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Methanex Corp. (MEOH)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Methanex Corporation Q1 2019 Earnings Call.

I would now like to turn the conference over to Ms. Kim Campbell. Please go ahead, Ms. Campbell.

Kim Campbell

Manager-Investor Relations, Methanex Corp.

Thank you. Good morning, everyone. Welcome to our first quarter 2019 results conference call. Our 2019 first quarter news release, management's discussion and analysis and financial statements can be accessed from the Reports tab of the Investor Relations page on our website at methanex.com.

I would like to remind our listeners that our comments and answer to your questions today may contain forward-looking information. This information by its nature is subject to risks and uncertainties that may cause the stated outcome to differ materially from the actual outcome. Certain material factors or assumptions were applied in drawing the conclusions or making the forecasts or projections, which are included in the forward-looking information. Please refer to our first quarter 2019 MD&A and to our 2018 Annual Report for more information.

I would also like to caution our listeners that any projections provided today regarding Methanex's future financial performance are effective as of today's date. It is our policy not to comment on or update this guidance between quarters. For clarification, any references to revenue, EBITDA, cash flow or income made in today's remarks reflect our 63.1% economic interest in the Atlas facility and our 50% economic interest in the Egypt facility.

In addition, we report our adjusted EBITDA and adjusted net income to exclude the mark-to-market impact on share-based compensation and the impact of certain items associated with specific identified events. We report these non-GAAP measures in this way to make them a better measure of underlying operating performance and we encourage analysts covering the company to report their estimates in this manner.

I would now like to turn the call over to Methanex's President and CEO, Mr. John Floren for his comments and a question-and-answer period.

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Thanks, Kim. Good morning. For the first quarter, we recorded adjusted EBITDA of $194 million and adjusted net income of $56 million or $0.73 per share.

As we announced at our last earnings call, starting this quarter, our financials now include the impact of IFRS 16, a substantial change to lease accounting standards. The impact of IFRS 16 increased EBITDA results by $28 million. I would highlight that IFRS 16 does not change the total cash flows or underlying economics of the business. These results compare to adjusted EBITDA of $197 million and adjusted net income of $90 million or $1.15 per share in the fourth quarter of last year.

The lower EBITDA this quarter compared to our Q4 results was largely due to the lower average realized price, which was partly offset by higher proportion of produced product sales. As a reminder, in a declining methanol price environment, our margins tend to be lower than in a stable price environment due to the timing of methanol production and purchases versus the timing of sales.

In addition, we incurred higher unabsorbed cost primarily related to lower operating rates at our New Zealand facilities, ongoing ramp-up activities at our Chile IV facility, and a planned turnaround at our Geismar 1 facility.

Following a volatile fourth quarter, methanol prices stabilized as a result of steady methanol demand combined with a number of supply outages globally. Our average realized price in the first quarter decreased to $331 per tonne compared to $401 per tonne in the fourth quarter. We posted our April Asia-Pacific price at $370 per ton, up $10 from the previous month, and our North American price remains at $432 per tonne.

Our Europe contract price is set out on a quarterly basis, and our second quarter contract price also remains unchanged at €360 per tonne. We estimate the cost curve is in the range of $280 to $320 per tonne, and current prices in China are within this range.

Overall methanol demand in the first quarter of 2019 was approximately 3% higher compared to the first quarter of 2018, and flat compared to the fourth quarter of 2018. Traditional methanol demand was lower in the first quarter compared to the fourth quarter due to seasonally lower demand in China and downstream outages in North America. Demand for methanol into energy-related applications increased as more stable oil prices improved the affordability of methanol into various energy-related applications.

Methanol-to-olefins, or MTO, operating rates rebounded after two MTO facilities completed extended maintenance activities. We continue to observe steady operating rates for most MTO facilities. We are monitoring the progress of two new MTO units that are currently under construction and targeted to come online in the near to medium term. We expect at least two MTO plants to be completed over the coming months with a combined capacity to consume 3.6 million tonnes of methanol annually at full operating rates. Methanol supply in the quarter was impacted due to a number of outages globally.

Now, turning to our operations, in New Zealand, we produced 437,000 tonnes during the first quarter compared to 389,000 tonnes in Q4 of last year. Production was higher in the first quarter compared to the fourth quarter as our Waitara Valley site undertook a scheduled turnaround in the fourth quarter of 2018 and resumed operations in early January.

The New Zealand facilities continue to experience gas constraints, primarily as a result of natural gas suppliers completing planned and unplanned maintenance activities. We expect these upstream maintenance activities to continue in the second quarter. In Geismar, we have produced 405,000 tonnes during the first quarter compared to 527,000 tonnes in the fourth quarter. This quarter, we successfully completed our first major turnaround at our Geismar 1, facility and subsequently achieved a daily production record from the plant and a production record for the site.

In Trinidad, we produced 429,000 equity tonnes in the first quarter compared to 448,000 equity tonnes produced in Q4 of last year. Production was lower, primarily due to a scheduled turnaround at the Titan facility that began in March of 2019, and is scheduled to be complete by the end of April 2019. We continue to experience gas restrictions in Trinidad and expect to receive approximately 85% of our contracted gas supply for the foreseeable future.

In Chile, we produced 241,000 tonnes during the first quarter compared to 206,000 tonnes during Q4 of last year. We are pleased that we have received reliable gas supply from our partners in Chile and Argentina over the last few months. We continue to experience various small technical issues at our Chile IV plant, which we are in the process of resolving.

We expect that our current gas agreements will allow for a two-plant operation in Chile during the southern hemisphere southern summer months with lower operating rates during the winter months when gas deliveries are lower, resulting in an annual operating rates of up to 75% of a two-plant operation in the near-term.

In Egypt, we produced a 141,000 equity tonnes in the first quarter compared to 155,000 tonnes in the fourth quarter. Our production results were impacted by a mechanical issue during the quarter. Earlier this month, an incident occurred that required the Egypt plant to be shut down. The plant remains offline, and we expect limited production from the Egypt facility for the second quarter of 2019 as repairs are made.

Now, turning to our financial results, we ended the quarter with $285 million in cash on the balance sheet. Methanex share of the cash, including our proportionate share of Atlas and Egypt's cash, was $262 million.

Our balanced approach to capital allocation remains unchanged. We believe that we are well-positioned to meet our financial commitments, pursue our value-adding growth opportunities, and return excess cash to shareholders through dividends and share repurchases.

Our plant maintenance capital for the remainder of 2019 is estimated to be approximately $65 million. We anticipate spending $25 million to complete the first phase of the Chile I refurbishment in mid-2019 during the southern hemisphere winter months when we receive lower gas deliveries. Depending on our ability to secure sufficient long-term natural gas, we will complete the second phase of the refurbishment over the coming years.

Our team is continuing to make progress on the debottlenecking opportunities at our Geismar facilities to increase production by approximately 10% for a few tens of millions of dollars of capital. We completed some element of the work required to debottleneck the Geismar 1 plant during the recent turnaround. We plan to complete the additional work required including construction of a pipeline to bring CO_2 to the site and necessary work at the Geismar 2 plant over the next couple of years.

We are continuing the Front End Engineering and Design or FEED phase of the potential Geismar 3 production facility to gain a better understanding of the capital cost and the scope of the project. We continue to believe that the Geismar 3 project is significantly advantaged relative to other projects being contemplated or under construction in the U.S. Gulf.

The location of the G3 facility is adjacent to our existing Geismar plants and the potential to integrate the production process with our other existing plants in Geismar reduces both capital and operating costs relative to a standalone project.

Our team is focused on a number of work streams that need to be finalized over the coming months in order to be in a position to bring a recommendation to our board in mid-2019.

We have a consistent track record of returning excess cash to shareholders. We commenced a new 5% share repurchase program on March 18th. And as of March 31st, we repurchased approximately 100,000 shares for $6 million.

The pace to complete the repurchase program will depend on methanol prices and in our ability to generate excess cash. Yesterday, we announced the 9% increase to our quarterly dividend to $0.36 per share from $0.33

per share. We are committed to a meaningful and growing dividend that's sustainable at all points of the methanol price cycle.

Our outlook for second quarter is mixed. Methanol prices continue to be stable. However, we expect our production levels to be lower in the second quarter compared to the first quarter, as the Egypt plant remains offline, as we complete the Titan plant turnaround, and we continue to experience ongoing maintenance to the gas infrastructure in New Zealand, which is impacting gas supply. As a result, we expect adjusted EBITDA to be lower in the second quarter compared to the first quarter of 2019.

Finally, I want to reiterate that Methanex is committed to acting in the best interest of all shareholders and gives due consideration to constructive recommendations for strategies or actions that have the potential to create value.

We are pleased to have come to an agreement with our largest shareholder earlier this month that allows us to move forward with our goal of maintaining our leadership position in the methanol industry while generating strong returns for shareholders.

I would now be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now take questions from the telephone lines. [Operator Instructions] The first question is from Joel Jackson from BMO Capital Markets. Please go ahead.

Joel Jackson
Analyst, BMO Capital Markets (Canada)
Q

Hi. Good morning, John.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.
A

Good morning, Joel.

Joel Jackson
Analyst, BMO Capital Markets (Canada)
Q

John, can you elaborate a bit more on the G3 decision process? So, you're going to have some initial data in the next couple of months, maybe a month, and probably be able to make a final decision around July.

But with the agreement you've made now with one of your investors, it sounds that you're going to be feeding some of the data to a third party getting back some opinions there. What do you have to take from the outside? What do you have to agree to? What's the process?

And, as part of this, question two, at your Investor Day 18 months ago, you laid out a 4% to 5% methanol demand growth scenario over the midterm, and we've seen [ph] contrary to 4% (13:39) demand growth. How does that weigh into your decision on G3? Thanks.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes. We're still expecting the market to grow at about 5% per year. There's some number of MTO plants that have not come on yet. And when you factor in that demand as they come out, and that's kind of what we're going to see on the growth, so our view hasn't changed at all. We're expecting 5% growth over the next four to five years and that's what we are focused on growing at the same rate as the market, about a million tonnes every two years and that was our stated strategy at our Investor Day in Louisiana.

We have a number of work streams to complete with the G3 project, as I've mentioned, plants planned and capital costs, gas contract, understanding the market for labor, productivity, all of those things. And what we've agreed is that we would have an independent financial adviser to report to our audit committee with a separate look at the finance plan around that project and that's what we're going to do.

Joel Jackson
Analyst, BMO Capital Markets (Canada)

Q

Okay. And, just a follow-up, what is the inventory situation right now like you for methanol in the market? And you had a lot of stuff going on in a lot of your plants, right?

So you had two different plants, your sales of purchased methanol was the lowest in two years in the quarter. So, where are you right now inventory position? If you can comment regionally that would help as well, and where do you think the market is? Thanks.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes, I don't see much change quarter over quarter. We did see in December as prices came down, inventories getting built up a little bit, as the anticipation of pricing being lower than it was at the time, which now as pricing is stabilized, we see inventories stabilized.

We're in the 1.1 million tonne for our own inventories, and at any given time, a third of that is at the plant, a third of it's on the water, and a third is at the terminals to be sold to customers. And we're kind of comfortable at that level with our sales of around 11 million tonnes. So, we still have more than 10 turns a year and we think that's an outstanding achievement for a commodity business.

Joel Jackson
Analyst, BMO Capital Markets (Canada)

Q

Thank you very much, John.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Thanks, Joel.

Operator: Thank you. The next question is from Mike Leithead from Barclays. Please go ahead.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Thanks. Good morning, John.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Good morning.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

So first, there were a few minor turnarounds in outages in the first quarter and they're continuing into the second quarter. So, do you think your production volume will be higher or lower in the second quarter?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes. It'd be probably slightly lower. I mean I've mentioned that Egypt facility is down and we've got ongoing gas infrastructure activity in New Zealand, which is leading to less gas in the short-term. And we've – just completing the Titan turnaround. So, we'd expect it to be slightly lower.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Got it. And then, I think you talked in your release about a sequential decline in traditional methanol demand seen in 1Q. I was hoping if you could characterize a bit how you're seeing Chinese traditional demand recover coming out of the Lunar New Year there? Thanks.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes, pretty good. I mean, we see this every quarter in China. And as China becomes a bigger part of the overall market, it gets [ph] examples for depths or (16:54) more attention to it because it's a bigger part of the overall market. But we see demand in China quite good right now. So, it's bounced back after Chinese New Year, and we're seeing the normal GDP, IP growth in the chemical demand that we've always guided to.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

Operator: Thank you. The next question is from Steve Hansen from Raymond James. Please go ahead.

Steve Hansen
Analyst, Raymond James Ltd.

Q

Yes. Hey, John. Could you just...

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Hey.

Steve Hansen
Analyst, Raymond James Ltd.

Q

...give us a bit more color on the Chile situation? I know you've been ramping modestly there. I think you described some minor technical issues.

But maybe just give us a bit better sense for how the complex has been running? What kept it back if at all on the production side? And I know you have general guidance for the year, but I'm just trying to understand sort of what the limiting factor has been there.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes. We've had some issues with the plant. Remind you, it didn't run since 2007. So, it was down for 10 years. And it's an oxygen-based plant. With all of our other plants when they – we had four down there were conventional steam-reforming plants. It's a little different to run it. So, it had some issues on operator issues, and we've had some technical issues that weren't foreseen.

But the plant has run at high rates during the quarter. We just haven't been able to keep it running steadily. And remind you too that we did lose some gas there from Argentina for a couple of days, so we had to take the plant down. So, just a number of small niggling issues, nothing serious. And I'm very optimistic. Like I said, we'll be able to run both plants at high rates as we come into their spring, summer later this year.

Steve Hansen
Analyst, Raymond James Ltd.

Q

Okay, that's helpful. And then just sticking to the operations side at Egypt, you said there's been an issue in Egypt. Can you give us any color as to what is happening there? And just are you just addressing that single issue, or you're pulling forward to any turnaround time in the future, just maybe give us a bit of a – some context would be helpful.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Well we've recently done a turnaround in Egypt. So, it's not due for a turnaround. I remind you that we had a lot of issues with the Egypt plant based on our gas supply, and we cycle that plant up and down. I think it was 53 times over the – since it started up and that's never good for these plants. And it looks like we have an issue related to the initial fabrication of some equipment going back to when the plant was actually built. So, we're still in early days.

We're investigating the repairs. And what we want to make sure is that we understand the issue. We inspect similar types of equipment in the plant to see if that issue is present elsewhere. So, we're going to take our time. We're going to do it right. We're going to do it safely.

And before we start up that plant, we need to assure ourselves that we have done the things to make sure that an incident like this doesn't reoccur. So that's going to take some time and it'll affect the quarter. But we're thinking long-term here, and safety is our number one priority. So, we'll take our time and get it right.

Steve Hansen
Analyst, Raymond James Ltd.

Q

Understood. And do you think that'll bleed into the following quarter as well or is it still too early to tell?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

I think it's too early to tell. But, if it does, it'll be because we're taking our time to get the repair right.

Steve Hansen
Analyst, Raymond James Ltd.

Q

Okay, very good. Thank you.

Operator: Thank you. The next question is from Jacob Bout from CIBC. Please go ahead.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

Hey, John.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Hey, Jacob.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

What prompted the cooperation agreement with M&G? And are you aligned on capital allocation and the [ph] achieve through partner (20:37)?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes. We've always been clear on our capital allocation strategy to all shareholders, including M&G that we have a balanced approach, grow the company if we found projects that meet and exceed our hurdle rates. So, we've done that over the last six years. We spent $2 billion to double our production. And then excess cash beyond that was from dividend and share repurchases. And over the last six years, we've given $1.7 billion back to shareholders. So that's pretty balanced to me.

We have an interesting project in front of us at G3. I mean we've always stated our preference is to find a suitable strategic partner for about 30% of the project, where that's still our preferred preference. But what I said on the last call is that we're going to continue to move forward with all of the work streams to be in a position for an FID in mid this year. So obviously, with a partner – without a partner has different risks associated with the project. If you have a partner, you have a different set of risks than if you don't have a partner.

So this is all about getting comfortable with the risks and that we can execute a project that is meeting and exceeding our hurdle rates, so that we can get a really low delivered cash cost into China or in Asia because we're modeling all this production ending up in Asia. So, there's a number of work streams ongoing, and it's premature to say where we're going to end up on the project.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

And then, if you've been – maybe just a second question here, if you've been surprised that Methanex is or how methanol has lagged the oil complex and what are your expectations going forward with the ramp in the MTO startups, John?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes. We're seeing as oil prices have gone up that more demand in the energy applications. But I'll remind you, in 2016, when oil went from $100 to $40 at a very rapid decline, we lost quite a bit of demand in the methanol to propylene and DME and that hasn't come back. So, there's still a correlation. But it's not perfect and it doesn't follow every time oil goes up or down, and methanol goes up or down.

And I think what's different as well, we've got MTO. And the MTO affordability has probably a little bit different impact than just straight oil to methanol price because there is a bit of a ceiling sometimes depending on what the relative ethylene, propylene and their derivatives are trading at. So, it's a bit different today than, let's say, five years ago. But certainly, a higher oil price is very positive for our business overall.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

All right. Thanks, John.

Operator: Thank you. The next question is from John Roberts from UBS. Please go ahead.

John Roberts
Analyst, UBS Securities LLC

Q

Thank you. John, your new Normal Course Issuer Bid is for less than the maximum. Is that just to give you some flexibility in case a partner doesn't come along quickly for G3?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

No. What we've always said about NCIBs is when we announce them, we plan to complete them. So, we're not a company that announces them and then just leaves them. So, when we look at our excess free cash flow based on a number of different methanol prices, we thought it would be prudent to do 5% and chip away at that. That doesn't preclude us from doing another 5% between now and March 18th of 2020.

So, we announced it because we plan to complete it. And we'll see how the methanol markets develop. And, obviously, we have more excess cash at $400 million than we do at $300 million. So, we're comfortable where we're at on it, and we'll continue to analyze it and to make decisions on what's best for cash on our balance sheet on an ongoing basis.

John Roberts
Analyst, UBS Securities LLC

Q

And then, profitabilities for the MTO producers varies quite a bit between the guys that make certain derivatives and other derivatives? So, there's a wide range of profitability. Do you focus your efforts on MTO producers with certain derivatives, or, from your perspective, you're relatively indifferent? You just sell to whichever ones that are operating?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes. I think that that's a good point. We do sell a little bit into the MTO, and it's really with the ones that are integrated, as opposed to just making ethylene and propylene. And we look at the affordabilities based on a wide range of products that they might be making, the prices, and look at what the affordability is at any given point.

And what we really look at is the operating rates. Affordability is one number. What's the behavior? And these plants have run at extremely high-operating rates since they've come up, unless they've had technical issues in turnaround. So, overall, we see these plants continuing to operate, and the ones that are running at 100%. So, I think that's the good news.

John Roberts
Analyst, UBS Securities LLC

Q

Thank you.

Operator: Thank you. The next question is from Daniel Jester from Citi. Please go ahead.

Daniel Jester
Analyst, Citigroup Global Markets, Inc.

Q

Yes. Hi. Good morning, everyone. On Geismar 1, you said that you set a production record after the turnaround. Is that part of the 10% expansion, or was that just because you [ph] slopped a new catalyst (25:54) or something like that?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Well, when we do a turnaround, you take the opportunity to improve the production, if you can, based on your knowledge that you gained over the last five years since the last – or since the start of the relocation.

I'll remind you with those plants when they were until they ran, production was around 800,000 tonnes to 850,000 tonnes, and we have managed to get them up to 1 million tonnes as [ph] we moved. We found (26:21) a few ways to get a few more tonnes out of them.

And I know our team down there every day they're trying to get that extra tonne out of those plants. So, I think they do an outstanding job doing so. As far as the debottlenecking, no, that – we put in some equipment to allow us to bring CO2 onto the site and put it into the G1 plant, likely similar to what we've done in Medicine Hat. We plan to do the same with the G2 plant as it goes through its first turnaround.

But at the same time we're building a CO2 pipeline to allow us to bring the CO2 onto the site. So, we put in the necessary equipment in G1. We'll do G2. And we'll have the ability to get another couple of 100,000 tonnes we think out of the site over the next few years.

Daniel Jester
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And then on Trinidad, any update on your view on gas? It seems like a competitor is going to start a project there, potentially later this year. Just wondering what you're thinking in terms of gas availability for your assets there? Thanks.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes. We're guiding to 85%. We're comfortable with that. There's been some new gas that's come on from a few of those suppliers. But there's -- you know they're natural declines as well. So when we talked to the suppliers down there in the NGC even with as the new plant comes on later this year, early next year, we expect to receive ongoing about 85% of our allocations for the foreseeable future, so no real change.

Daniel Jester
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thanks, John.

Operator: Thank you. The next question is from Hassan Ahmed from Alembic Global. Please go ahead.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Good Morning, John.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Hey, Hassan.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

John, question on the conventional demand side of things. You mentioned that it was a bit weak in Q1 for now at least of seasonal reasons. But covering one of the larger sort of acetic acid producers, and then having recently reported earnings, they talked about some slippage in global acetic operating rates.

They also talked about a shutdown at one of their large Singapore facilities, and potentially delaying that shutdown and relocating some of the production to the U.S., which obviously may take time. So, the question is that could sort of the acetic side of methanol demand be under pressure because of these things for the remainder of the year above and beyond the seasonal reason you cited?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Right. It could be. I mean, we saw flat acetic acid demand in Q1 2019 versus Q4. But if you look year-over-year, it was about 4% growth, so that is a change. So, we did notice the things that you're mentioning in the acetic acid market. So we'll continue to monitor them.

But acetic makes up about 10% of the overall demand for methanol. So if we see a few percentage points lower, it's not going to really have much impact as we look to have these new MTO plants come on, but it's something that we're following because it is an important derivative of methanol.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Understood. Understood. And sticking to the demand side, back half of the year, in the U.S., there'll be north of 4 million tonnes of ethylene capacity coming online. And the expectation is that the ethylene market may get a bit sloppy in the back half of the year. So, how does that sort of bake into your calculus about MTO, and again, what global demand may look like in 2019?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes. I think it's going to get down to affordability. So, if ethylene gets a little sloppy and prices are under pressure, then that will limit the affordability of methanol into some of those plants. So, I think we'd rather see people run than not run, so it may just impact the methanol price.

But it's really hard to predict the future and 4 million tonnes is a lot of capacity, how is it going to come on, how is it going to run, where it's going to end up, what else gets rationalized, really early to tell, but certainly we want to see the MTO guys run and we want them to continue to consume methanol.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful, John. Thanks so much.

Operator: Thank you. The next question is from Nelson Ng from RBC Capital Markets. Please go ahead.

Nelson Ng
Analyst, RBC Capital Markets

Q

Hi. Great. Thanks. Hey, John. A quick one...

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Hey.

Nelson Ng
Analyst, RBC Capital Markets

Q

...on G3. So, you mentioned that $35 million still need to be spent on the FEED out of the $50 million to $60 million. So, it seems like the costs are very back-ended. And I was just wondering whether the FID could kind of slip into like later in the year rather than mid-year, given that a lot of the costs are still – haven't been incurred yet. Can you just give some comment on that?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Well, yes, I think our teams are – we reviewed the project yesterday with the board and everything seems to be on plan, and our plan is to review this project with the board in mid-July, as we've stated, lot of work to be done.

I know a lot of teams working really hard on the different work streams and a lot of activity in the company as we look to get to FID mid-year, but I don't know what the decision will be mid-year. There's a lot of work to be done and we've got to do a lot more analysis on this project. And, again, our preference is to have a strategic partner for this project.

So, number of things that will be done over the next 90 days, but we're not anticipating a delay to an FID at this point.

Nelson Ng
Analyst, RBC Capital Markets

Q

Okay. And then, my second question relates to I think all the noise we've been seeing in the market in terms of flooding, the ITC explosion, I guess the Iranian – yes, the issues with Iran. Has there been any logistics disruptions or any of your customers have been negatively impacted and has deliveries been pushed back at all?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes. That ITC facility is a key terminal not only for methanol but for a number of different chemicals and petrochemicals. It's right there in the Houston Ship Channel, and it's I think everybody in that area uses that terminal. Our competitors that store methanol there have declared force majeure because the terminal is still closed, and we don't have any insight into when that terminal is going to reopen.

We store methanol there. But our competitive advantage is we have methanol in Geismar, Medicine Hat, and other terminals, which we're keeping our customers fully supplied during this difficult period. Having said that, it's one thing if you can get methanol, but if you can't get your other raw materials, then you can't make the products that you want to make.

So, I think there has been a significant disruption in supply chains and I know everybody's trying to work hard and work together to make sure everybody gets what they need. But I think when you have a major event like that where there's so much storage in one particular place that it's inevitable that there's going to be demand that won't get met or won't get met.

Therefore, maybe the product will have to be made somewhere else in the world or it will just run down inventories. But certainly it's a big disruption. And I think the unknown of when it's going to restart or open up again is really causing a lot of companies and their people in supply chain a lot of headaches.

And I know everybody is working hard to make sure that that terminal comes up and can be operated safely into the future because that's the kind of incident that you don't want to ever see, and it's not good for the industry, and it's not good for the chemicals industry. So, we're all working together to try and make sure that we can have this terminal up as soon as possible in a safe manner.

Nelson Ng
Analyst, RBC Capital Markets

Q

So, from your – like in terms of the financial impact to Methanex, is it going to have any material impact?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

No. We're probably incurring a bit actual logistics cost. But that – in the short term, it's the rounding error. Our goal is to keep our customers whole. Our customers buy from us because we're the most reliable supplier and then we have multiple points where we can deliver. So, that's our value proposition to our customers.

And I think in these kinds of incidents and events that happen far too frequently, whether they be floods or hurricanes or whatever, we demonstrate time and time and time again that we don't declare force majeure, and that we keep our customers fully supplied.

So, I think these incidents are really, really bad because of the impact on the industry and the reputation of the industry. And we try to make sure that we run these terminals as safe as possible.

But, in this case, we don't know the cause. There's been no information. But, certainly, we're going to take the learnings from this incident and apply it to all of our operations around the world.

Nelson Ng
Analyst, RBC Capital Markets

Q

Okay. Thanks, John.

Operator: Thank you. And please remember to limit yourself to one question and one follow-up question. The next question is from Jonas Oxgaard from Bernstein. Please go ahead.

Jonas I. Oxgaard
Analyst, Sanford C. Bernstein & Co. LLC

Q

Good morning, guys.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Good morning.

Jonas I. Oxgaard
Analyst, Sanford C. Bernstein & Co. LLC

Q

I was curious about your comment about hiring a financial adviser to advice on Geismar 3. Maybe it's just the choice of words of financial adviser. I mean the finances seems to be pretty straightforward, it's a strategic question. If you think methanol price is going to stay the exact same as today forever, then it's probably not the highest return on investments.

But if you have any kind of view that methanol will, at some point, go up, then it makes sense. How do you bridge that gap between – or not sort of gap, but how do you resolve the difference in strategic opinion between you and some of your bigger shareholders?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Well this is going to be an adviser that will advise our audit committee and our board. So, it's got nothing to do with the shareholders. So, independent adviser, which we use on an ongoing basis, anyways, to give us views on what the balance sheet and cash flows and different things.

So, it's nothing uncommon that we haven't done before. And our board obviously spent a lot of time looking at the stress levels on the company as you build out a significant project like this, for the tune of $1.3 billion. So, it's nothing that really that is extraordinary.

Jonas I. Oxgaard
Analyst, Sanford C. Bernstein & Co. LLC
Q

Okay. Then as a follow-up in that though, there's been reports that SABIC is interested in OCI's methanol units for about $4 billion – up to $4 billion for 4.3 million tonnes of capacity. On a per tonne basis, that is less than what you have talked about Geismar costing. How do you think about the build versus buy decision here? And could there be an interest in bidding for these assets?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.
A

I think the rumors and they are rumors. So, what we saw is the same that you said. It was $4 billion for about 2 million tonnes of capacity in the United States, and possibly wasn't clear, maybe 800,000 tonnes of capacity in Holland that runs intermittently depending on the gas price.

So, my math, I'm not an accountant, but my math says that's probably $1,500 a ton for buying that capacity versus what we're thinking about $700 to $800 for Geismar. So, my math says we're going to build for about half of what we could buy. But if you have different math, then please share it with me. I'd like to see it.

Jonas I. Oxgaard
Analyst, Sanford C. Bernstein & Co. LLC
Q

My impression was that it was more capacity to that. I think you, in the past, have mentioned $1,100 for Geismar, but your current estimates you're saying $700 to $800?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.
A

I think what we said very clearly $1,100 is for production that's just been completed for Natgasoline or under construction, [ph] view on (38:57) and that's been public data. So that's nothing that we're – so that's $1,100.

We said a range of $700 to $800 for Geismar 3, but we have to complete the FEED which we're in the process of doing. So, if we can build a project in Geismar with lower operating cost for $700 to $800 versus buying a plant, and their total production of methanol is 2.8, so I don't know how they can get more production if they don't have the assets.

But maybe you have some information I don't have that they have secret assets somewhere. $1,500 versus $700 to $800 seems like even for me, though, I'm not very smart, a pretty good decision, but we'll see.

Jonas I. Oxgaard
Analyst, Sanford C. Bernstein & Co. LLC
Q

That math does seem to work out. Okay. Appreciate it. Thank you.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.
A

Thanks a lot.

Operator: Thank you. The next question is from Matthew Blair from Tudor, Pickering, Holt. Please go ahead.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc. Q

Hey. Good morning, John.

John Floren
President, Chief Executive Officer & Director, Methanex Corp. A

Good morning.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc. Q

There's some reports that Shanghai is looking to implement higher ethanol blends starting in the fourth quarter of this year. Do you see that pushing out any methanol blending in China?

John Floren
President, Chief Executive Officer & Director, Methanex Corp. A

Yes. So, the focus in China for us over the last years has been at the high-level blends. So, we've reported M100 taxis and cars being produced by Geely and being widely introduced into the country.

The country recently came out with a M100 national standard, which we think is extremely positive for the adoption. Our focus has always been at the high-level blends. The low-level blends were really from an economics point of view, a first step.

The Chinese have said publicly that they have excess corn that they want to kind of monetize in through ethanol. We see that the impact more possibly on the growth of MTBE, as opposed to a substitution or a decline in methanol demand into fuels.

We see methanol demand continue to grow, especially in the high-level blends, but at the M100s, as more and more of these vehicles make their way to the market. So, I guess our current view is that ethanol gets more widely used that it could impact future growth on MTBE?

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc. Q

Sounds good. And then, I was curious if you're seeing any incremental interest in methanol as a bunker fuel just given the upcoming IMO 2020 regulations?

John Floren
President, Chief Executive Officer & Director, Methanex Corp. A

Yes, a lot of interest. And I think, like I've said this demand probably is a mid-next decade issue as the reality of IMO comes. The shipping industry is sometimes a little slow to move. And I think everybody's looking to use ultra-low sulfur diesel in the first stage. But raises a lot of interest in what we're doing on our ships.

We have seven ships running on methanol that can also run on ultra-low sulfur diesel. We're taking possession of another four this year. The results we've had on the emissions have been excellent as well as the efficiencies. We're sharing all that data with the industry. And we're optimistic this will become another nice little source of demand from ethanol.

But I wouldn't be thinking about significant tonnes till mid-next decade. Having said that, our Waterfront Shipping group, here, is becoming a nice customer of Methanex. So, we have to be nicer to them now than we were before, because they are getting to be a nice size customer.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Sounds good. Thank you very much.

Operator: Thank you. The next question is from Charles Neivert from Cowen. Please go ahead.

Charles Neivert
Analyst, Cowen & Co. LLC

Q

Hey, guys, couple questions. One, in Chile, Chile IV is no longer tied to any other production there, meaning when it was – it's old mechanism, it needed the hydrogen from the others. But now, it can run completely independently going forward?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes and yes. So, Chile I is still tied to Chile IV but we've put in a unit there that we can run it on its own. But from an optimization point of view, we still like to run them both together. But as we go and do the turnaround for or the refurbishment for Chile I in their winter time, we'll be able to run Chile IV on its own.

Charles Neivert
Analyst, Cowen & Co. LLC

Q

Got it. And then, just two quick other things. When you do – you've done some upgrading around Geismar 1, have you – are you doing – in some of the costs that you incurred to do that, is that also doing some of the work that eventually will be needed for G2 if you do the same upgrade, pipeline stuff, things that have already sort of been put in place that won't have to be repeated necessarily, you sort of overbuilt it a little?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes. Well, the Geismar 1 turnaround we've put in the necessary equipment to be able to inject CO_2. So, that's done. And when we do the G2 turnaround, we'll do the same. And the other work that has to be done is the pipeline, which is underway, but it will take some time to build. And so that's the tens of millions I've talked about.

Charles Neivert
Analyst, Cowen & Co. LLC

Q

Okay. And then last question is has Egypt yet created any issues in the Med around pricing? Have you seen any spot price movement on methanol that seems to indicate the lack of Egypt product is creating a problem or any sort of problem yet?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes. So there is no spot price in the Med. The only spot price in Europe is around Rotterdam and Antwerp, and there we saw a little bit of an increase last week, but it's few euros per tonne. But our plans will be to keep our customers whole.

A lot of that product goes into the Mediterranean but we have other ways to service the Mediterranean other than Egypt. And our plan will continue to service our customers like we always do. And that's the beauty of having 11 plants at six sites around the world that we have this flexibility.

Charles Neivert
Analyst, Cowen & Co. LLC

Q

Okay. Great. Thanks very much.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Thanks, Charles.

Operator: Thank you. Please remember to limit yourself to one question and one follow-up question. The next question is from Laurence Alexander from Jefferies. Please go ahead.

Nicholas Cecero
Analyst, Jefferies LLC

Q

Hi. This is Nick Cecero on for Laurence. So, it seems like China may be increasing their focus even further in regard to environmental and safety regulations based on some recent commentary. I was wondering if you've seen anything in regard to this, if you could provide some color. And if you are seeing a substantial step-up in regulations, how do you think this affects your supply-demand dynamics going forward over the next few years?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes, we've seen this trend for some time now. I think it was in the last five-year plan, it's been very clear, especially on the East Coast of China that they want to clean up the environment, namely the air, and that will lead to anything that's consuming coal to be under pressure from an environmental point of view, so whether it's power or methanol, or ammonia, or others, steel, we would expect plants to shut down and look to relocate or to shut down on a permanent basis.

You're right to point out it's not just a supply issue. It's a demand issue as well. So, they've had a number of accidents in their chemical industry as well, which is leading to more inspections, which, at points, can impact demand, and we saw a little bit of that in Q1 as well.

But, directionally, as they tighten up environmental regulations, we would expect less and less coal-based methanol to be produced in the East part, and probably more coal-based methanol to be produced in the Western part of the country. So, overall, our focus in China is on the East Coast. That's where we import products, and that's where we sell products. So net-net, probably fairly positive for us, as an importer.

Nicholas Cecero
Analyst, Jefferies LLC

Q

Great. Thank you very much.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Thanks.

Operator: Thank you. The next question is from Cherilyn Radbourne from TD Securities. Please go ahead.

Cherilyn Radbourne
Analyst, TD Securities, Inc.
Q

Thanks very much and good morning.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.
A

Good morning.

Cherilyn Radbourne
Analyst, TD Securities, Inc.
Q

Most of my questions have been asked. So, maybe I'll just go with one. In New Zealand, you've indicated that you expect to be impacted by some gas constraints again in the second quarter. Just curious whether there is any greater visibility today as to when that issue may be resolved?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.
A

Well, we can only go by what we've been told by our suppliers. I'll remind you that Shell sold their assets to OMV down there, and the deal closed late last year. We've been told beyond Q2 that they believe most of the issues will be resolved, but we've been told that before as well. So, it's not our business. We can only do based on what we've been told. And we're optimistic that they'll get these issues behind them.

But from our point of view, we want the gas supply to be safe as well. So, if there's work that needs to be done to ensure the integrity of this system and to make it safe, then we're right behind the suppliers to do the right thing to think long-term and have a sustainable gas infrastructure on a long-term basis.

Again, we're not thinking quarter-over-quarter. It's inconvenient. It's a little annoying. But if they're making the investments to make the infrastructure good and safe for the long-term, we think that's a wise decision, should bode well for our operations in the medium to long term.

Cherilyn Radbourne
Analyst, TD Securities, Inc.
Q

Great. Thank you for the time.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.
A

Thank you.

Operator: Thank you. The next question is from John Roberts from UBS. Please go ahead.

John Roberts
Analyst, UBS Securities LLC
Q

Thanks. It's a little bit of a crazy question, but Linde sold two syngas plants early in the year, and I know they sounded great fit with you, but they went at pretty low prices, I think. Were you interested in those assets?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

No. Our focus, John, is 100% on methanol. We like methanol. We think we have a strategic advantage and competitive advantage in methanol. We don't know much about oxygen plants or other gas-based plants. So, we'll stay in methanol.

John Roberts
Analyst, UBS Securities LLC

Q

Thank you.

Operator: Thank you. [Operator Instructions] The next question is from Adam Starr from Gulfside Asset Management. Please go ahead.

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC

Q

Hello. Yes. You gave sort of forecast for second quarter and to the rest of the year. Is that assuming that methanol prices remain more or less where they are in March and the last quotation at the end of March?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes. I think what I said, Adam, is that we're looking at Q2, we're not guiding for the whole year, just for Q2.

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC

Q

Yes.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

And that if prices stay, kind of stay where they are today, which is it's hard to predict. But if they stay where we are today based on our production, our earnings will be slightly lower in Q2 versus Q1. But as you know, in this industry, there's a lot of moving parts, and things can change week to week. So, that's our best guess at this time, and that's our guidance for Q2, but you shouldn't think of that guidance for the whole year.

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC

Q

I get you. And when you give your price forecast as a blended price, Asia comprises about half your sales, would that be a fair guesstimate?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yes. That's right, today, Asia would be about half the sales, so then North America, 30%, and including South America and then Europe, 20%, in roughly so.

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC

Q

Okay. Well, thank you very much. Appreciate your time.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Thanks, Adam.

Operator: Thank you.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Okay. Well...

Operator: There are no further questions registered at this time. I would now like to turn the meeting back to Mr. Floren.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

Thank you very much. Methanol industry fundamentals remain good. The strategic investments we've made in our business have strengthened our asset base, significantly increased our global production capacity, enhanced our ability to serve customers and substantially improved our earnings capabilities and cash generation potential over a wide range of methanol prices.

Our balanced approach to capital allocation remains unchanged. Our priorities are to meet our financial commitments, pursue our value-added growth opportunities, and return excess cash to shareholders through dividends and share repurchases.

Our Annual General Meeting will follow later this morning at 10:30 A.M. Pacific Time. This meeting will be focused on the business items outlined in our information circular. Thank you for the interest in our company.

Operator: Thank you. The conference has now ended. Please disconnect your lines at this time. And we thank you for your participation.