At a 52-Week Low, Is Chemtrade Logistics Income Fund (TSX:CHE.UN) Stock a Buy?

Description

It's one week before earnings and **Chemtrade Logistics Income Fund** (TSX:CHE.UN), which currently pays a massive dividend of 13%, is trading at a 52-week low at writing. Is this stock a buy?

To determine whether it's a good time to invest in Chemtrade, let's look at the company's financial results from 2018, the ongoing legal concerns, the company's business model and its outlook for the future.

2018 was a challenging year

In the fourth quarter earnings call held in February, CEO Mark Davis admitted 2018 was "a challenging and disappointing year for Chemtrade."

The biggest drain on the financial performance was the issue related to civil lawsuits that arose from the alleged anti-competitive conduct of entities of General Chemical Holding Company prior to Chemtrade's acquisition of the company in 2014.

Chemtrade announced the acquisition of New Jersey-based General Chemical for $860 million in late 2013. At the time, the purchase added significant size, scale and scope to Chemtrade's existing products and services. Since that time, the acquisition has added costly legal problems.

In the second and third quarter of 2018, as the severity of the legal and settlement costs were realized, Chemtrade established a litigation reserve of $100 million. Regarding the legal expenses, Davis said, "Although we had negotiated the indemnity from the seller as part of our acquisition, our legal and settlement costs are substantially higher than we expected and more than that indemnity."

In the fourth quarter, Chemtrade's revenue from continuing operations was $391 million, and its aggregate EBITDA was $65 million.

Business model

Chemtrade is a worldwide provider of industrial chemicals and services. The company is one of North America's largest suppliers of several chemicals including sulfuric acid, sodium chlorate and sodium nitrate. These chemicals are used to make various products such as fertilizer, detergents, explosives and drugs.

The company's products are grouped into one of its three business segments: Sulphur Products and Performance Chemicals Products (SPPC), Water Solutions & Specialty Chemicals Products (WSSC) and Electrochemicals Products (EC).

Each business segment faced challenges in 2018. In just one example from the WSSC business, a problem arose from inconsistencies in the ordering patterns of one of its customers. Several years ago, one of Chemtrade's plants could not meet demand and a major customer began stockpiling product. The plant increased production capacity to meet the inflated demands of the customer.

However, in 2018, the customer made the decision to rebalance inventory and reduce the oversupply, thereby reducing orders to even less than historical levels of previous years. Chemtrade, which had increased production at the facility, was faced with excessive product and capacity.

Outlook for 2019

Despite the ongoing legal issues, the company remains committed to paying out a hefty dividend of 13%. Chemtrade stresses that its balance sheet remains solid and that the company can maintain ample liquidity.

The company promises that 2019 will be a better year financially. Chemtrade maintains that the market conditions for all of its main products are favourable, although the speed and magnitude of market conditions on the company's bottom line is highly product specific.

Despite the massive dividend of 13%, I would take a wait-and-see approach before investing in Chemtrade. The earnings call next week should provide some insight as to how the company is managing the lasting effects of a very bad 2018.

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