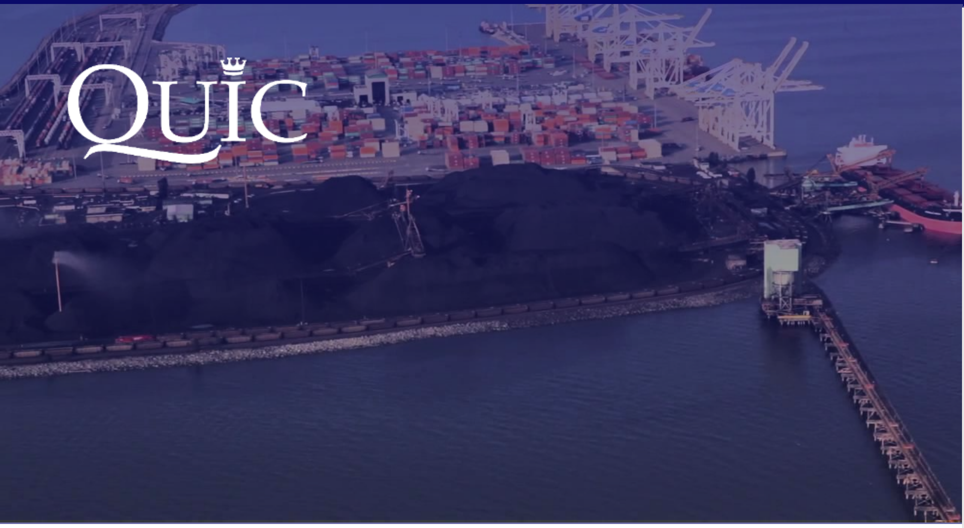


RESEARCH REPORT

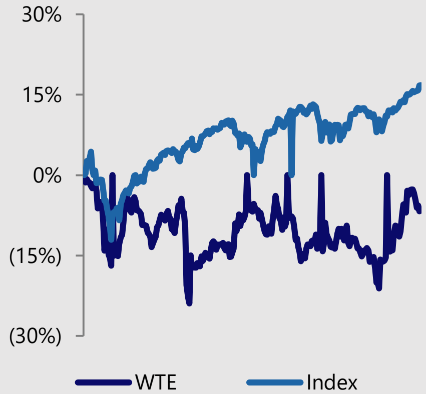
November 25, 2019

Stock Rating	HOLD
Price Target	CAD $22.28
Current Price	CAD $21.75

Bear Case	Price Target	Bull Case
$17.56	$22.28	$26.99

Ticker	WTE
Market Cap (MM)	$1,450
P/E NTM	10.80x
EV/EBITDA NTM	6.93x

52 Week Performance



Westshore Terminals

Shipping Out Cash Flow?

Introduction:

Coal is surely on its way out. The world is finally starting to wake up to the call of the environment and is beginning to act. However, our switch to cleaner sources of energy will take time. In the meantime, the Industrials team has a great business to examine and to consider.

Westshore Terminals Investment Corporation currently operates the largest coal loading and exporting facility throughout the west coast of the Americas. Far into the future, the business may be challenged by the secular decline of the coal industry. But, as of now, Westshore is a great company with clear merits:

Threat of Neptune Bulk Terminal Expansion

Thesis I: Stable Industry Structure & Secure Customer Base

Thesis II: Strategic Location & Superior Asset

Conclusion:

Globally, more than 7.7B tonnes of coal is produced annually. About 70% of steel production still depends on the burning of metallurgical coal around the world and 40% of global electricity continues to be fueled by thermal coal-fired power plants.

QUIC thinks that Westshore is a safe infrastructure asset that enjoys significant natural advantages. However, before entering the name, there are still a few questions that we would like to answer.

Industrials

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Company Overview

Business Model

Westshore Terminals Investment Corporation operates a coal storage and loading facility at Roberts Bank, British Columbia that is the single largest coal loading facility in North America. Westshore generates revenue by handling charges applied to its customers' shipped throughput coal volume. Westshore does not directly own any of the coal it handles and is therefore not actually exposed to commodity prices as a mining business would be. Westshore has contracts to ship coal from mines in British Columbia, Alberta and Montana. Coal is delivered to Westshore's facility in trains operated by Canadian Pacific Railway, BNSF Railway, and Canadian National Railway. Coal is then loaded onto ships destined around the globe to more than 18 different countries, with the largest volumes shipped to Asia. Exhibit I illustrates the destinations of the coal shipped from Westshore's terminal, sorted by country.

Customer Base

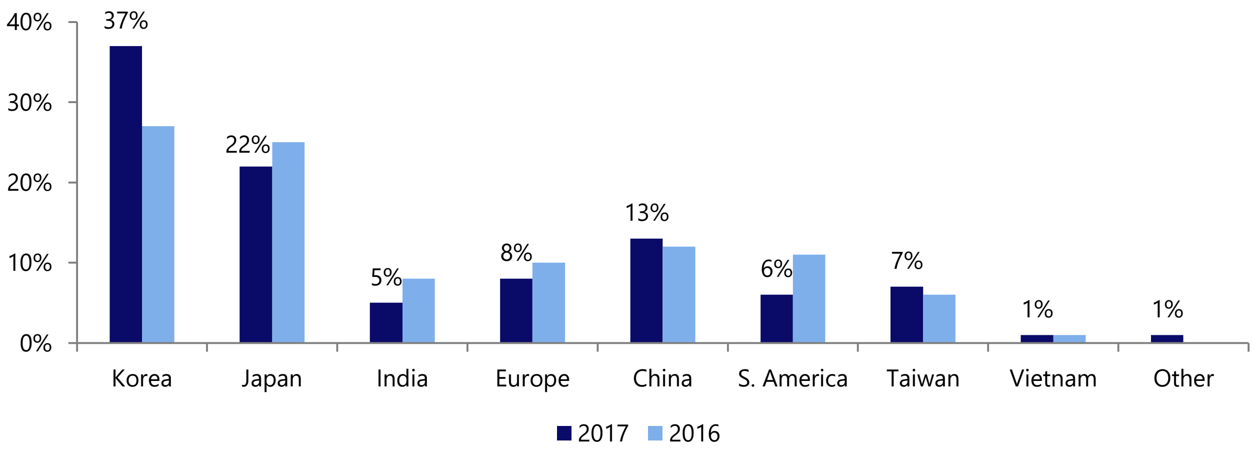
Much of Westshore's business is secured by long-term contracts with clients. Teck Resources is the company's largest customer and is the second largest supplier of seaborne steel making coal in the world. Westshore's current contract with Teck runs to March 31, 2021. Under this contract, Teck has committed to ship 19 million tones (Mt) per contract year at fixed rates. The majority of Westshore customers produce coal for steelmaking applications; 64% of throughput volume is attributable to steel. Most of the remaining customers have thermal uses.

Asset Base

In 2012, Westshore made an aggressive upgrade plan to its main operations facility at Roberts Bank. The upgrade entailed a $270M budget to be spent over six years. Fiscal 2018 marked the last year of related capital expenditures, in which Westshore spent $41M.

EXHIBIT I

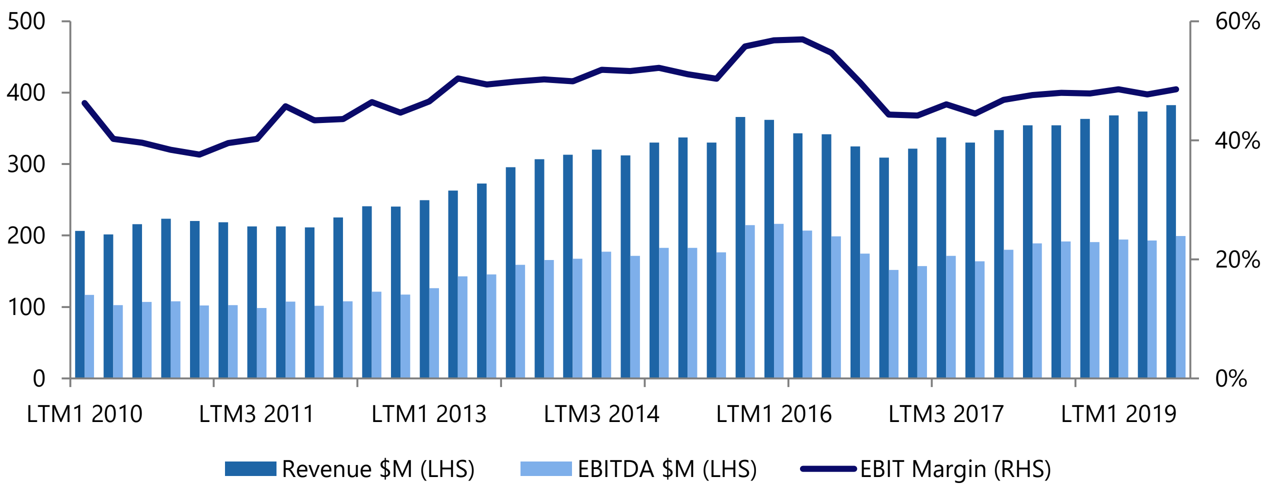
Westshore Coal Shipment Destinations by Country



Source(s): Company Reports

EXHIBIT II

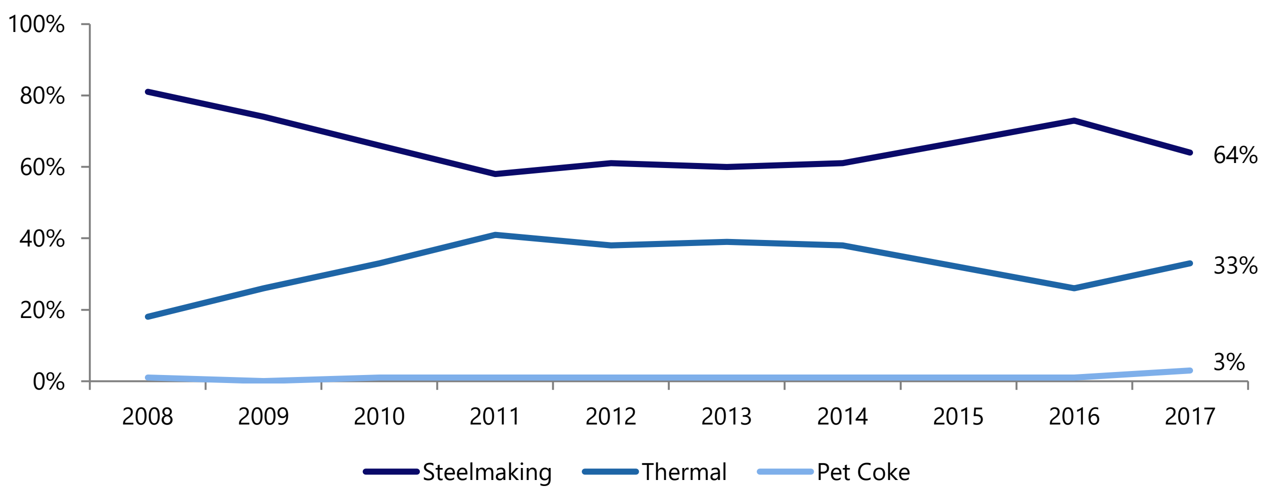
Operating Metrics Trailing 10-Years



Source(s): Company Reports

EXHIBIT III

Throughput by Coal Application



Source(s): Company Reports

Industry Outlook

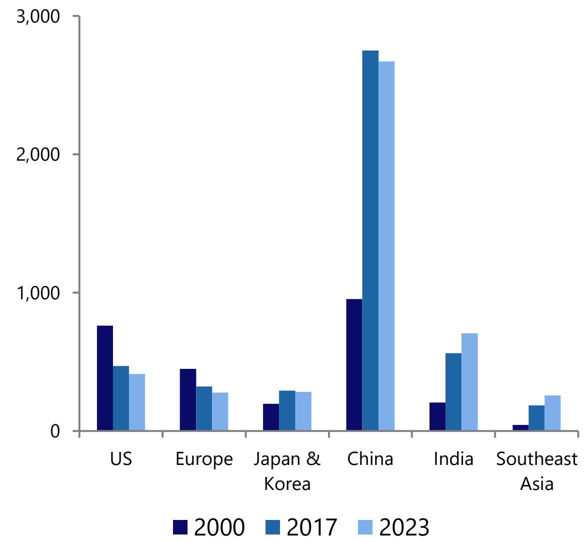
Global Demand Overview

There are two different stories for coal demand. In some countries, typically developed regions such as the U.S. and Europe, the long-term prospects for coal demand are dim. Climate action policies and economic forces are starting to lead to closures of coal power plants as governments and businesses search for cleaner alternatives. In other countries, coal continues to play a role in securing access to affordable energy.

Global coal demand is forecasted to be stable, with an eventual decline in demand in Europe and the U.S. offset by growth in Asian countries. China remains the price setter in international markets. China's power sector is the largest user of coal in the world by far. As such, fluctuations in China's domestic system will have a significant influence on global coal demand. In the future, environmental policies and clean-air measures may constrain coal demand. For now, coal remains an important piece of the global economic machine and is China's single largest source of primary energy.

EXHIBIT IV

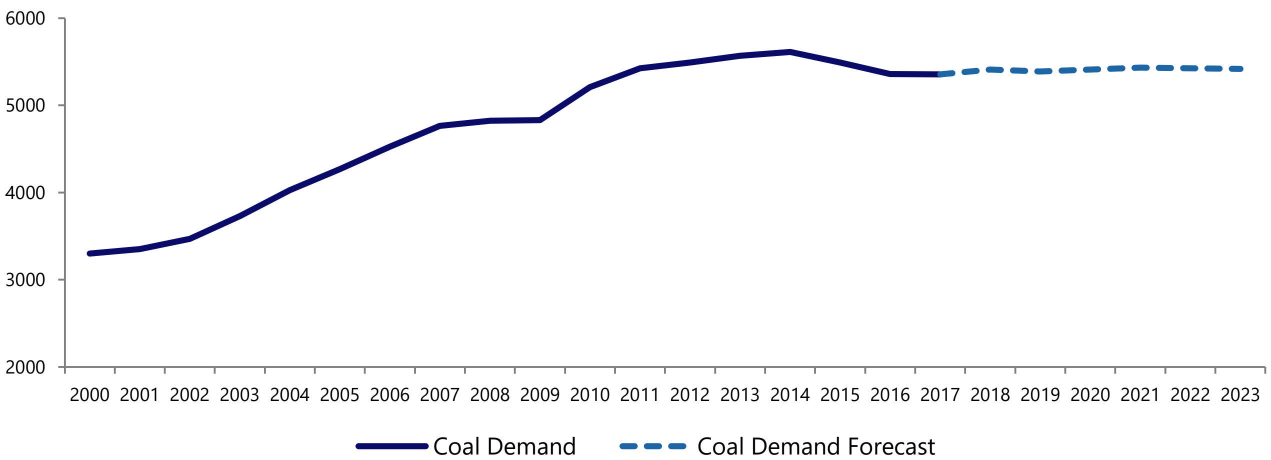
Coal Demand in Selected Regions (Mt)



Source(s): International Energy Agency

EXHIBIT V

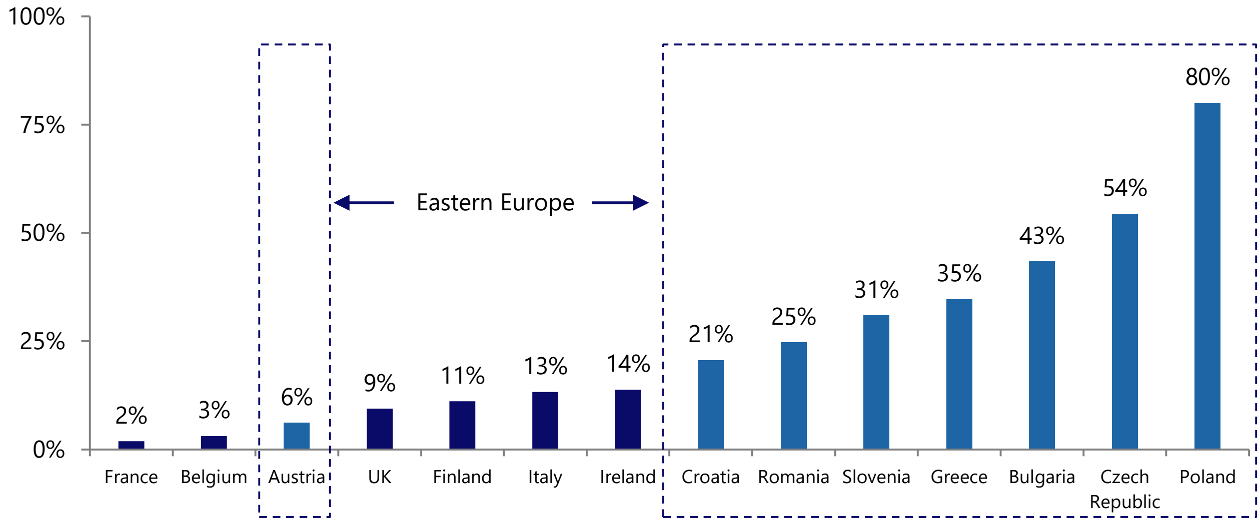
Global Coal Demand Forecast (Mt)



Source(s): International Energy Agency

EXHIBIT VI

Coal's Share in Power Generation is Much Higher in Eastern Europe v. Western Europe



Source(s): International Energy Agency

Industry Outlook Cont'd

The unmatched period of coal power generation in India and Southeast Asian countries such as Indonesia, Pakistan, the Philippines and Vietnam is expected to continue. But in Europe, demands for coal vary widely. Western Europe is accelerating its exit from coal, due to incoming pressure from climate change action and air pollution. Coal will eventually be pushed out of the Western European power mix. However, phase-out plans have not been announced in Eastern Europe. In Poland and Greece, construction for new coal power plants are underway.

Metallurgical & Thermal Coal

Metallurgical coal, or coking coal, is a very important component in the chemical reactions that transforms iron into steel. In 2017, Canada produced about 33Mt of metallurgical coal, nearly all of which was exported. Coking coal demand is closely tied to steel demand.

Thermal coal, as its name implies, is burned for steam to run combines that generate electricity for industrial and domestic applications. During power generation, coal is ground up into a powder and fired into a boiler to produce steam. Canada produced 30Mt of thermal coal throughout 2017, the majority of which was used domestically. While coking coal demand could remain somewhat low, thermal coal demand should remain steady over the next five years.

Competitor Analysis

There are many environmental and regulatory hurdles that companies will encounter if they decide to build a new coal terminal. This, combined with the fact that many countries are starting to turn to cleaner energy alternatives, results in a low likelihood of new entrants to this space. It will also mean limited deep-sea berth locations and links to existing infrastructure.

More than 90% of Canadian coal deposits are located in B.C. and Alberta. The Powder River Basin in Montana and Wyoming are important coal deposits in the U.S. In addition to the Westshore Terminal, there are two coal-handling facilities across Western Canada: Ridley Terminals and Neptune Bulk Terminals.

Ridley Terminals

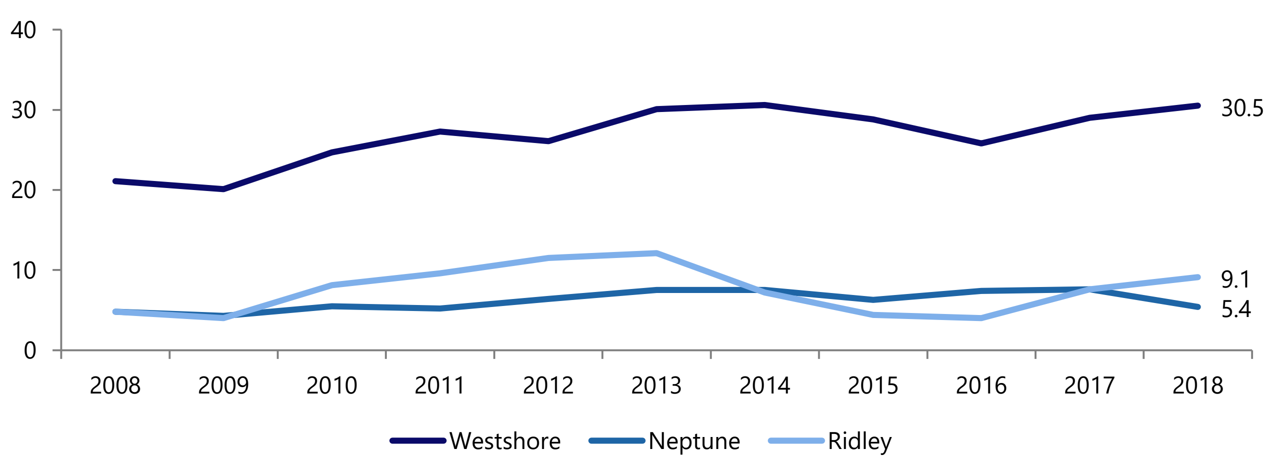
Ridley Terminals was built to serve the coalfields in northeastern B.C., consisting of the Bullmoose and Quinette mines. It operates a single-berth coal loading facility located in Prince Rupert. Throughput increased drastically in 2004, when new mines in the area were opened, reaching a new peak in 2013. Ridley started to experience lower volumes in 2014, as lower coal prices forced many mines and coal facilities into bankruptcy or to shutdown. Ridley experienced a modest uptick in recent years due to the re-opening of mines in the area, under a new owner, Conuma Coal Resources.

Neptune Bulk Terminals

Neptune is located in Vancouver's inner harbour, and operates three-berth terminals that handle various commodities including coal, potash and fertilizer. Teck Resources, Westshore's largest customer, owns 46% of Neptune and ships some of its coal through Neptune as well. Neptune is also owned by Canpotex, a large exporter of potash.

EXHIBIT VII

B.C. Coal Handling Facility Throughput Rates (Mt)



Source(s): Company Reports

Threat of Neptune Bulk Terminal Expansion

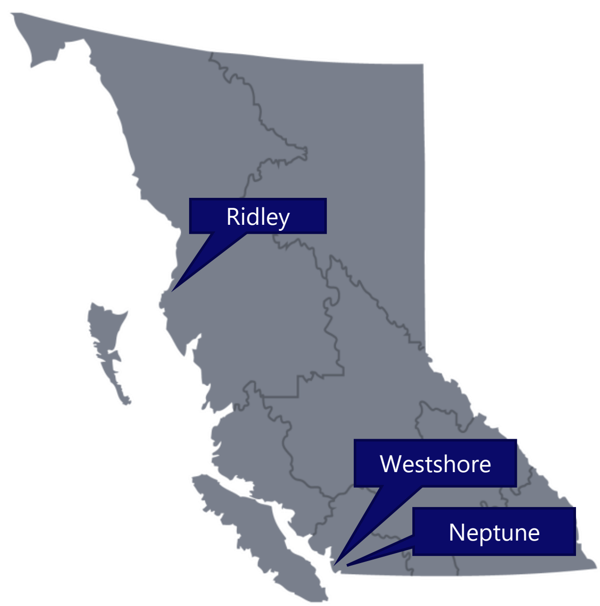
Teck Resources has a stake in Westshore's competitor, Neptune. Teck also happens to be one of Westshore's most significant customers, accounting for nearly 60% of total throughput.

In 2018, Teck announced that it would be investing $470M to expand Neptune's capacity from 12.5Mt to 18.5Mt. With the proposed improvements, the process of transferring coal from trains to stockpiles to ships would become much more efficient, allowing greater throughput and a higher overall coal export capacity. Teck acquired a permit from the Vancouver Port Authority to increase Neptune's capacity to 18.5Mt in 2013. However, Teck did not pursue expansion, due to the fact that most of its coal output was locked into long-term contracts with Westshore and, to a lesser extent, Ridley. Now, the project is expected to be completed in Q1 2020. This timing aligns with Teck Resource's contract expiration with Westshore in 2021.

In a Q1 2018 call, Teck's CEO Don Lindsay said that "we have not disclosed the magnitude of the potential savings, but you can expect that they would be significant" concerning the Neptune expansion. Teck has also voiced their dissatisfaction with Westshore several times on earnings calls, which indicates that the relationship between the two companies is on rocky ground. Teck has mentioned "the lack of reliability and consistency in the unloading of trains at Westshore Terminals" as one of several logistical problems they have had to deal with.

EXHIBIT VIII

Competitor Locations



Source(s): Company Reports

EXHIBIT IX

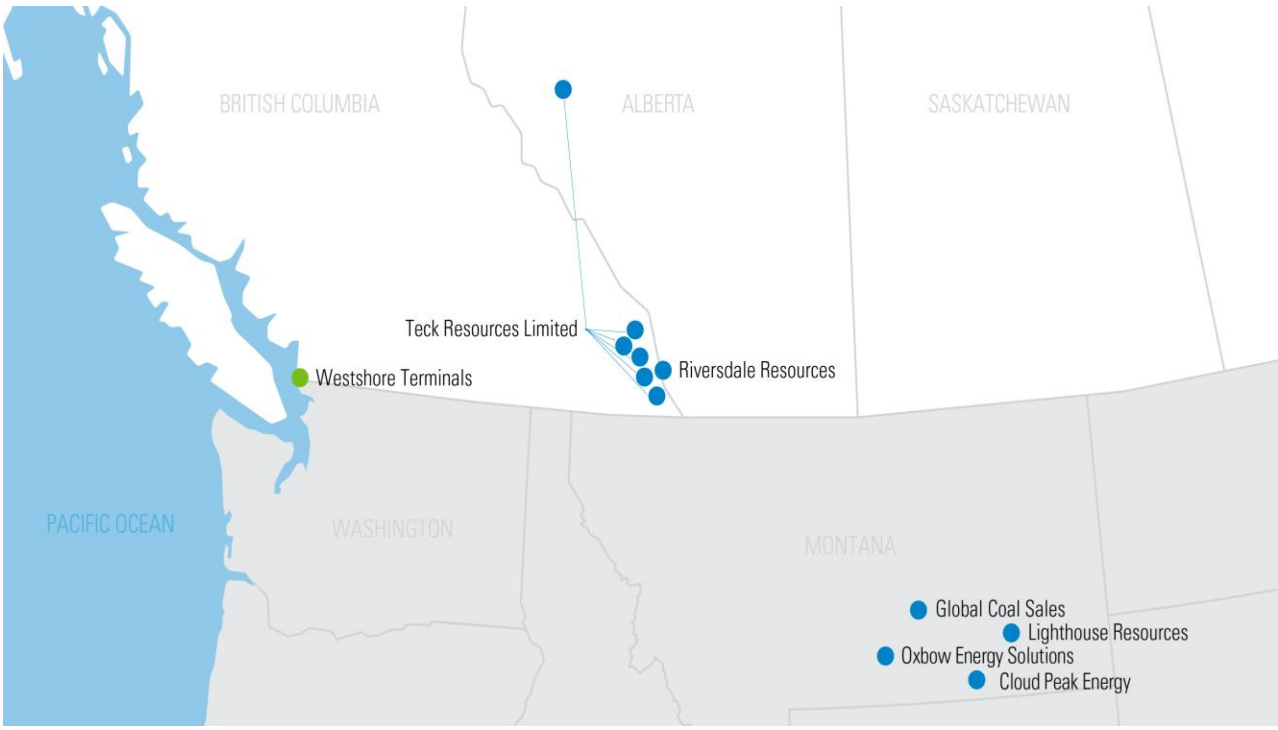
Comparison of Coal-Handling Facilities in the Pacific North-West

	Westshore	Neptune	Ridley
Location	Vancouver	Vancouver	Prince Rupert
Current Capacity (MT)	33	12.5	18
FY18 Throughput (MT)	29	7.6	7.6
Teck's Current Contractual Throughput	19	6	3
Contract Expiration with Teck	2021	N/A	2024

Source(s): Company Reports

EXHIBIT X

Customer Locations



Source(s): Company Reports

Threat of Neptune Bulk Terminal Expansion Cont'd

Westshore's 2018 Annual Report discloses that "Teck has advised Westshore that it does not expect to ship the current contracted volume of 19Mt per annum through Westshore after the current contract expires." Clearly, Teck intends to shift some of its coal output from Westshore to Neptune in 2021. How much output Teck will transfer away remains to be seen. In the worst-case scenario, Teck could transfer 12.5Mt away from Westshore, representing nearly 70% of its current contractual obligation.

Westshore's costs are also largely fixed, including a significant portion of employee costs as they are unionized. If Westshore is unable to sustain a volume of throughput that allows it to meet its relatively fixed expenses, then its future does not look bright. The expansion of the Neptune terminal will most likely lead to significant loss of business and also poses a highly concerning question mark to Westshore's continued profitability.

Thesis I: Stable Industry Structure & Secure Customer Base

The Environment

As eluded to in the former overview and outlook on the commodity, coal is surely on its way out. Coal went from an asset broadly recognized as one of the most important fueling factors of the Industrial Revolution to a commodity now widely perceived as one of the most damaging primary sources of energy. Although the transition off of coal and onto cleaner sources of fuel is inevitable, the switch will not happen overnight. So as the transition takes place, the Industrials team views Westshore Terminals as a very interesting stock.

Barriers to Entry

Building a new coal terminal has enormous costs given the numerous regulatory and environmental hurdles that exist. Any new proposals for loading facilities will most likely face significant obstacles to market entry. In addition, coal is very clearly being gradually phased out for cleaner sources of energy, with countries in the developing regions leading the charge in this respect.

As such, the appeal of prospecting and building a new coal terminal is underwhelming at best. These long-term market moats and limited factors of competition create a form of protection for Westshore's advantage and a highly captive customer base. Over a long-term horizon, the limited supply of capacity from existing players and the lack of entrants into the coal market should translate into pricing power for Westshore.

Exhibit XI

Detailed Competitor Comparison

		Westshore	Ridley	Neptune
Specifications	Port Type	Deep Water (Ice Free)	Deep Water (Ice Free)	Deep Water (Ice Free)
	Commodities Handled	Coal, Petroleum Coke	Coal, Petroleum Coke, Wood Pellets, Sulfur	Coal, Potach, Vegetable Oil
	Storage	2.0Mt	1.5Mt	0.6Mt
	Vessel Load Capacity	7,000 tonnes/hour	9,000 tonnes/hour	5,400 tonnes/hour
	Maximum Shipping Capacity	35Mtpa	16Mtpa	12.5Mtpa
	Maximum Ship Size	260,000 DWT	250,000 DWT	185,000 DWT
	Location	Roberts Bank, BC	Prince Rupert, BC	Vancouver, BC
	Rail Access	CP, CN, BNSF	CN	CN, CP
Current Status	Current Coal Customer Base	Teck, Grand Cache, Sherritt Cloud Peak Other PRB Producers	Walter, Peace River, Teck Arch Coal	Teck
Expansion Plans	Capacity	Recently completed its Capital Project which increased throughput capacity ~35Mtpa	Potential to further expand to 24Mtpa	Currently completing expansion to increase throughput capacity ~18.5Mtpa

Source(s): BMO Capital Markets

Thesis I: Stable Industry Structure & Secure Customer Base Cont'd

Long-Term Contracts

Since the company never assumes ownership of the commodity, Westshore has no direct price exposure to metallurgical coal and thermal coal. Instead, Westshore locks clients in using long-term contracts that include major take-or-pay components reaching out to 2024.

Take-or-pay contracts are a method used to structure negotiations that take place between a company and a supplier in a given industry. This form of agreement stipulates that the company (i.e. Westshore) either 1) takes the product from the supplier (i.e. Teck) or 2) the supplier (i.e. Teck) pays the company (i.e. Westshore) a penalty. For any product the company (i.e. Westshore) takes, they pay the supplier (i.e. Teck) an agreed upon price.

Financial Performance

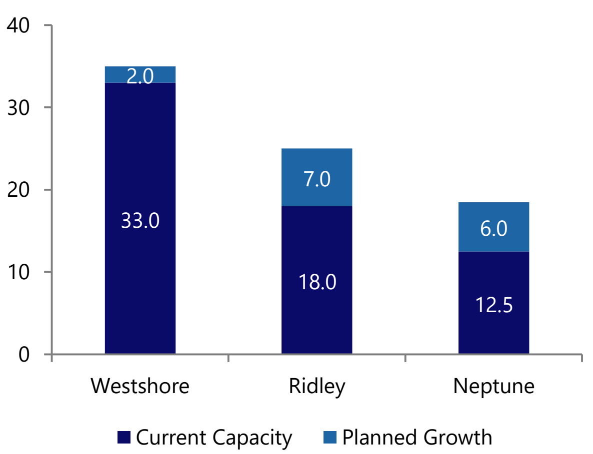
Large barriers to entry and long-term contracts for Westshore means that a high level of conviction in a sustained positive outlook for export coal may not actually be mutually exclusive with a long thesis for the equity. However, the Industrials team does recognize the risk that downward secular pressure on commodity prices could eventually make coal exports seen as less economical, thus causing a decline in throughput.

In fiscal 2018, a stable industry structure and a secure customer base allowed Westshore to enjoy very strong financial performance. Last year, Westshore generated ~$113M in free cash flow, up ~36% compared to the prior year. Since the $270M capital program is finally complete, the company spends only on maintenance capex now and can continue to reward shareholders with dividends or buybacks.

As well as strong free cash flow generation, Westshore has successfully maintained a very healthy balance sheet, with no debt obligations, excluding lease items. Through a masterful capital allocation scheme, the management team at Westshore effectively created a safe infrastructure asset and an amazing business.

Exhibit XII

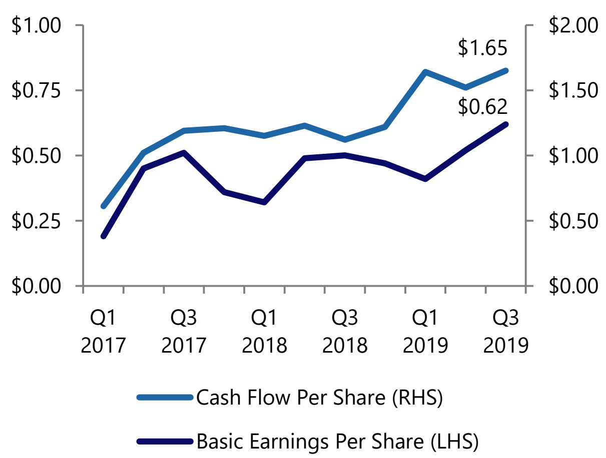
Terminal Capacity Analysis (Mt)



Source(s): TD Securities

Exhibit XIII

Historical Financial Breakdown



Source(s): Google Finance

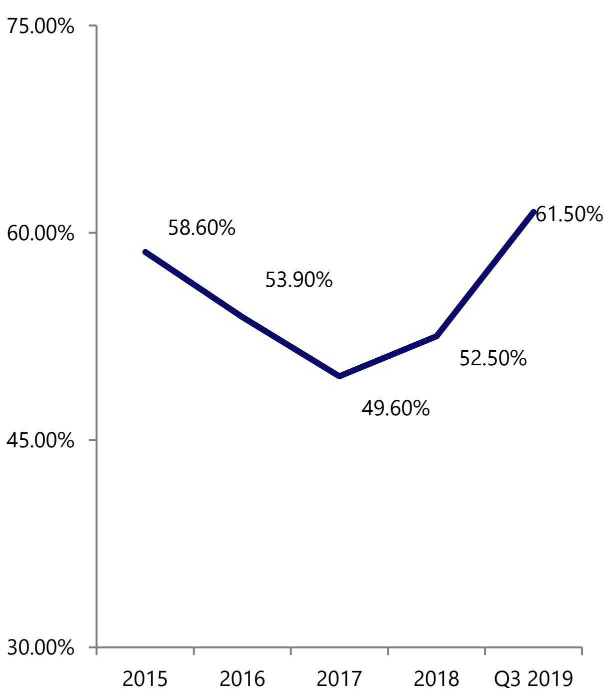
Thesis II: Strategic Location & Superior Asset

Superior Asset

Westshore Terminals enjoys significant advantages over the extremely limited competitive asset base, offering customers superior throughput, storage, and blending capabilities. Firstly, the company storage capacity of 2Mt is the largest of its competitors. The ample storage space allows Westshore to blend different types of coal for its customers. Secondly, the Capital Project, which was completed in early 2019, modernized Westshore's operations and provided it with new efficiencies, which led to improved margins. In Q3 2019, the EBITDA margin was ~61.5%, which was 232bps higher YoY. The management team views the improvement in margins as sustainable as the Capital Project replaced the three oldest stacker / reclaimers and a shiploader with new equipment. The Industrials team believes that with the project now finished and the more efficient equipment in place, Westshore will operate at improved margins going forward.

Exhibit XIV

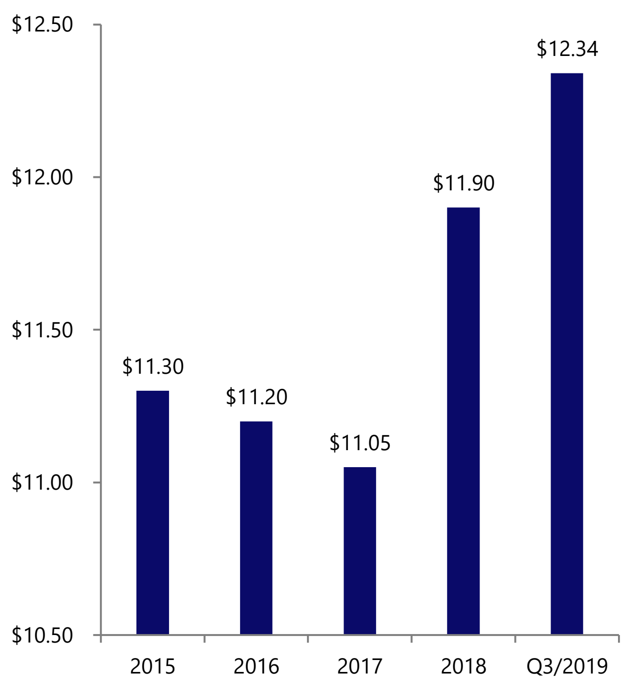
Historical EBITDA Margin



Source(s): Company Reports

Exhibit XV

Historic Loading Rate ($/tonne)



Source(s): Company Reports

Thesis II: Strategic Location & Superior Asset

Strategic Location

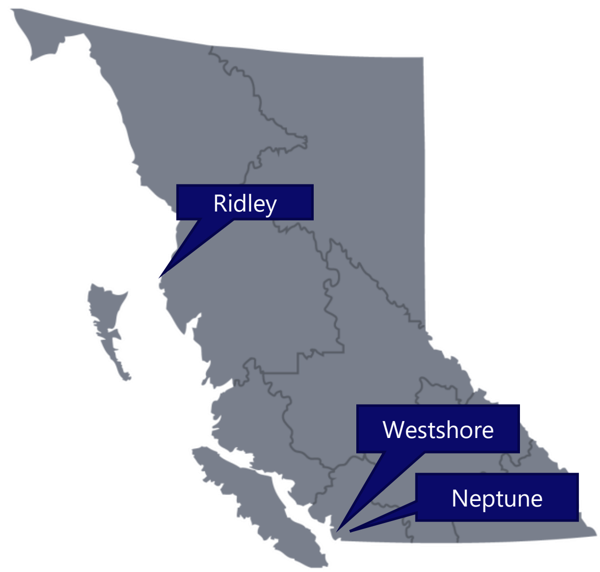
Westshore's terminal is uniquely positioned as its prime location offers significant benefits for customers in the U.S. and Canada. First, it enjoys significant natural advantages, including its proximity to low-cost producing mines and deepwater berth capacity. Westshore Terminal is in the best position relative to the mines in Southern Alberta, which reduces shipping costs and saves time. Furthermore, Westshore has superior connectivity with railroads and has three major railroad companies operating to the plant (Canadian Pacific Railway, Canadian National Railway and BNSF Railway). The deepwater berth capacity that Westshore has provides access to the largest ships (260,000 DWT) and ultimately, lowers the per ton shipping cost for customers.

Access to the Neptune Terminal could be restricted in the future by a more complicated rail logistics supply chain, but also by North Shore capacity as several new terminals, including a large grain facility, are expected to open, which can increase supply chain risk.

The single bridge and single lane across Burrard Inlet (Second Narrows bridge), which connects the North Shore's rail traffic to Metro Vancouver, is expected to face increased congestion (aside from being out of commission for five to six hours daily when lifted for marine traffic to pass through) when current projects are completed, including Fibreco Export Inc.'s new specialty grains handling facility (expected to open in 2019) and the $600M G3 grain terminal (scheduled to be completed in early 2020). Fibreco's specialty grain business is expected to process about two million tonnes of agriculture-products annually, while the G3 project is expected to increase annual grain-handling capacity at the Port of Vancouver by eight million tonnes. The grain can only reach the North Shore terminals via railcars that cross the Second Narrows rail bridge, and despite the rail transportation efficiencies that come with these projects, access to the North Shore, where Neptune Terminal is located, will likely come at a premium freight rate providing another advantage for Westshore.

EXHIBIT XVI

Competitor Locations



Source(s): Company Reports

Furthermore, with Ridley being approximately 1,500 kilometers away from Westshore Terminals, it provides a regional advantage in terms of transportation costs. This is due to most of North America's coal deposits being in lower British Columbia, Alberta, Montana and Wyoming. Therefore, in order for customers to use the Ridley Terminal, they must pay for an extra 1,500 kilometers of rail shipping to eventually ship the commodity by sea. As a result, Westshore enjoys a pricing advantage relative to Ridley, as transportation distance and rail connectivity allow it to provide customers with lower shipping costs.

Risks & Catalysts

Key Risks:

1) Concentrated Revenue Streams
Probability: Medium, Impact: High

Currently, WTE is over exposed because over 60% of the revenue generated in 2018 came from only one of their clients, Teck Resources. This 10-year contract ensured shipment of 19Mt of metallurgical coal per year at a fixed rate. However, this contract expires in the first quarter of 2021, at which time it is unsure if Teck will continue business with WTE. In fact, Teck has publically stated its dissatisfaction with WTE on various occasions. For example, on March 9, 2018, Teck's press release stated that sales were impacted due to the "ongoing poor performance at Westshore Terminals." Coupled with the dissatisfaction with WTE, Teck has plans to invest in the creation of their own terminal. Teck is currently on track to upgrade project Neptune, a terminal dedicated to coal. This is specifically concerning because if Teck starts using their own terminal, WTE will face a huge loss in revenue.

Mitigation:
Teck only owns 46% of Neptune and is still waiting on various permits to ensure that the upgrade will be complete. So, there is still a chance that Teck will rely heavily on WTE for their terminal requirements. Additionally, there is a chance that Teck renews the contract with WTE as WTE has a stronger infrastructure base and has been operating for longer with success compared to Teck's upgraded project.

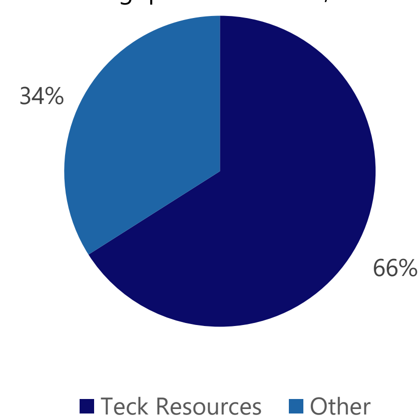
2) Foreign Currency Fluctuation
Probability: Low, Impact: Medium

WTE is paid by its customers in USD. This, therefore, exposes WTE to risks regarding foreign currency fluctuations. Recently, there has been no major jumps in the currency exchange rate between CAD and USD. However, in past years, there has been vast differences for reasons including, but are not limited to, changes in government and trade wars.

Mitigation:
The risk that WTE faces due to a fluctuation in currency is very low. The loss would be very minimal because the fluctuations have been very minimal in the past.

EXHIBIT XVII

Westshore Throughput Distribution, 2017



Source(s): Company Reports

3) Banning U.S. Thermal Coal in B.C.
Probability: Medium, Impact: High

The Liberal leader of B.C. proposed a ban on U.S. thermal coal in April of 2017. After the U.S. imposed more taxes on Canadian softwood lumber, the Premier stated that they wanted to make changes, like the ban of U.S. thermal coal, that they had been considering since the softwood negotiations were at an impasse. Recently, the environmental activists of Vancouver continue to be hitting headlines in opposing carbon emissions and the oil pipeline. With thermal coal also being bad for the environment, it is clear that there is a motive for B.C. to ban U.S. thermal coal. Thermal coal makes up 40% of the coal that comes through WTE's terminal, so clearly a ban of this coal would significantly impact WTE's revenue.

Mitigation:
60% of the coal that WTE works with is metallurgical coal. So, even if thermal coal is completely banned, WTE still has other streams of revenue to rely on.

Risks & Catalysts

Key Catalysts:

1) Continuance of Teck Contract

While many believe that Teck will not renew their contract, there is still a possibility that due to the strength and capacity of WTE, Teck will continue to use WTE's services. If Teck does opt to renew or adjust the contract after the current expiration date of 2021, WTE can expect to see a stable revenue.

2) Financial Stability of Clients

Cloud Peak Energy is one of WTE's major customers in Montana. As a part of the Chapter 11 bankruptcy process, Navajo Transactional Energy Company was the winning bidder of Cloud's assets. While Cloud was about to go bankrupt, the buyout has allowed for Cloud to see financial stability in the future.

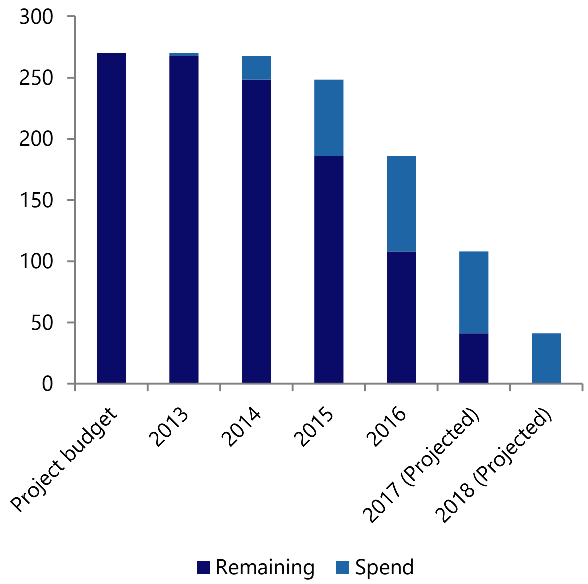
This is a direct translation to revenue for WTE because the companies will continue to work together, and Cloud will remain a paying customer.

3) Successful Capital Project

WTE heavily invested in the Capital Project. The Capital Project is intended to enhance operational efficiencies, standardize parts and reduce maintenance downtime. Additionally, WTE expects cost reductions due to the scrapping of inefficiencies and operations of older equipment. After completing the Capital Project, WTE projected to experience higher earnings and margins. As more time goes on, WTE has projected to continue to reap the benefits of the Capital Project.

EXHIBIT XVIII

Capital Project Spend ($M)



Source(s): Company Reports

Valuation & Commentary

Cash Flow Analysis

The Industrials team currently values Westshore with a discounted cash flow model with a five-year projection period. The key value drivers powering the model are shipments (MM tonnes) and loading rates ($/tonne).

Given the current uncertainties facing Westshore, the following scenario analysis focuses on shipments and loading rates for the post-coal contract expiry period in March 2021. There is likely a longer list of potential cases to study and evaluate, but the Industrials team holds the view that agreements will be reached with Westshore that fall somewhere between the ranges outlined below.

Grey Sky Scenario

Key inputs for the bear case include the assumption that Teck lowers coal shipments through Westshore by 9Mt. We view any reduction that is greater than 9Mt as unreasonable. This is due to the fact that at 9Mt, the real implied utilization rate of the expanded Neptune terminal jumps to ~90%. Next, we assumed that Cloud Peak Energy volumes fell to 0Mt, in the event that the money-losing operation is unsustainable. Finally, we cautiously excluded the event of a Riversdale permit, which refers to the uncertain timing of a steel-making coal development in Alberta. After these reductions to shipments, we estimated that Westshore would be successful in replacing ~50% of the lost shipments with gains from other customers and could effectively maintain ~90% of the run rate of other volumes at around 10Mt. In the bear case, we anticipated coal loading rates to revert to back towards historical levels in the absence of a rebound in commodity prices.

Blue Sky Scenario

Key inputs for the bull case include the assumption that Teck lowers coal shipments through Westshore by 7Mt. Next, we assumed Cloud Peak Energy volumes continued at 9.5Mt, in the event that we see increased certainty around Cloud Peak's financial health. Finally, we optimistically included the event of a Riversdale permit, despite recent concerns regarding the delay.

Exhibit XIX

Throughput Cases After Q1 / 21

			Post Teck Contract Coal Volumes (Mt)	
Company	**Mine**	**Coal Type**	**Grey Sky**	**Blue Sky**
Teck	Various	Met	10.0	12.0
Signal Peak Energy	Bull Mountain	Thermal	7.0	7.0
Cloud Peak Energy	Spring Creek	Thermal	0.0	9.5
Lighthouse Resources	Decker / Black Butte	Thermal	0.0	1.0
Riversdale Resources	Grassy Mountain	Met	0.0	4.5
SonicField Global	Grande Cache	Met	1.0	1.0
Montem	Tent Mountain	Met	0.0	1.5
Jameson Resources	Crown Mountain	Met	0.0	0.0
North Coal	Michel Creek	Met	0.0	1.5

Source(s): Company Reports

Valuation & Commentary

In the bull case, we estimated sustained loading rates as a result of ongoing higher met coal shipments and penalty payments from thermal shippers unable to meet contractual volumes.

Model Assumptions

Other underlying inputs common across both the bear and bull models are outlined below. As confirmed with management, higher EBITDA margins were assumed to be sustainable, as a result of the recent completion of the capital project. As reaffirmed by the sell-side, both working capital and capex requirements were assumed to be limited, given management's focus on a net cash position and expenditures only involving maintenance.

We underwrote a weighted average cost of capital of 7.0% and an exit EV/EBITDA multiple of 8.0x. The bull case implies an intrinsic value of $26.99, representing a 27% premium to the current stock price. The bear case implies an intrinsic value of $17.56, representing a 16% discount to the current stock price. The target price is a 50-50 blend of the grey and blue sky scenarios.

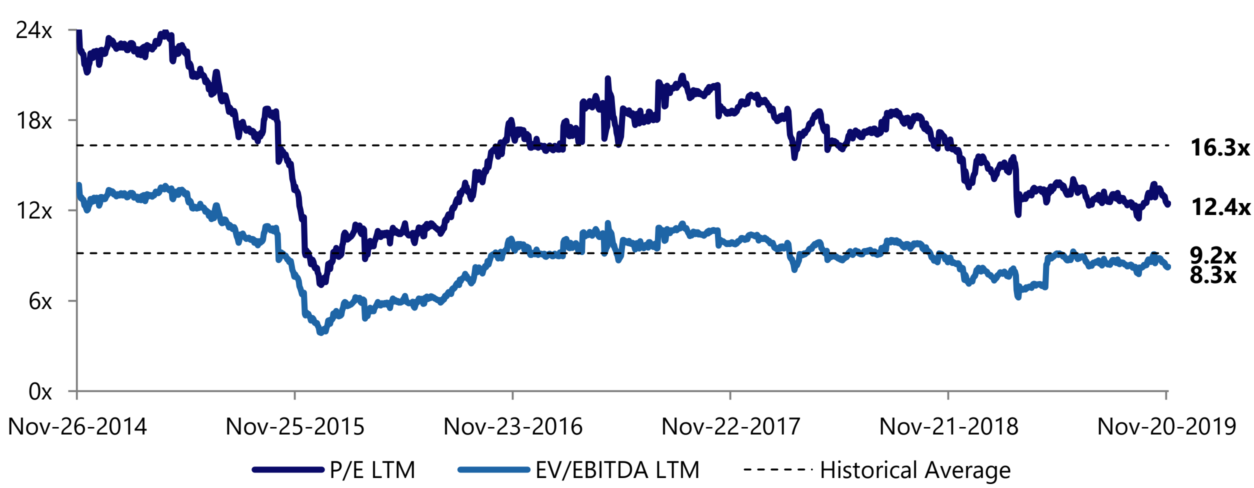
Conclusion

The future for Westshore is uncertain. With potentially diminished volumes after renegotiated contracts and continued weakness in thermal coal demand, it is quite difficult to confidently predict free cash flow. Although coal throughput could suffer in the short-term, there are extensive opportunities for potential export supply, as demonstrated in Exhibit XXIV. But how *much* of this replacement volume can truly be captured and at *what* pricing growth for Westshore?

Ultimately, the Industrials team views Westshore as a great business that will continue to benefit as the top player in its geography with a captive customer base, limited competition and strong cash flows. However, the Industrials team lacks the clarity it needs on the long-term risks of the company to enter the name at this time. Major variability in the valuation, as shown by Exhibit XXIII, is the result of only a couple of renegotiations. Thus, we plan to add the company to the portfolio watchlist and track the name for a value investment opportunity.

Exhibit XX

Historical Multiples Averages



Source(s): Capital IQ

Exhibit XXI

Blue Sky Scenario

Westshore Terminals Financial Model
Financial Summary
(dollars in thousands)

	Year Ending December 31									
	Historical Period					Projection Period				
	2014A	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E
Assumptions										
Shipments ('000s tonnes)	30,603	28,848	25,841	29,034	30,464	30,500	33,000	28,000	33,000	38,000
Loading Rate ($/tonne)	9.93	11.08	11.11	11.10	11.69	12.52	12.39	12.68	12.48	12.28
Revenue	312,075	365,817	324,463	330,031	363,459	389460	416470	362,640	419,440	474,240
Coal Loading	303,819	319,653	287,152	322,199	356,124	381,860	408,870	355,040	411,840	466,640
Other	8,256	46,164	37,311	7,832	7,335	7,600	7,600	7,600	7,600	7,600
YoY Growth		17.2%	(11.3%)	1.7%	10.1%	7.2%	6.9%	(12.9%)	15.7%	13.1%
Expenses	137,539	147,836	145,635	162,717	169,469	169,600	174,300	171,213	189,000	209,633
Operating	122,948	133,085	130,524	147,750	152,824	153,200	157,200	156,430	170,142	190,042
Administrative	14,591	14,751	15,111	14,967	16,645	16,400	17,100	14,783	18,858	19,592
EBITDA	174,536	217,981	178,828	167,314	193,990	219,860	242,170	191,427	230,440	264,607
% of Revenue	55.9%	59.6%	55.1%	50.7%	53.4%	56.5%	58.1%	52.8%	54.9%	55.8%
Depreciation and Amortization	10,549	10,463	13,380	17,034	16,732	24,500	25,700	26,088	27,481	31,071
EBIT	163,987	207,518	165,448	150,280	177,258	195,360	216,470	165,339	202,959	233,535
% of Revenue	52.5%	56.7%	51.0%	45.5%	48.8%	50.2%	52.0%	45.6%	48.4%	49.2%
Interest Expense and Other	(12,590)	826	3,995	1,364	3,753	12,100	13,100	12,657	13,463	15,492
Income Taxes	46,129	53,761	42,031	39,524	48,706	71,100	63,900	50,823	65,388	75,239
NOPAT	130,448	152,931	119,422	109,392	124,799	112,160	139,470	101,858	124,108	142,804
Plus: Depreciation and Amortization	10,549	10,463	13,380	17,034	16,732	24,500	25,700	26,088	27,481	31,071
Less: Capital Expenditure	19,377	77,598	69,725	49,643	48,114	23,100	25,000	19,324	24,136	27,289
Less: Change in Net Working Capital	6,731	23,557	(17,426)	11,313	4,020	13,300	0	0	0	0
UFCF	114,889	62,239	80,503	65,470	89,397	100,260	140,170	108,622	127,453	146,587
Discount Period						0.50	1.50	2.50	3.50	4.50
Discounted UFCF						**96,925**	**126,642**	**91,719**	**100,579**	**108,110**

		EV/EBITDA NTM Exit Multiple				
	0	7.0x	7.5x	8.0x	8.5x	9.0x
Discount Rate (%)	6.00%	$24.95	$26.48	$28.00	$29.53	$31.05
	6.50%	$24.50	$26.00	$27.49	$28.98	$30.48
	7.00%	$24.07	$25.53	**$26.99**	$28.45	$29.92
	7.50%	$23.64	$25.07	$26.50	$27.94	$29.37
	8.00%	$23.23	$24.63	$26.03	$27.43	$28.84

Source(s): Bloomberg

Exhibit XXII

Grey Sky Scenario

Westshore Terminals Financial Model
Financial Summary
(dollars in thousands)

	Year Ending December 31									
	Historical Period					Projection Period				
	2014A	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E
Assumptions										
Shipments ('000s tonnes)	30,603	28,848	25,841	29,034	30,464	30,500	33,000	18,000	22,500	28,000
Loading Rate ($/tonne)	9.93	11.08	11.11	11.10	11.69	12.52	12.39	12.68	11.83	10.98
Revenue	312,075	365,817	324,463	330,031	363,459	389460	416470	235,840	273,793	315,084
Coal Loading	303,819	319,653	287,152	322,199	356,124	381,860	408,870	228,240	266,193	307,484
Other	8,256	46,164	37,311	7,832	7,335	7,600	7,600	7,600	7,600	7,600
YoY Growth		17.2%	(11.3%)	1.7%	10.1%	7.2%	6.9%	(43.4%)	16.1%	15.1%
Expenses	137,539	147,836	145,635	162,717	169,469	169,600	174,300	111,347	123,371	139,280
Operating	122,948	133,085	130,524	147,750	152,824	153,200	157,200	101,733	111,062	126,264
Administrative	14,591	14,751	15,111	14,967	16,645	16,400	17,100	9,614	12,310	13,017
EBITDA	174,536	217,981	178,828	167,314	193,990	219,860	242,170	124,493	150,422	175,804
% of Revenue	55.9%	59.6%	55.1%	50.7%	53.4%	56.5%	58.1%	52.8%	54.9%	55.8%
Depreciation and Amortization	10,549	10,463	13,380	17,034	16,732	24,500	25,700	16,966	17,938	20,644
EBIT	163,987	207,518	165,448	150,280	177,258	195,360	216,470	107,527	132,483	155,160
% of Revenue	52.5%	56.7%	51.0%	45.5%	48.8%	50.2%	52.0%	45.6%	48.4%	49.2%
Interest Expense and Other	(12,590)	826	3,995	1,364	3,753	12,100	13,100	8,232	8,788	10,293
Income Taxes	46,129	53,761	42,031	39,524	48,706	71,100	63,900	33,052	42,683	49,989
NOPAT	130,448	152,931	119,422	109,392	124,799	112,160	139,470	66,243	81,012	94,879
Plus: Depreciation and Amortization	10,549	10,463	13,380	17,034	16,732	24,500	25,700	16,966	17,938	20,644
Less: Capital Expenditure	19,377	77,598	69,725	49,643	48,114	23,100	25,000	12,567	15,755	18,131
Less: Change in Net Working Capital	6,731	23,557	(17,426)	11,313	4,020	13,300	0	0	0	0
UFCF	114,889	62,239	80,503	65,470	89,397	100,260	140,170	70,641	83,196	97,392
Discount Period						0.50	1.50	2.50	3.50	4.50
Discounted UFCF						**96,925**	**126,642**	**59,649**	**65,654**	**71,828**

		EV/EBITDA NTM Exit Multiple				
		7.0x	7.5x	8.0x	8.5x	9.0x
Discount Rate (%)	6.00%	$16.20	$17.22	$18.23	$19.25	$20.26
	6.50%	$15.91	$16.90	$17.89	$18.89	$19.88
	7.00%	$15.62	$16.59	**$17.56**	$18.53	$19.51
	7.50%	$15.33	$16.29	$17.24	$18.19	$19.14
	8.00%	$15.06	$15.99	$16.92	$17.86	$18.79

Source(s): Bloomberg

Exhibit XXIII

Share Price Calculation	
2023 EBITDA	264,607
EV/NTM EBITDA Exit Multiple	8.0x
Terminal Value	2,116,852
PV of Terminal Value	1,561,218
PV of UFCF	525,708
Enterprise Value	2,086,926
Less: Total Debt	286,632
Implied Equity Value	1,800,294
Shares Outstanding	66,700
Implied Share Price	$26.99
Current Share Price	$21.75
Dividend Yield	2.94%
All-in Return	**27.04%**

Exhibit XXIV

Share Price Calculation	
2023 EBITDA	175,804
EV/NTM EBITDA Exit Multiple	8.0x
Terminal Value	1,406,433
PV of Terminal Value	1,037,271
PV of UFCF	420,698
Enterprise Value	1,457,969
Less: Total Debt	286,632
Implied Equity Value	1,171,337
Shares Outstanding	66,700
Implied Share Price	$17.56
Current Share Price	$21.75
Dividend Yield	2.94%
All-in Return	**(16.32%)**

Exhibit XXV

Potential Export Coal Supply

Mine Name	Owner	Expected Export Terminal	Coal Type	Stage	Estimated Avg. Annual Production	Mine Life (Years)
Grand Cache	SonicField Global	Westshore	Met	Producing	1-2	30+
Tent Mountain	Montem Resources	Westshore	Met	Permitting/Development	1-2	n/a
Grassy Mountain	Riversdale Resources	Westshore	Met	Permitting/Development	4.5	25
Decker	Lighthouse Resources	Westshore	Thermal	Producing	3.0	40+
Black Butte	Lighthouse Resources	Westshore	Thermal	Producing	3.4	n/a
Michel Creek	North Coal	Westshore	Met	Permitting	1-2	20+
Chinook	Montem Resources	Westshore	Met	Permitting	1-2	n/a
Crown Mountain	Jameson Resources	Westshore	Met	Feasibility	1.7	16
Aries	Ram Resources	Westshore / Ridley	Met	PFS	4.0	33
Bingay	Centerpoint Resources	Westshore	Met	PFS	2.0	15+
Elko	Pacific American Coal	Westshore	Met	Exploration	1-2	n/a
Elan	Atrum Coal	Westshore	Met	Exploration	n/a	n/a
Quintette	Teck	Ridley	Met	Potential Re-Start	3-5	20+
Vista	Cline Group LLC	Ridley	Thermal	Feasibility	6-12	30+
Sukunka	Glencore	Ridley	Met	Environmental Studies	3.0	20
Echo Hill	Hillsborough Resources	Ridley	Thermal	PFS/Scoping	1-1.5	10-14
Groundhog	Atrum Coal	Ridley	Met	PFS	3.0	35+
Wapiti River	Dehua International	Ridley	Met	Feasibility	10.0	46+
Trend	Anglo-American	Ridley	Met	Care and Maintenance	2.0	10+
Huguenot	Colonial Coal	Ridley	Met	PFS	3.0	31
Willow Creek	Conuma Coal	Ridley	Met	Producing	1.2	15
Murray River	HD Mining International	Ridley	Met	Development	6.0	25
Cinnabar Peak	Centerpoint Resources	Ridley	Met	Resource Development	6.0	25
Telkwa	Allegiance Coal	Ridley	Met	PFS	1.8	28

Source(s): Company Reports

Exhibit XXVI

Company Comparables

Utilities							
	Market	Enterprise	EV / EBITDA		Price / Earnings		Dividend
Company Name	Cap ($MM)	Value ($MM)	2019E	2020E	2019E	2020E	Yield
Fortis Inc.	$23,292	$47,070	11.8x	11.2x	20.8x	19.1x	3.6%
Hydro One Limited	$14,873	$27,332	12.0x	11.5x	16.6x	17.8x	3.9%
Canadian Utilities Limited	$10,619	$18,732	9.8x	10.2x	17.8x	18.5x	4.3%
ATCO Ltd.	$5,668	$14,205	6.9x	7.2x	15.5x	16.4x	3.3%
TransAlta Corporation	$2,481	$5,475	5.9x	5.8x	nmf	nmf	1.8%
Mean	$11,387	$22,563	9.3x	9.2x	17.7x	18.0x	3.4%
Median	$10,619	$18,732	9.8x	10.2x	17.2x	18.1x	3.6%

Oil & Gas Pipeline							
	Market	Enterprise	EV / EBITDA		Price / Earnings		Dividend
Company Name	Cap ($MM)	Value ($MM)	2019E	2020E	2019E	2020E	Yield
TC Energy Corporation	$62,970	$111,167	11.9x	11.8x	16.3x	16.6x	4.4%
Pembina Pipeline Corporation	$24,104	$32,252	10.9x	9.8x	16.5x	19.0x	5.1%
Inter Pipeline Ltd.	$9,246	$15,653	14.6x	13.7x	18.0x	19.7x	7.7%
Keyera Corp.	$7,175	$10,090	10.9x	10.7x	14.1x	19.0x	5.8%
AltaGas Ltd.	$5,560	$13,427	10.8x	10.5x	18.8x	16.4x	4.8%
Gibson Energy Inc.	$3,644	$4,912	11.0x	11.1x	21.5x	25.4x	5.3%
Mean	$18,783	$31,250	11.7x	11.3x	17.5x	19.4x	5.5%
Median	$8,210	$14,540	11.0x	10.9x	17.2x	19.0x	5.2%

Utilities							
	Market	Enterprise	EV / EBITDA		Price / Earnings		Dividend
Company Name	Cap ($MM)	Value ($MM)	2019E	2020E	2019E	2020E	Yield
Brookfield Renewable Partners L.P.	$18,980	$29,321	12.5x	11.9x	nmf	nmf	4.5%
Northland Power Inc.	$5,031	$12,525	12.8x	10.0x	17.6x	14.6x	4.3%
Innergex Renewable Energy Inc.	$2,360	$6,717	15.7x	14.8x	nmf	nmf	4.1%
Atlantic Power Corporation	$352	$950	4.9x	5.2x	9.1x	19.5x	nmf
Mean	$6,681	$12,379	11.5x	10.5x	13.3x	17.1x	4.3%
Median	$3,695	$9,621	12.7x	10.9x	13.3x	17.1x	4.3%

Westshore Terminals Investment Corporation	**$1,451**	**$1,646**	**7.4x**	**7.6x**	**11.0x**	**10.9x**	**2.9%**

Source(s): FactSet

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