growth. So the question is how much is still an inventory? There is probably at least six months of product in inventory, maybe more so you're probably two to three times the level inventory, you should have, and that's the drag on price now then we see that having an effect into 2020.

Arun Viswanathan

And on that note, I guess, how long do you think it would take to kind of work through that, especially in the technical rates and I'm just a little bit surprised that there has been such an impact on EV battery grade lithium even with the oversupply in the tech side. So maybe you can just help us understand what the impact is there and why we're seeing that?

Luke Kissam

Yes, hey, this is Luke. We don't - we didn't what Eric was just talking about was overall that included battery grade as well as technical grade. So we think there is - we think there is an overhang of the supply chain for lithium derivatives overall. And what I said in the prepared remarks is we think we're looking at 12 months to 18 months of trying market conditions and we think that's about the time it's going to take for people to work at all, that's our view today.

Arun Viswanathan

And it's - lastly just, is there anything else that the industry can do, I guess to accelerate that process of destocking. Have you been aware of any other potential shutdowns or reductions in production? Thanks.

Luke Kissam

Yes, I can't you comment on what other people are thinking about doing. I can tell you what we're doing is - we're going to take control of what we can control. So you can see when the joint venture deal with MRL close, we made the decision to idle those assets, because we don't need to bring anymore spodumene right to the market in this market conditions. Secondly, we're going to take actions internally from a cost standpoint to ensure that what we can control. we will control.

Arun Viswanathan

Okay, thanks.

Operator

Thank you. Our next question comes from Mike Harrison from Seaport Global Securities. Your line is open.

Michael Harrison

Hi, good morning. Just looking at the and kind of building on the questions around inventory levels. It seems like spodumene is one of the areas where there is too much supply. And I'm just wondering, can you talk about your operations at Talison and maybe how we should think about the contribution from Talison in 2020 relative to 2019?

Luke Kissam

Yes, so Talison contribution in '20 relative to '19, remember that Talison is a raw material supplier to GIC and Albemarle and that's really it both from a technical grade perspective as well as from a battery grade perspective that we take that rock and converted as CNG does into our - in our assets are in total converters. So it's going to be essentially that, that volume or will be similar to up slightly based Tianqi's bring on a new client and so I would expect it to be slightly higher than what we saw in 2019.

Michael Harrison

All right. And then on the - on the catalyst side of the business, I guess, I was a little bit surprised to hear you say that HPC was expected to be a little bit lower in 2020. Can we go back and discuss maybe your updated view on IMO, 2020 and the impact of that could have on HPC Catalyst growth over the next, maybe, what it's doing here in second half of '19 and what your expectations are for '20?

Luke Kissam

Go ahead, Raphael.

Raphael Crawford

Yes, sure. Mike, this is Raphael. So we do think that IMO will have an impact on HPC catalyst demand low to mid-single digits, but I think when you look at, when you step back and you look at the overall picture, more so than IMO for our business, it's really the tightening of sulfur specifications around the world, which will be favorable. As Luke mentioned as the onset of the call and there are things that with the timing of various refills, customers that could push us up or down in any given year not the indication of what weakness in the business more of timing in customer demand, but overall we feel like the tightening at sulfur specific regulations around the world. IMO included is favorable for our business in the industry.

Luke Kissam

Yes, this is Luke, HPC, just simply a lumpy business and what you have to do is the customer mix, the product mix as well as what that - what the fills are going to be in any one period of time. So that's the only reason I say it could be down. It's got nothing to do with overall market demand, not a share issue, not a price issue. It's just simply a matter of the fields that we expect today. Now, if we were sitting here in 2018, we got more fills in 2019 than we expected - we did in '18. So the team is still working, we may be able to move some orders up a little bit or get a little bit better mix, so it's early but yet people ask what an indication is from where we are today. It looks like HPC is going to be a little bit down and FCC is going to be up. Thanks.

Michael Harrison

Got it. Thanks very much.

Operator

Thank you. Our next question comes from David Begleiter from Deutsche Bank. Your line is open.

David Begleiter

Thank you. Good morning. Luke and Eric just on lithium volumes in 2019, what do you think there'll be, and do you expect any growth in your lithium sales volumes in 2020?

Luke Kissam

Hey, there. David, your question is the market or - I'm sorry? outlook.

David Begleiter

On your sales volumes in '19 and potentially '20?

Luke Kissam

So our sales volumes in '19. So you're one about the growth and what it's like year-on - versus prior year, that growth is coming - is coming from - both from Xiniya - the ramp up of Xiniya II, which is now running at full rates, but from the first half of year is ramping, so we'll be three quarters full there for this year, so that, the 20,000 ton plants, so that's a big part of our growth. And the remainder is coming from La Negra though - La Negra we haven't run as well as we wanted to in the third quarter. We expect to show favorable year-on-year growth during the fourth quarter of 1,000, a couple of thousand tonnes or so for the year.

Eric Norris

So, if you look at 2020 David, I would expect that from a volume stand point we'd probably have - maybe 5,000 to 7,500 [ph] metric tons of growth, that assumes we get additional growth in and run La Negra at rates, we don't have another way like we did in the first quarter. The brands is percolating down there, the way it ought to be and they ran at October rates that's the highest rate they've ever run. Now we've got to sustain that all into 2020. And then we'll get a full year of Xinyu II from what we ran this year. So that's how I get to about the 5,000 to the 7,500 or 8,000 met tons. Okay?

David Begleiter

Very helpful. And Luke, just on the cost savings, how much will be realized next year of $100 million and what's the breakdown between those three segments of the $100 million?

Luke Kissam

Yes, I don't - I don't know how much we're going to get in next year, because some of it is - it's going to take a little bit of time. So we will update you in December, we will have more information at the Investor Day, and then we will roll out into our fourth quarter earnings call, we'll give you more update, David.

David Begleiter

Thank you.

Operator

Thank you. Our next question comes from Jim Sheehan from SunTrust. Your line is open.

Jim Sheehan

Thanks, good morning. I think you have repeatedly said that La Negra was on track to produce close to 40,000 metric tons of lithium carbonate in 2019. What is that number now going to be given the shortfall in third quarter. And can you just give some color on what cause these operational issues out La Negra and what gives you the confidence they won't repeat?

Luke Kissam

Yes, so let me do the first one and then Eric and talk about some details on, we're running at about 38,000, is that about right, Eric? Between 38,000 and 39,000 met tons for La Negra this year. And one of the things that we've done is we've taken some of the best process engineers, we have around the company from Catalysts from fine chemistry services from Bromine and they've been down in La Negra over the last couple of months helping with some best in class, some debottlenecks and things like that. So I'm confident next year that we'll be able to build from where we are, not have the hit - not have the rain event - not have the struggles with the Bromine because of the rain and things such as that. So, I feel good about where we are in the progress that we're making.

Eric Norris

So Jim, I'll just add. I'll move beyond Bromine issue in the rain, we've talked about that enough this year, but in terms of reliability and uptime of the plant, we expected more reliability and more uptime during the third quarter than we had. Let me first of all point out, at this point it's sold out. So everything we make, we can sell. So if there is and our time issue is going to have an impact, and that's why we're backfilling where we can - where we're qualified to do so with tollers. Now that being said, as Luke earlier said, we had the best October we've ever had in that or that month we ever had in the month of October. We've got to sustain that, it's been a large measure due to upskilling from people from outside of the Lithium business, but we've also brought a new operational talent and we're building skills within the organization. It's a journey, right, it's an operation, so this plant has to be operationally excellent and we're on our way there, the aim is world class, but we're not there yet.

Jim Sheehan

Very helpful. And Luke could you also explain how the tolling process works in Chile. Do you mean La Negra commitments with told brine based carbonate or spodumene based carbonate and you've explained a lot in the past about how difficult it is to meet product specifications for battery grade products? Our toll volumes coming from the big five producer and thus, they meet those specs and if not, do you have to offer some kind of price concession given the lower quality toll product?

Luke Kissam

That's a lot of questions. So let me try to address them one at a time. Overall, we don't take any brine from anybody else until it and we don't give our brine anybody else to toll for us. So if we have a slowdown at La Negra what we lose a 1,000 metric tons. We take spodumene from our Talison supply and have a third party generally in China totally either to carbonate or hydroxide and we generally if is told to carbonate at least in 2019, previously, it might have been a little bit different, but in 2019 we use that for internal consumption mainly to go downstream into our specialty businesses, and we continue to sell our carbonate directly to third party customers.

Jim Sheehan

Thank you.

Operator

Thank you. Our next question comes from Dmitry Silversteyn from Buckingham Research. Your line is open.

Dmitry Silversteyn

Good morning. Thank you for taking my call. A couple of questions if I may, you talked about the sort of the outlook for incremental volume growth that you're still going to get in 2020 without added capacity just from capacity ramp ups that you've done over 2019, but I just want to understand that the closure of the Wodgina mine, it doesn't impact sort of the progression of capacity additions that you've outlined in the second quarter slide when you took down the $1.5 billion CapEx expectation, right? I mean, in terms of hydroxide and carbonate capacity that's still going to go on line it through 2022 as you've outlined in this slide.

Luke Kissam

That's exactly right, Dmitry.

Dmitry Silversteyn

Okay. And then on the divestitures, I found it interesting that if you're getting sort of inquiries on the Catalyst in the fine chemistry business obviously the fine chemistry business has been around on the market, I guess for a while. On the Catalyst side, you mentioned kind of pro forma Catalyst being the subject of interest. Does that include the curatives and organometallics or would that still be strictly the FCC, HPC Catalyst business?

Luke Kissam

Yes, so let me be clear, Dmitry. It is, it is not the refining Catalysts, it is not FCC and it is not HPC, the inquiries have been for the PCS portion of that business, which you are right, are the organometallics and the curatives.

Dmitry Silversteyn

Okay, okay, you're looking - you basically - you look - you're looking at some of that, what I would call sort of orphan businesses, not necessarily contemplating yet the possibility of bromine or refining catalysts being used as a way to help you with the capital requirements in lithium?

Luke Kissam

Dmitry, just like asking me which one of my children are favorable, I love them all. I wouldn't call an orphan business, but I would say that they are quality businesses with good operating teams that can do much better if they have a focus and additional capital and with the competition for capital. We have, they're just not going to get it. So it's a better value creation for our stakeholders for divestiture. If, and only if, the valuation is where it needs to be. So that's how I look at it, okay.

Dmitry Silversteyn

Makes perfect sense Luke. Thank you very much.

Operator

Thank you. Our next question comes from PJ Juvekar from Citi. Your line is open.

Prashant Juvekar

Yes, hi, good morning, Luke. So in light of your Wodgina shutdown. Can you talk about the spodumene cost curve, what's the cost of marginal producer and whereas Wodgina fall there, and what signals are you looking - looking to for the start of Wodgina again?

Luke Kissam

Well, the best cost position in the world from spodumene rock is Talison and if you follow the purity of the rock and lack of foreign substances in there you follow the cost curve, with Talison is the premier in the world. If you take Talison out of the picture then Wodgina is right up there on the cost curve with the low cost producers out there from a quality resource, from the size of the resource, from the linked that we're going to be able to monitor from the cost position that we'll be able to get. So, it is a top tier resource from a cost standpoint and from a quality standpoint. Remember, we weren't planning to sell that spodumene, we we're going to use it to convert it to lithium hydroxide and when we look at the market today, it makes sense for us, we think today to treat Wodgina in the same way we treat Talison as a raw material source for the MARBL limited joint venture between Albemarle in MRL. So we'll get Kemerton online and we'll start that bright mechanical completion sometime in 2021. We have a period of time where we have to have qualification runs and then we'll look to source Wodgina with Kemerton.

To the extent the market conditions makes sense for us to bring whatever amount of capacity it makes for us to bring on for lithium hydroxide. We don't need to operate it wide open on day one, we'll will bring on capacity to meet that demand for lithium hydroxide and that will dictate how we run the Wodgina mine.

Prashant Juvekar

Sure, thank you for that. And then if you were to divest, you're Fine Chemistry and Performance Catalyst business. Is the long-term goal for Albemarle to become a pure lithium company or is it just to keep the dip refining catalyst business and bromine in the portfolio? So that's the cash generative business that can fund the growth of Lithium. Thank you.

Luke Kissam

Yes, I think lithium, we'll be able to fund it, if we start back and look lithium cash flow positive in 2021, '22 kind of time frame inclusive of service and it's debt, if you had to and things, like that, but right now, our goal is to drive shareholder value. When we look at our portfolio today, we see bromine and catalysts good solid business, high EBITDA margins that allows us to harvest cash and use that for the Lithium business. So we will consistently as we always have a look at our portfolio, but for the foreseeable future, we like where we are after these two divestitures.

Prashant Juvekar

Thank you.

Operator

Thank you. Our next question comes from Colin Rusch from Oppenheimer & Company. Your line is open.

Colin Rusch

Thanks so much guys. As you're looking at the landscape of battery manufacturers and considering your strategy. Can you talk about consolidation in the industry, folks that maybe distressed and how you expect to handle that sort of situation?

Eric Norris

So, hey, Colin, this is Eric. So what we are seeing, and I've talked about before and it continues is a shift of power decision-making around Lithium and battery materials used in a battery to the battery manufacturers in sales and in some cases the OEM is getting more engaged. And so when we look at how we do business going forward, that is the group that we speak with as a group or partner with, that's a group, we have a great deal of our contract relationships already. Cathode players form the balance that's where there is more stress in the value chain, there is a lot more fragmentation and I think you will see some consolidation over time there, but it's hard to say at what pace that would occur, but that's the dynamic we see and we're well balanced and prepared with pretty deep relationships across all of those three parties, OEMs, battery producers, cathode producers.

Colin Rusch

Great. And then on the policy side, obviously the situation in China from a sell through perspective on - it has been a major disappointment, particularly in the second half of this year. What are you hearing in terms of potential for stimulus in China for vehicles and for you is at this point, if anything?

Luke Kissam

What we interpret as what - is going on is a pause, right, it's a - it's a shift in policies to intent the development of an industry that is part of the grand plan for China. So we have no doubt about Chinese intent and where they want to go and what we are hearing. Specifically, is that the drive towards higher energy density batteries and full battery electric vehicles is the aim of where they want to go. So we - recognize that, in the past couple of months it's been a pause, it's been a little slow, but we view that as simply a natural pause in the road of what will be significant growth, and we're certainly seeing that in the global EV space in Europe today.

Colin Rusch

Great, thanks so much guys.

Operator

Thank you. Our next question comes from Joseph [ph] from G. Research. Your line is open.

Unidentified Analyst

Good morning, everyone. Obviously, both lithium industry has responded to the softening price dynamic with you and others delaying or canceling capacity expansions, but with the amount of lithium carbonate sitting in supply chain, that needs to be consumed. Are you concerned, there's going to be more room for prices to fall going forward as the industry destocks?

Luke Kissam

We, as we said, I think on the call, you got $7 a kilo price kind of in China right now, we think that's about where their - whether cash cost of conversion is, I have seen a hard time them going much, much lower than that.

Unidentified Analyst

Okay. And as the shift to high nickel cathodes accelerates and you're seeing the growth in lithium carbonate slow. Do you expect the price spread between the two to widen, it seems like it's tracked fairly steadily, this year, the $150 to $2 kilogram range?

Luke Kissam

Well, a couple of things I'll say. One is that the demand growth for carbonate remains strong, demand outlook for hydroxide is much stronger. Today, the workhorse of the industry is six to two chemistry, that we made with carbonate, four hydroxide which plays to Albemarle's advantages, we're the only producer that has ability to play both. As to the future, we see hydroxide, because of the growth we see in the hydroxide market getting tight, but today, I don't know that we would forecast any major change in spreads between the two.

Unidentified Analyst

Okay, thank you.

Operator

Thank you. Our next question comes from Kevin McCarthy from Vertical Research Partners. Your line is open.

Kevin McCarthy

Yes, good morning. Luke, one of your industry peers announced a new contract with LG, earlier this week. As you consider your contract strategy given all that has transpired with lithium prices are you generally disinclined to enter new long-term contracts? Or are there perhaps isolated opportunities that look attractive?

Luke Kissam

Yes, so, Kevin. We're talking to everybody as I said, we're in negotiations under our existing long-term agreements and for new long-term agreements, both in the - both with OEMs, as well as with additional battery producers. So we are in negotiations and in discussions with a lot of moving parts and pieces and what that tells me is that, there is ability - there is a need for a security of supply from companies like Albemarle and everybody knows we're not - we will enter into a contract, long-term today at a $7 a kilo price for carbonate, is it not happen, we're not going to do it, it don't make any sense for us to do a lot of that in, because we think the market is going to move up. So we know the value we bring, I think the customers know the value that we bring as well and we're inclined to enter into agreements that will drive value for our stakeholders. That's the best way I know to describe it.

Kevin McCarthy

Okay, fair enough. And then second, with regard to your potential divestitures, how would you characterize the aggregate level of EBITDA there? And as a point of clarification is that amounts of EBITDA included in your 2020 guidance comments or are you contemplating a decrement or step down related to a midyear divestiture?

Scott Tozier

Kevin, this is Scott. So the combined EBITDA is kind of in the $55 million to $60 million range, we have not assumed that we sell those businesses in our guidance at this point in time. We just started the process as we talked about and we need to see if we're going to get the value for those businesses that we expect and if not, then we'll - if we don't - we'll hold them if, if we do - we'll end up by transacting.

Kevin McCarthy

Okay. Thank you, Scott.

Operator

Thank you. And that does conclude the question-and-answer session for today's conference. I'd now like to turn the conference back over to Dave Ryan for any closing remarks.

David Ryan

I'd like to thank everyone for joining us this morning and for your questions and participation. As always, we appreciate your interest. This concludes Albemarle's third quarter earnings call. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a wonderful day.