DSR STOCK CARD

11/18/2019

CHEMTRADE LOGISTICS (CHE.UN.TO)

Business Model

Chemtrade Logistics Income Fund provides industrial chemicals and services to customers in North America and around the world. The company organized into four main operating segments: Sulphur Products and Performance Chemicals (SPPC), Water Solutions and Specialty Chemicals (WSSC), Electrochemicals, and Corporate. It generates maximum revenue from the Electrochemicals segment. Chemtrade operates in Canada, the United States, and South America of which maximum revenue comes from the United States. SPPC markets, remove and produces merchant, regenerated and ultra-pure sulphuric acid, liquid sulfur dioxide, sodium hydrosulfite and provides other processing services.

The Company in a Nutshell

- Chemtrade is definitely not a candidate for DSR portfolios.
- The company faces too many challenges for its very limited cash flow.
- There is no dividend growth and dividend payment is at risk.

Investment Thesis

First, 10 consecutive years without a dividend increase. In other words; inflation is eating up your dividend. Second, the potential lawsuit for anti-competitive actions in the water business. CHE has already allocated $140M ($65M (Q2 2018) + $35M (Q3 2018) + $40M (Q1 2019) as a litigation reserve. Third, the company is going through various challenges and must manage an important debt due to its acquisition of Canexus. CHE's debt increased by 76% over the past 5 years while revenue went up by 30%.

VALUATION

Dividend Growth Rate Years 1-10: 0.00% **Terminal Dividend Growth Rate:** 0.00%

	Discount Rate (Horizontal)		
Margin of Safety	10.00%	11.00%	12.00%
20% Premium	$14.40	$13.09	$12.00
10% Premium	$13.20	$12.00	$11.00
Intrinsic Value	$12.00	$10.91	$10.00
10% Discount	$10.80	$9.82	$9.00
20% Discount	$9.60	$8.73	$8.00

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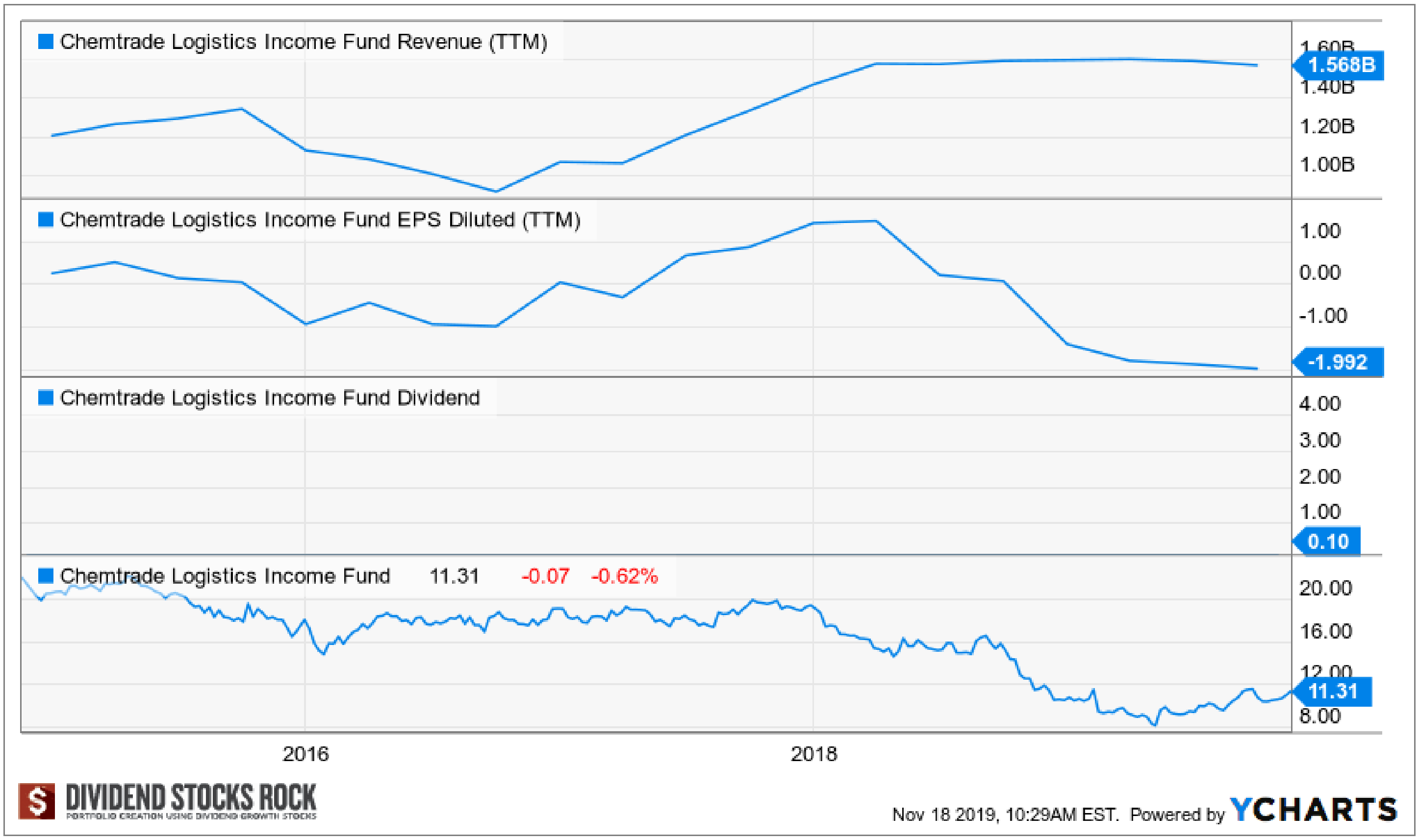

Potential Risks

Overall, Chemtrade must deal with important challenges and is limited by its debt levels. The company faces civil actions while its products sell at lower prices due to market headwinds. CHE had to increase its reserve for litigation by three times so far, we don't know how much it will cost in the end. Imagine the scenario where CHE must deal with a market crash or a recession? Its options would be limited, and the stock would definitely take a hit. Don't be surprised if there is a dividend cut when the company hits another speedbump.

Dividend Growth Perspective

The company didn't increase its dividend since 2007. Plus, you can't expect a larger paycheck anytime soon. Turn it the way you want, CHE shows negative EPS and generates just enough cash flow to pay its dividend if you exclude the $140M in litigating reserve.