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Methanex Corp. (MEOH)

Q2 2019 Earnings Call

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John Floren

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Analyst, RBC Capital Markets

Matthew Blair

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

Jonas I. Oxgaard

Analyst, Sanford C. Bernstein & Co. LLC

Steven Hansen

Analyst, Raymond James Ltd.

Chris L. Shaw

Analyst, Monness, Crespi, Hardt & Co., Inc.

John Roberts

Analyst, UBS Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Methanex Corporation Q2 2019 Earnings Call. I would now like to turn the conference call 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 second quarter 2019 results conference call. Our 2019 second 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 answers 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 second 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.

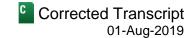
John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Good morning. For the second quarter of 2019, we recorded adjusted EBITDA of \$146 million and adjusted net income of \$26 million or \$0.34 per share. As we announced on our last earnings call, as of January 1, 2019, our financials now include the impact of IFRS 16, a substantial change to lease accounting standards. The impact of IFRS 16 increased adjusted EBITDA by \$27 million. And I want to remind that the IFRS 16 does not change the total cash flows or underlying economics of our business.

There were a few different factors that impacted our earnings this quarter. We generate our earnings primarily from sales of methanol that we produce. Our sales of Methanex-produced methanol of 1.7 million tonnes were approximately 250,000 tonnes lower than the first quarter and approximately 150,000 tonnes lower than our

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second quarter production, primarily due to the timing of inventory flows, which impact our mix of produced versus purchased methanol sales.

A lower proportion of Methanex-produced methanol sales relative to our total sales volume also resulted in higher costs. In addition, we incurred higher logistics cost and higher selling and administrative expenses related to events during the quarter.

Our average realized price of \$326 per tonne declined slightly in the second quarter based on lower posted prices in North America and Asia in June and a discount of approximately 17%. Higher methanol industry operating rates in the quarter and volatility in oil and olefins prices which impacts methanol affordability into energy related applications impacted methanol prices.

The industry cost curve sets the floor for ethanol prices and we estimate the cost curve to be in the range of \$260 to \$280 per tonne, and current prices in China are below this range. We have observed some high cost methanol producers to start to reduce operating rates, as spot prices have dipped below the lower end of the cost curve.

Methanol demand in the second quarter of 2019 was approximately 3% higher compared to the second quarter of 2018, and steady compared to the first quarter of 2019. Most methanol-to-olefins or MTO facilities ran at high rates during Q2 despite very low olefins prices.

At the end of the second quarter, two new MTO plants started up that have a combined capacity to consume 3.6 million tonnes of methanol annually at full operating rates. We expect them to progress to full operating rates over the coming months. The methanol industry supply operated well in the second quarter as several plants restarted following planned and unplanned outages in the first quarter.

Now turning to our operations, in New Zealand, we produced 446,000 tonnes in the second quarter compared to 437,000 tonnes in the first quarter. Our New Zealand facilities experienced gas constraints, primarily as a result of natural gas suppliers completing planned maintenance activities. We expect upstream maintenance activities to continue in the third quarter.

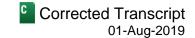
In Geismar, we produced 530,000 tonnes in the second quarter which was a quarterly site record. This compares to 405,000 tonnes in the first quarter, when our production was impacted by our first successful turnaround at our Geismar 1, facility.

In Trinidad, we produced 384,000 tonnes during the second quarter compared to 429,000 tonnes in the first quarter. Production was lower quarter-over-quarter as we completed the turnaround at our Titan facility and experienced a short unplanned outage at our Atlas facility. We continue to guide to approximately 85% operating rates for our Trinidad operation.

In Chile, we produced 290,000 tonnes during the second quarter compared to 241,000 tonnes in the first quarter. We've continued to receive reliable gas delivery from our suppliers in Chile and Argentina over the last few months.

We continue to resolve the technical issues we faced with the startup of our Chile IV facility, which is now running on a standalone basis. We've begun the first phase of our Chile I plant refurbishment scheduled to match expected lower gas deliveries during the southern hemisphere winter months.

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We expect that our current gas agreements will for a two-plant operation in Chile for approximately nine months of the year with lower operating rates during the winter months when gas deliveries are lower. We continue to guide to annual operating rates of up to 75% of a two-plant operation or annual production of up to approximately 1.3 million tonnes per year.

In Egypt, we experienced an outage in early April that required the plant to be shut down. We're continuing to complete the necessary repairs and expect to restart the plant later this month. We estimate that the Egypt outage had an impact of approximately \$25 million, reflecting our 50% share of Egypt on our Q2 adjusted EBITDA results, including higher logistics costs to serve our customers in the Mediterranean.

We expect some further cost impacts to adjusted EBITDA in Q3. We have insurance that covers repairs and business interruption subject to deductibles. However, no insurance recoveries have been recorded to-date. We ended the quarter with \$228 million in cash on the balance sheet. Methanex share of cash including our proportional share of Atlas and Egypt's cash was \$204 million.

We have a long track record of making disciplined capital investments to enhance our leadership position, while maintaining a strong balance sheet and returning excess cash to shareholders. Our balanced approach to capital allocation remains unchanged. We believe that we are well-positioned to meet our financial commitments, execute our growth projects in Louisiana and Chile, and deliver on our commitment to return excess cash to shareholders through dividend and share repurchases.

Our planned maintenance capital for the second half of 2019 is estimated to be approximately \$50 million, primarily related to preparation for turnarounds to be executed in 2020. In addition, we expect the first phase of our Chile I refurbishment to cost approximately \$25 million. Provided that we are able to secure sufficient long term natural gas, we will complete the second phase of the refurbishment over the coming years.

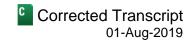
Our team is continuing to make progress on the debottlenecking opportunities at our Geismar facilities to increase production by approximately 10% for a few tens of millions of dollars of capital. We completed some elements of the work required to debottleneck the Geismar 1 plant during our turnaround in the first quarter. We plan to complete the additional work required, including construction of a pipeline to bring CO2 to the site and necessary work at the Geismar 2 plant over the next couple of years.

We are extremely pleased to announce that our Board of Directors reached a unanimous final investment decision for the Geismar 3 project. Geismar 3 will be a 1.8 million tonne methanol plant in Geismar, Louisiana located adjacent to the Geismar 1 and Geismar 2 facilities. This project benefits from substantial capital and operating cost advantages and we expect it will deliver outstanding returns.

We have a robust and flexible financing plan for the project with that \$800 million construction loan facility, a renewed \$300 million revolving credit facility, and we expect to access the debt capital markets in the second half of 2019 to pre-fund a significant portion of the Geismar 3 2020 expenditures.

We believe we're well-positioned to complete this project as we have a rigorous and well-defined execution plan, an experienced team in place and a strong balance sheet and financial flexibility to execute this project. As we've stated previously, we have a preference to have a strategic partner for the project and we will continue to pursue that option.

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We expect that Geismar 3 will significantly enhance our asset portfolio starting in 2023. We have a consistent track record of returning excess cash to shareholders. We repurchased nearly 1 million shares for \$47 million during the quarter under our share repurchase program.

Up to June 30th, we have repurchased nearly 1.1 million shares of approximately 3.9 million shares approved under the current normal course issuer bid. We have increased our target cash on the balance sheet from \$200 million to \$300 million during the construction of the G3 plant.

The pace of the share repurchase program will depend on methanol prices and our ability to generate excess cash. Based on our posted methanol prices so far this quarter, we expect average realized prices in the third quarter to be lower than the second quarter. We expect our production levels in the third quarter to be similar to the second quarter. We expect adjusted EBITDA to be lower in the third quarter compared to the second quarter.

I would now be happy to answer any questions.

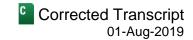
QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from Mike Leithead from Barcla ahead.	ays. Please go
Michael Leithead Analyst, Barclays Capital, Inc.	Q
Good morning, John.	
John Floren President, Chief Executive Officer & Director, Methanex Corp.	A
Good morning.	
Michael Leithead Analyst, Barclays Capital, Inc.	Q
I guess first on the methanol price environment, if you look back to just maybe previous deflational cycles, can you just talk about what the historic response time has been for supply to moderate, w seeing prices below the high end of the cost curve? What's your experience in the industry told yo quickly they are to respond to that?	hen we're
John Floren President, Chief Executive Officer & Director, Methanex Corp.	A

Yes, it takes a few weeks or sometimes a month. What we see happen is that, we've rapidly gone through the cost curve here in the last few weeks and we're starting to see people adjust rates and – especially in the coal and natural gas plants in China.

But people look around and see what is the outlook for their expectation for price. So sometimes it'll last a little longer thinking prices will rebound. I'll remind you there's a couple of new MTO plants that have just started up in China, which will impact demand. So we see it taking a few weeks to a month to see them shut down, and they have to have a view that prices are going to stay below the cost curve for a period of time.

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Michael Leithead

Analyst, Barclays Capital, Inc.

Got it, that's helpful. And on Geismar 3, I know you've laid out why you guys are really excited by the opportunity to build this advantage project for \$750 a tonne. But by my math, I think today you're training for roughly \$450 a tonne in the open market, which is a pretty wide gap especially to asset replacement value of \$1,100 a tonne.

So their valuation threshold at which you just put the brakes on G3 and say to the market you guys are really dumb for allowing me to buy myself back at this discount, or are we moving forward with Geismar 3 and that's just the plan right now?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Well I mean, you can't predict the future. I mean our plan is to move forward and complete Geismar 3. As far as what we're trading per tonne, I'll remind you all assets are not created equal. I mean our Geismar assets are worth quite a bit more than some of our other assets in other regions.

We think as we complete Geismar 3, it's going to be at the top end of our portfolio and worth substantially more than the \$750 per tonne that we're going to build it for. To me it's about – now it's about executing the project safely and reliably and get a very reliable plan. So we'll continue to do focus on completing the plant on time and safely and monitor the markets.

I'm a big believer in cost curves. This industry has demonstrated in the past two times we've had lower prices that the cost curve kicks in and pricing rebound. So we have the ability to sustain two years of really low pricing in our financing plan and still complete Geismar 3.

So to think about stopping it now would be a little reactionary and a little knee jerk, and we think long-term, we don't think quarter-by-quarter. If you did, you wouldn't make – ever make an investment in anything. And we think this project will have tremendous returns for shareholders over the long-term.

Michael Leithead

Analyst, Barclays Capital, Inc.

Got it. Thank you.

Operator: Thank you. Our next question is from Joel Jackson from BMO Capital Markets. Please go ahead.

Joel Jackson

Analyst, BMO Capital Markets (Canada)

Hi John. Maybe following up on that question a bit more on the buyback and cap allocation though, is it [indiscernible] (15:02) about \$300 a tonne with a buyback doesn't make sense or put it below that if the buyback doesn't make sense? Or put it another way, if methanol prices stay here for the rest of the year, will Methanex still do more buyback? Thanks.

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Yes. Our plan is to have a balanced approach to capital allocation, as I've mentioned many, many times. At \$300 a tonne, our forecast would be that we have about \$400 million in free cash before G3 dividends and buybacks.

If you look at the pace of spend on the equity portion of G3, the non-debt portion, it's about \$180 million a year, our dividend is about \$105 million, so at around \$300 million we still can continue the share buyback.

And like I said in my remarks, we've increased our cash target on our balance sheet by \$100 million as we build G3, so from \$200 million to \$300 million. But our plan will remain the same of about \$300 million, we'll return excess cash to shareholders through buybacks, so no change.

Joel Jackson

Analyst, BMO Capital Markets (Canada)

Okay. Just on Egypt, but maybe broader, so as you discovered the issue in Egypt, my understanding is you had sort of discovered a part of your process in determining maybe some imperfection in some of the metal or some of the piping that that process wasn't working properly.

I imagine you've gone to all your plants to make sure if you're using that process at other plants to see if there are any other issues. Can you maybe speak if there's any other issues beyond just Egypt dynamic?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Yes, so that was an issue that was related to the fabrication of certain equipment when the plant was being built. The codes were met, but as we've investigated the issue, the codes are probably not robust enough to catch this potential process safety issue which happened.

So obviously, a couple of things we've looked at all of our other plants as you've mentioned to identify if this issue is present. We haven't seen it anywhere else yet. We'll have to change our inspection programs to look at these particular welds and this particular material going forward.

And our plan is to share our – of what we found widely with the industry, because I think for us safety is the number one thing that we look at each and every day, and this issue could have been really a serious safety issue if we hadn't – if it hadn't happened at 5:30 in the morning in Egypt.

So our plan is to share with the industry, not only methanol, but as widely as we can because this is not just a methanol industry issue. And we learned as well that this might have happened one-time before but wasn't shared widely. So if we had a – maybe been aware because this had happened before somewhere else, then we could have prevented this. So our plan will be to share this quite widely with the industry.

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Analyst, CIBC World Markets, Inc.

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President, Chief Executive Officer & Director, Methanex Corp.

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Good morning.

Jacob Bout

Q

Just wanted to go back to G3. So, is there any flexibility here at all as far as pushing out some of the expenditures on G3 if say methanol markets were to decline even further?

John Floren

A

President, Chief Executive Officer & Director, Methanex Corp.

Yes. We have a really robust financing plan in place for G3. So as I mentioned, we can withstand two years of really low prices for methanol and continue with the project. So we don't believe that's going to happen.

If that was our belief, obviously we wouldn't have sanctioned the project. We believe in the cost curve. I've mentioned the cost curve is \$260 to \$280. We've seen pricing rebounding in China in the last couple of days, but that's early days. We start – starting to see production turn off.

So, if you have that \$260 to \$280, that will lead to a \$300 price realized globally. And at that price, we can continue our balanced approach to capital allocation. So, if our belief was \$250 or lower pricing for two years, we wouldn't have ever sanctioned the G3 project.

Jacob Bout

Analyst, CIBC World Markets, Inc.

What I'm getting out is, do you have the flexibility to push out the construction say from a three to five year period?

John Floren

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President, Chief Executive Officer & Director, Methanex Corp.

We have flexibility to do whatever we want, and we'll examine all options at any given point of the methanol price cycle and make the best option for long-term shareholder value.

Jacob Bout

Analyst, CIBC World Markets, Inc.

Okay. But there's no financial cost?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

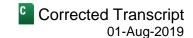
I didn't say that. I think any time you extend a project, there's definitely financial cost.

Jacob Bout

Analyst, CIBC World Markets, Inc.

Okay. And then while you're working on G3, is there any period that G1 and G2 will be shut down either during connection or that type of thing? Would there be an impact on production?

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John Floren

President, Chief Executive Officer & Director, Methanex Corp.

No, the only time – well, G1, we're just on the first turnaround, we do turnarounds every four to five years on a plant. So you can work out when G2 started and when we might think about doing a turnaround there, but that would be a part of our normal turnaround procedures.

And at that time, we'll do what we did similar to G1 to tie in the CO2 for the debottlenecking. But as we build G3, you shouldn't be thinking of any downtime for G1 or G2 going forward.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Okay. Last question here, logistic costs in SG&A, does any of that lead into third quarter?

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

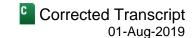
A little bit for Egypt. I mean, we are servicing our customers in the Med with a different supply chain than we had. I've have always talked about how privileged the Egypt plant is because it's – we can use small vessels to get into many ports in the Mediterranean, and that's where we sell most of the product.

So when we're bringing it from somewhere else, i.e. Trinidad or the U.S. or elsewhere, you can imagine the logistics costs are quite different. So that -- we're going to start that plant up later this month as I mentioned. So we've got a month and a half of these higher logistics costs for Egypt.

We also had that incident in Houston at one of our big terminals. So we had some additional logistics costs to service our customers from other locations. And the water level on the Mississippi was quite high, way longer than normal. So, that led to some additional costs as well. The water level is still relatively high, but it's come down quite a bit, and ITC where we had the issue is back and running. So probably a little bit, but not to the same extent we saw in Q2.

Jacob Bout Analyst, CIBC World Markets, Inc.	Q	
Thank you, John.		
Operator: [Operator Instructions] The next question is from Eric Pe	trie from Citi. Please go ahead.	
Eric B. Petrie Analyst, Citigroup Global Markets, Inc. (Broker)	Q	
Hi John, good morning.		
John Floren President, Chief Executive Officer & Director, Methanex Corp.	A	
Hey, Eric.		
Eric B. Petrie Analyst Citigran Global Markets Inc. (Broker)	Q	

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I wanted to ask, what is your sentiment on the incremental MTO demands, given lower polymer prices and polymer capacity expansions in the U.S?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Yes, so what we've seen with really low polymer pricing, we've seen the ethylene at \$800 which is extremely low. We've seen very high operating rates on the MTO facilities. So at current methanol prices, they're very affordable and we understand a couple of plants are taking some downtime for turnarounds for a few weeks, then the other two new plants are ramping up. So until we see differently, we would expect these plants to run at very high rates.

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc. (Broker)

Okay. Secondly what do you think is attributing to the lower deflationary methanol price environment, especially the spot market demand doesn't seem to be that bad, is up 3%. So maybe your energy applications are growing 5% to 6% and traditional are flat. So is it supply related or appreciate any views or commentary on that front?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Yes, I mentioned in my remarks that we saw supply operating very well in the second quarter. I mean the ITC event certainly disrupted supply chains in North America. And I'll remind you, North America and Europe spot markets are very illiquid. Only a few thousand tonnes get traded, unlike China which is a more robust spot market. So that has an impact on supply chains and the amount of methanol that was probably being kept in storage.

And in the quarter, we saw a couple of hundred thousand tonnes of material go to Europe, that usually would have gone to Asia, because at that time, when those decisions were made, the European pricing was much higher. So we're seeing that work its way through as well.

So it's a point in time that we've seen these prices go down. And when it's a very illiquid market in Europe and North America, it doesn't take too many extra molecules to really impact the spot market. But in those markets, we look at the contract market as the important marker, and certainly in China, spot is really more significant and that certainly leads to what we talked about the cost curve in that \$260 to \$280 per tonne and we're pretty confident that's where we are today on the cost curve, and we're starting to see producers react to the below \$260 per tonne pricing.

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc. (Broker)

Thank you.

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

Cherilyn Radbourne

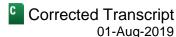
Analyst, TD Securities, Inc.

Thanks very much and good morning.

John Floren

President, Chief Executive Officer & Director, Methanex Corp.





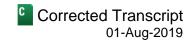
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Good morning.	
Cherilyn Radbourne Analyst, TD Securities, Inc.	Q
I just have a couple of questions on Geismar 3, the first one intentions regarding the gas supply for that plant?	being, whether you could give us any color on your
John Floren President, Chief Executive Officer & Director, Methanex Corp.	A
Yes. So we've completed our gas arrangements for that plant the requirements of that plant. But I will say that that gas does	
So this is going to be a three year construction, so we won't take it to Geismar 3, we can take it across the site. So we're and G2, and now G3 for either hedges or fixed price contract So we have a very balanced approach to our gas strategy in	comfortable now with what we've got covered in G1 ts and the balance will be open to the spot markets.
Cherilyn Radbourne Analyst, TD Securities, Inc.	Q
Okay. That's helpful. And then regarding the preference for a you're still in dialog with some potential partners?	a strategic partner, can you just indicate whether
John Floren President, Chief Executive Officer & Director, Methanex Corp.	A
Yes.	
Cherilyn Radbourne Analyst, TD Securities, Inc.	Q
Anything else you can add?	
John Floren President, Chief Executive Officer & Director, Methanex Corp.	A
We're in dialog with potential partners.	
Cherilyn Radbourne Analyst, TD Securities, Inc.	Q
All right. Thank you. That's all from me, John.	
Operator: Thank you. Next question is from Hassan Ahmed	d from Alembic Global. Please go ahead
operator. Thank you. No.k question is nom nassan Allinet	a nom monible Global. I lease go allead.



Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC Good morning, John.

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John Floren

President, Chief Executive Officer & Director, Methanex Corp.

А

Good morning.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

John, wanted to visit the conventional demand side of things. In the press release, you guys talked about how acetic demand was a bit weak in Q2, and I guess you attributed that to a series of planned and unplanned outages in the quarter. So just as we look at Q3 or the second half of the year, have those facilities come back online? Just broad thoughts on how we should think about acetic demand in the back half.

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

А

I'll ask Vanessa James, who runs our marketing group to answer that.

Vanessa L. James

Senior VP-Global Marketing & Logistics, Methanex Corp.



Yes. So as you said, we saw a decline in acetic acid demand over the quarter related to both demand and outages. And I'll remind you, acetic acid is less than 10% of the demand for global methanol, so we'll watch it. But I think we've had other commentators say that I think it's a slower rebound in acetic acid. But for other traditional derivatives like formaldehyde, we've seen them recover from a slower Q1 and actually outweigh any methanol demand impact we've seen from acetic acid.

Hassan I. Ahmed



Analyst, Alembic Global Advisors LLC

Understood. Now, moving on to MTO, and I know this was asked earlier but just wanted to dig a bit deeper into it, spot ethylene has come down and come down quite hard. And just here in the U.S. alone, over the next couple of months, we should see north of 3 million tonnes of ethylene supply come online.

Now, obviously a bunch of crosscurrents like you mentioned there are some new MTO plants that have come online, so I would expect – as you've started those plants, even if ethylene market conditions deteriorate, you're not really going to sort of take down production.

But maybe you have some of the older facilities, who after a couple of months of being in the red may actually think about taking down operating rates. So, just wanted to get a better sense of, assuming that the market weakens from here on the ethylene side, what we should think about in terms of these cross-currents?

John Floren

A

President, Chief Executive Officer & Director, Methanex Corp.

Well, we saw ethylene prices hit \$800 in China, and that's historically low prices. They've rebounded from there somewhat. At \$800, we didn't see anybody shut down for so-called economic reasons. So, I don't think how they look at their economics is well understood by the market and industry experts.

Each site is a little different depending on what derivatives they're making and the relative prices of those derivatives as well as the price of methanol. So we look at that quite seriously when we're looking at our pricing decisions on a month-by-month basis.

So I said consistently we look at the economics of each site and calculate the affordability of methanol and then we look at their behaviors. So, nobody has shut down for so-called economic reasons.

I just mentioned earlier there's a couple of plants that are taking two to three week turnarounds here. But right now, the affordability based on even relatively low olefins prices is quite good. So I can't predict the future. I don't know what the ethylene price will do in China next year, but we certainly look at the affordability as we make our pricing decisions.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Super. Very good. Thanks so much, John.

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

Nelson Ng

Analyst, RBC Capital Markets

Hi. Great. Thanks, John. Just diving into your Q3 outlook, you mentioned that production levels will be similar but pricing and EBITDA would be lower than Q2. So are you expecting a further inventory build or a reversal in Q3, or is it too early to say?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Yes, I've guided before that as we've grown our sales, our inventories will be a little higher than they have been in the past. I've guided to 1.1 million, 1.2 million tonnes, I think we're a bit higher than that in Q3 so – I mean going into Q3. So again it really depends on how our sales hold up and how our production does, but our guidance is still around that 1.1 million to 1.2 million tonnes for inventories.

Nelson Ng

Analyst, RBC Capital Markets

Okay. And then just some other factors in Q3 I think you mentioned earlier that logistics costs will improve relative to Q2. And then in terms of the cost to repair the Egypt facility, are those going to be a lot higher in Q3 relative to Q2, or are they capitalized or I'm just trying to figure out some of the moving parts?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Yes. I'll ask lan to...

lan P. Cameron
Chief Financial Officer & Senior Vice President, Finance, Methanex Corp.

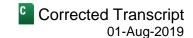
Yes Nelson, so in terms of the Egypt outage, right now all the repair costs are being charged to their earnings statement. And then when we file a claim, we will recover a portion of those subject to the deductibility – deductibles I should say. So you will see some more repair cost in the third quarter.

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

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Yes, we've also taken the opportunity while the plant's been down to do some other work would have been done during a normal turnaround, so that will obviously – be obviously capitalized going forward as well.

Nelson Na

Analyst, RBC Capital Markets

Okay got it. And then just switching gears in terms of your

debt financing plan, so I think you plan to refinance one of your tranches later this year and also upsize it. Obviously, interest rates are down, but I guess given the weakness in the chemical market or just general sentiment, how is the environment on the credit side?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Yes. So, our plan is that we have a bond coming due at the end of the year, our plan is to renew that \$350 million bond and upsize it as you mentioned. The markets are quite robust right now. We expect to get a very good interest rate for that bond, and there's a lot of appetite for that kind of level of bond for around 10 years what we're looking at. So, stay tuned.

Nelson Ng

Analyst, RBC Capital Markets

So, the lenders are not that sensitive to, I guess, the near-term methanol price outlook?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

While I think they are like us, they take a long term view of methanol prices and I've mentioned many times based on the cost curve and MTO affordability, we believe we'll be trading in a range of \$300 to \$400 a ton. We've seen that in the last 12 months. So that's pretty recent history, and the average price for the last 10 years has been \$350.

So, you're going to see times when prices are higher than that, than \$350 and lower, and we've seen it all in 12 months. So I think our lenders know our industry, know our company, know our balanced approach and wanting to maintain an investment grade. So they look through these short-term cycles, whether it's high prices or low prices.

Nelson Ng

Analyst, RBC Capital Markets

Okay. Thanks, John. I'll get back in the queue.

Operator: [Operator Instructions] The next question is from Matthew Blair from Tudor, Pickering, Holt. Please go ahead.

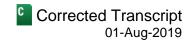
Matthew Blair

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

Hey. Good morning, John.

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

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John Floren

President, Chief Executive Officer & Director, Methanex Corp.

А

Good morning.

Matthew Blair

Q

I was hoping you could talk about any contribution from the Iranian methanol facilities in 2Q. It seems like there might have been some production issues at Kaveh and Marjan. Do you feel like you saw the full production power from those facilities in the quarter, any insight there?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Д

Well I mean there's lots of issues going on in Iran and those plants did run during the quarters not at full rates. I think going forward, it's hard to predict what we're going to see out of Iran because of the sanctions and the extra insurance now to get shipping in and out of there, and things normal maintenance repairs, catalyst all of those things.

So, we expect – we haven't seen them shut down, we've seen them continue to run on an intermittent basis and that's what we would expect in the future, plus you see something different. But it's really hard to predict what's going to happen in Iran with methanol plants and shipping, et cetera. But we do watch it as closely as we can.

Matthew Blair

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



Sounds good. I'll leave it at that. Thanks.

Operator: Thank you. Our next question is from Jonas Oxgaard from Bernstein. Please go ahead.

Jonas I. Oxgaard

Analyst, Sanford C. Bernstein & Co. LLC



Hey. Thanks for taking my question. It seems that for Geismar 3, in your prices you are still assuming that U.S. price will be well above Asia. You talk about the cost curve at \$270-ish and then translating that to U.S. price well above \$300. How do you square that with U.S. getting longer and longer on methanol [ph] stand on by (35:18) and particularly when Geismar 3 finally comes online becomes pretty massively long, that premium really shouldn't be persisting?

John Floren

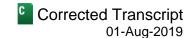


President, Chief Executive Officer & Director, Methanex Corp.

Yes, we've chatted about this for a long time. We expect the freight differentials to remain intact, so the Middle Eastern producer to be swinging between the Atlantic and Pacific based on freight, and that's our assumptions today.

And obviously, we expect additional demand in the Atlantic basin, and the next new plant is some time away, [indiscernible] (35:50) is going to be completed at some time over the next couple of years. So our expectation is that the U.S. and Europe will continue to trade at a premium to China based on freight differentials, until we see it different, that's our expectation.

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Jonas I. Oxgaard

Analyst, Sanford C. Bernstein & Co. LLC

Okay. And if you were to see that go away, coming back to the previous question on flexibility and pushing the plant out, is that something you would do?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Well our anticipation is a range of \$300 to \$400 methanol pricing. This project will have a cash cost delivered into Asia in the low \$200, which means you'd have to see around 16 million tonnes, 17 million tonnes of methanol demand to go away because that's the high cost production above that. I guess anything's possible, but that's certainly not our expectation or why do we think – if we think the pricing here going to be below \$200, why would we go ahead with the project. So I guess anything's possible and we can dream up all types of scenarios.

Jonas I. Oxgaard

Analyst, Sanford C. Bernstein & Co. LLC

Okay. Thank you.

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

Steven Hansen

Analyst, Raymond James Ltd.

Yes, hey guys, just a quick on. John, the gas contract you described earlier on the call here I think speaks to some risk mitigation efforts on your part for G3. I'm thinking on the other side and the output side, how are you guys contemplating the marketing plan for G3, whether it'd be domestic, international or otherwise, and just how you might be able to find some sort of off-take that might again provide some visibility or risk mitigation to investors?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Yes. So, our plan and the economics that we've shared is to ship 100% of it to Asia. And we have flexibility in our supply chain, whether that's China or other parts of Asia, and we've looked at different scenarios, if the trade war continues and we see high tariffs into China, so we're comfortable with that.

Obviously, the more we can keep in North America, the better it is for the overall economics. So, you should expect us to be trying to contract as much as we can of this product in North America at the same time. But even if the worst case scenario is that all of it goes to China, so low \$200 delivered cash cost and gets our cost of capital back below \$300 a tonne, and full returns at \$325.

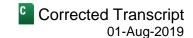
So other people in the industry are going forward with \$1,100 projects, thinking of a different set of pricing than that to get a return. So again, the future is hard to predict, but I think there is a good range of pricing between \$300 and \$400 a tonne, and that's what we anticipate the methanol price to be over the coming years.

Steven Hansen

Analyst, Raymond James Ltd.



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That's helpful. And just a quick follow-up if I may on New Zealand has shown some improvement here in recent quarters, but we're still running below sort of what would be normalized rates. So where are we at there on the gas supply in the upstream and just fee for operating rights there?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Yes. So, we had a sale of the Shell assets, which was the large – one of the larger owners of assets in New Zealand completed last year, and the OMB that bought those assets have been doing quite a bit of maintenance on those assets, which we think is a good thing long-term.

If they're investing significant money in those assets, they must be thinking they're going to sell gas to somebody over the long-term. And if it's not us, then there's 50% of the gas market goes away. So I think we're in a good position there to get gas longer term, there's ongoing development of the existing blocks onshore and offshore. And like I said, we're a big chunk of that gas market.

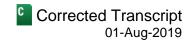
I'll remind you the gas there is very heavy in liquids. So the economics on the gas itself is not what's driving people to explore or do maintenance, it's the liquids which trade somewhat more with oil than with natural gas.

So we think the dynamics that there are really good. I mean we can – we think we're going to get gas for a three-plant operation for the foreseeable future. But if we don't, then we have flexibility there as well.

So, we're talking to our gas suppliers all the time and I know that we're a big part of that market and they want us to continue to run three plants. And so, we have good alignment with our gas suppliers and we're optimistic we'll continue to see good gas deliveries there. I think the maintenance is something that should be viewed as positive, because if people are investing in these fields, then they're thinking more than the next year for gas supplies.

Steven Hansen Analyst, Raymond James Ltd.	Q
Thank you.	
Operator: Thank you. Next question is from Chris Shaw from Monness	, Crespi. Please go ahead.
Chris L. Shaw Analyst, Monness, Crespi, Hardt & Co., Inc.	Q
Hi. Good morning, everyone. How are you doing?	
John Floren President, Chief Executive Officer & Director, Methanex Corp.	A
Good morning, Chris.	
Chris L. Shaw Analyst, Monness, Crespi, Hardt & Co., Inc.	Q
Just a quick one, is there any meaningful impact from tariffs at this point taken away?	either on costs or pricing, anything you've

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John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Not in the methanol market. So there's very – I don't think there's any methanol that is imported from the United States into China. Certainly there's other end use products that may be affected, but really we haven't seen any real impact on methanol demand and supply as a result of tariffs. So the tariffs aren't good for global trade and global growth.

We're operating a global business and we're big proponents of free trade. And the more free the trade, then I think the better the world is off. But these things happen, there's trade disputes between countries and regions, and I think long term free trade has proven to be good for everybody.

But that doesn't mean you're not going to get these disagreements from time to time like we're seeing now. But we have tremendous flexibility in our supply chain. I guess, if you had a view that Trinidad and New Zealand are going to be part of a larger trade war, would reduce our flexibility, but certainly not our view.

Chris L. Shaw	
Analyst, Monness, Crespi, Hardt & Co., Inc.	C
Great. Thank you.	
Operator: Thank you. The next question is from John Roberts from UBS. Please go ahead.	
John Roberts Analyst, UBS Securities LLC	C

Thank you, John. Could you talk a little bit about why you haven't been able to attract a partner given the favorable economics that you show on the project? Is it again back to the trade issue maybe with China or the low MTO economics or is it just a disagreement on the methanol that's kept you from getting a partner?

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

We've said we want a strategic partner not a financial partner. So we're obviously not going to go out and talk to 20 people at the same time. So, we took a very targeted approach to that, and we're very close to having an arrangement with one party due to the trade war I just mentioned that precluded them from making the investment that they wanted to do.

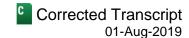
So, that was the end of last year. So since then, we've been targeting other potential strategic partners and sharing the economics, and now that we've made the FID, each month that goes by, and the project gets more and more de-risk, then people should be more comfortable. Obviously, the buying price goes up.

So, we're not just going to give away a third of the value of an advantage project to get a partner. So there's a negotiation ongoing about the relative benefits for both parties. So we'll continue to have these discussions, and our preference is to have a strategic partner, but we're not going to give away tonnes of value to achieve that. So there's a balance here and that's how we'll go forward.

John Roberts

Analyst, UBS Securities LLC

Okay. Thank you.



Operator: Thank you. This was the last question. So, I will turn the meeting back over to you.

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Thank you. The strategic investments we've made in our business over the last few years have strengthened our asset base, significantly increased our global production capacity, enhanced our ability to serve customers and substantially improved our earnings capability 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, execute on our growth projects in Louisiana and Chile, and return excess cash to shareholders through dividend and share repurchases.

Thank you for the interest in our company.

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

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