Global Securities CORPORATION

Update

Canexus

Risk Rating:

Moderate

Symbol(s):	CUS
Exchange(s):	Toronto
Industry:	Chemicals - Specialty

Price (C$/share):	$6.58
Market Cap($mm):	$933.63
Cash ($mm):	$1.43
Debt ($mm):	$424

Div Yield (Last 12M):	8.33%
Div Yield (Indicated):	8.33%
9 Mos Total Pay Out (w/ DRIP):	105%
9 Mos Total Pay Out (w/o DRIP):	128%

	2013E	2014E
EPS:	$0.14	$0.31
P/E:	NA	21.36x
CFPS:	$0.54	$0.71
P/CF:	12.19x	9.23x
Debt/EBITDA:	4.12X	2.75X

Number Of Analysts:	7
Avg. Target Price:	$7.88
Implied Upside:	19.8%

December 5, 2013

Another major contract win helps boost shares...

Investment Thesis

After a disappointing Q3 (weak chemicals and slight delays at trains ops), shares are getting a boost after CUS made progress in capacity contract negotiations for its terminal operations.

Business Description

Canexus produces Sodium Chlorate (paper bleaching agent) and Chlor-Alkali (various industrial uses) through its recently upgraded, low-cost facilities throughout the Americas. It is also growing its loading/transportation and energy storage business in Alberta.

Q3 Update

- Chlor-Alkali: contributed $7.8m of operating cash flow in Q3, 51% less than this time last year. New production capacity in the US is pressuring fundamentals; expected to continue into H1 2014.
- Sodium: contributed $16.8m to operating cash flow in Q3, 5% higher than this time last year. A marginal increase in demand helped stabilize pricing.
- South American Operations: contributed $4.6m to operating cash flow in Q3, 25% less than this time last year. Despite some price competition, this segment is expected to remain stable next year.
- Terminal Operations: contributed just under $1m to operating cash flow in Q3. Truck loading came online in Q3, phase 1 unit train expansion expected in December (was originally November) and full expansion online by mid 2014. Once complete, terminal ops to contribute ~$50m in annual EBITDA.

Terminal Operations Capacity Contract Negotiations

- CUS announced today that it had secured a long term take-or-pay contract with a midstream marketing company for 20-30% of planned capacity
- As of this morning, CUS has secured contracts for 60-70% of planned capacity. Expect the remainder to be contracted by year end.

Catalysts/Risks

- A smooth ramp-up with terminal operations is key to profitability and dividend sustainability. Near-term milestones include the start of phase 1 train operations this month and completion of capacity contract negotiations.
- The dividend pay out ratio remains stubbornly high, in part explaining the current high yield, but should improve as terminal operations ramp up later this year.