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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Methanex Corporation Q1 2017 Earnings Call.

I would now like to turn the conference call over to Ms. Sandra Daycock, Director of Investor Relations. Please go ahead, Ms. Daycock.

Sandra Daycock, Director of Investor Relations

Thank you. Good morning, ladies and gentlemen. Welcome to our first quarter of 2017 results conference call. Our 2017 first quarter news release, management's discussion and analysis, and financial statements can be accessed from the financial reports tab of the investor relations section on our website at www.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 first quarter MD&A and to our 2016 annual report for more information.

I would also like to caution our listeners that any projections provided today regarding Methanex 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 percent economic interest in the Atlas facility and our 50 percent economic interest in the Egypt facility. In addition, we report our Adjusted EBITDA and adjusted net income to exclude the mark-to-market impact of 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 like to now turn over the call to Methanex's President and CEO, Mr. John Floren, for his comments and a question-and-answer period.

John Floren, President and CEO

Good morning. Our first quarter of 2017 financial results illustrate the higher earnings power of our business, as we continue to achieve Company records for production and sales volume. Our EBITDA nearly doubled, to $267 million compared to $139 million in the fourth quarter of 2016, and our adjusted net income improved to $140 million compared to $41 million in the fourth quarter.

Methanol prices were higher in the quarter and our average realized price was up $87 per ton to $365 per ton in Q1, compared to $278 per ton in Q4.

We also achieved sales volumes of 2.6 million tons in the quarter and production was unchanged at a record level of 1.9 million tons achieved in Q4 2016.

Methanol prices moved up sharply in the first quarter and then reversed direction late in the quarter. This change was primarily the result of improved industry supply and the delay in the restart of a large methanol to olefin or MTO facility, Shenghong Sailboat, which is capable of consuming up to 2.4 million tons of methanol annually. The delay in the Sailboat plant restart was reportedly related to technical issues. We expect the plant to restart once the technical issues are resolved.

Plants like Sailboat that have significant methanol demand are capable of causing large swings in the global supply and demand balance, which leads to methanol price volatility as we witnessed in Q1.

We lowered our April contract prices in Asia by $110 per ton to $390 per ton, and in North America by $57 per ton to $442 per ton.

Yesterday we announced our contract prices for May for North America and Asia. Our Asia Pacific posted price is down $30 a metric ton to $360 a metric ton, and our North American posted price is down $33 a metric ton to $409 per metric ton.

Our posted price for Europe for the second quarter of 2017 is higher by €80 per ton at €450 per ton.

Although prices in Q2 have retreated from the levels we experienced in Q1 2017, the current Q2 methanol price is higher than what we witnessed in Q4 2016.

Our average realized discount in the first quarter was 16.4 percent, which is higher than the 11 percent discount we realized in the fourth quarter of 2016. Our effective discount can narrow when spot prices increase relative to contract prices, as was the case in the fourth quarter, and conversely can widen when spot prices decline ahead of our contract price, as we witnessed—experienced in Q1.

Methanol demand increased by approximately 9 percent compared to Q1 2017 demand versus Q1 2016 demand, despite four coastal MTO plants being idled early in the quarter for maintenance or due to technical issues. Three of the plants restarted in early February, while the Shenghong Sailboat plant referenced earlier is still in the process of resolving their technical issues. We continue to observe high operating rates at MTO facilities that are not experiencing technical issues.

We expect three other MTO plants currently under construction to be completed in 2018, with combined capacity to consume over 3 million tons of methanol annually at full operating rates.

Thermal coal prices moved higher in March, increasing the middle part of the cost curve, while China's natural gas-based production costs continue to set the high end of the cost curve. We estimate the current cost curve to be in the range of $280 to $320 per metric ton. Spot prices in China today are within that same range.

Our first quarter 2017 production was 1.9 million equity tons, modestly higher than our Q4 2016 production and representing another Company record.

In North America, the Geismar plants continue to operate at high rate. The Medicine Hat facility was idled early in the quarter to replace equipment that had failed as a result of a design issue. The repair has restored the facility to full operating rate.

Our share of the Egypt production was 159 000 tons in the first quarter, and the highest level achieved since Q3 2013. Since mid November 2016 the plant has been receiving 100 percent of its contracted quantity of gas, and we are optimistic that we will continue to receive a significant allocation of gas at this facility for the fore-seeable future, based on the strong efforts by the Egyptian government entities to improve our gas delivery through imported LNG and further development of the gas resources discovered over the past few years.

The Chile plant produced 167 000 tons of methanol during the first quarter, which is the highest level of quarterly production since Q1 2011. The plant operated solely on natural gas from Chile during Q1.

During the fourth quarter, we signed a tolling agreement with YPFSA in Argentina to April 2018 where all natural gas received is converted into methanol and then re-delivered to Argentina. We have not yet received natural gas under this agreement, due to delays receiving the required government approval, and continue to expect to receive this gas in 2017.

We remain optimistic about the long-term gas availability in Chile and we expect to be in a position to make a decision by mid 2017 to spend approximately $50 million over an estimated 12 months to restart our Chile Four plant. If we are successful in securing sufficient gas to support a two-plant operation, we would anticipate spending an additional estimated $50 million commencing in approximately mid 2018 to refurbish our Chile One plant. These modest capital investments have the potential to add approximately 1 million tons to our current operating capacity.

In Trinidad, our share of production was 396 000 tons in the first quarter of 2017, compared with 455 000 tons in Q4 2016.

We continue to experience gas curtailments in Trinidad. Gas availability in the first quarter of 2017 remained at levels consistent with the fourth quarter of 2016, while mechanical issues at the Trinidad facilities resulted in some lost production in the quarter. We continue to expect to receive approximately 85 percent of our contracted gas supply in Trinidad for the foreseeable future.

Yesterday we announced a 9 percent increase in our quarterly dividend to $0.30 per share. We are committed to a meaningful and growing dividend that is sustainable at the bottom of the price cycle. With the higher production capacity we have demonstrated in 2017, we believe the increased dividend is sustainable even at a significantly lower methanol price environment.

On March 6, 2017, we also announced a repurchase program for approximately 4.5 million shares or 5 percent of the shares outstanding. Since the start of the share repurchase on March 13 through April 26, we spent $73 million to repurchase 1.58 million shares under the program. The pace of completion of the 5 percent bid will be dependent on methanol price and our ability to generate excess cash. After completing the current bid, if excess cash permits, it would be our intention to extend the bid by approximately 1.7 million shares, which would be the maximum allowable under a normal course issuer bid for the 12-month period ending on March 12, 2018.

We ended the quarter with $315 million in cash on the balance sheet. Methanex share of the cash, including our proportional share of Egypt and Atlas cash, was $296 million.

We generated cash from operating activities before changes in non-cash working capital of $279 million during the quarter, compared to $125 million during the fourth quarter of 2016. The total increase in non-cash working capital related to operating activities was $58 million in the quarter. This was primarily attributable to impact of a higher average methanol price on accounts receivable and higher volume in inventory.

Our medium-term cash requirements, excluding any changes in working capital, are expected to be limited. Maintenance capital for the remainder of 2017 is estimated at approximately $65 million, and our next bond maturity is at the end of 2019. Other than some modest capital that we may decide to invest in Chile, we do not anticipate any significant growth capital expenditures in the near term. Our priority for any excess cash will be to return it to shareholders by a share buy-back.

Based on our posted methanol contract prices thus far in the quarter, we expect average methanol prices in Q2 2017 will be lower than Q1 2017. As a result, we expect EBITDA to be lower in Q2 2017 compared to Q1 2017.

I would now be happy to respond to any questions.

QUESTION AND ANSWER SESSION

Operator

Thank you, Mr. Floren.

If you are using a speaker phone, please lift your handset before making your selection.

Please limit your inquiry to one question plus a follow-up question. After that, if you have further questions, please re-join the queue.

Please press star, one at this time if you have a question. There will be a brief pause while the participants register for questions. Thank you for your patience.

Our first question is from Steve Hansen with Raymond James. Please go ahead.

Steve Hansen, Raymond James Ltd

Oh, yes, hi guys.

John, go back to the question I asked, I think, last quarter as well. Just wanted to get some clarity around the inventory effect that we see quarter to quarter here again. Is there some way we should think about the inventory build situation going forward? Do you expect to build more? Should we expect a little bit to bleed off? I think it's about 500 000 tons in net inventory that's been built over the past five or six quarters, so, just trying to get a sense for those inventories suggest go forward on a go forward basis.

John Floren, President and CEO

The same answer I gave you last quarter, Steve. Our inventories are going to be a little higher than they have been in the past, because our sales are higher. We're at 10 million tons of sales now, so we need a little bit more inventory to service our customers and that's our number one focus, making sure our customers get quality reliable supply.

As far as the produced inventory, it's a matter of how it flows through the FIFO systems in the inventory in our system. I still don't completely understand it, but I know we have very smart people that look at this each and every quarter and make the right decisions as far as the inventory flows. So, you'll see some quarter where we do build some produced inventory, and I think you'll see other quarters where we reduce some produced inventory. But the overall levels of inventory that you're witnessing today may fluctuate up and down by 50 to 100 thousand tons but we're pretty comfortable at the level we're at today.

Steve Hansen

Okay, helpful, thanks.

Just one quick follow-up on the Chilean growth situation or growth opportunity. We're late April now. You suggest mid year is when you'd like to make a decision officially on that. Presumably you've got some visibility at this juncture on gas availability. Can you give us a sense for how confident you are, where you are in that process around securing incremental gas?

John Floren, President and CEO

Yes, so, I think, our view today is there's enough gas there for one plant operation for the foreseeable future. So, it's just a matter of a decision, do we invest in starting up the newer plant, Chile Four, or do we invest in the current plant through a major refurbishment, which means we'd have 90-day lock-up operations and therefore less methanol. So, we're just going through the process now of looking at Plant Four, checking all the equipment, looking at what it would take to restart it on a stand-alone basis, confirming our numbers, and we'll make a decision mid year on which direction we head.

Steve Hansen

Okay, so that's it for me. Thanks.

Operator

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

Joel Jackson, BMO Capital Markets

Hi, good morning. The first question, John, you referenced how you know one large MTO plant like Sailboat can do a big swing in terms of the methanol dynamic in China. You give a bit of commentary on Sailboat, but there's a lot of conflicting reports out there, different reports whether Sailboat has started up, at what rate, and some of the downstream derivative plants, what's going on there. Can you give a little more colour on what you're hearing? Thanks.

John Floren, President and CEO

Yes, well we speak to them on a regular basis, so we're very in touch with them. What we understand, they're in the process of starting up the plant. I don't have anything other than that to report today. So, assuming the start-up runs smoothly, they should be operating at high rates again. That would be our anticipation.

Joel Jackson, BMO Capital Markets

Okay. In Egypt, so you have a sense that you might get gas through the summer restriction period or summer air conditioning season, can you give a little more clarity on some of the colour of that, and then also, G1G2 production came down, there wasn't much commentary in the release, was that a marketing decision, or was there a week or two of some lower production in the quarter for some reason?

John Floren, President and CEO

Yes, so Egypt, we've been told by the authorities to expect high levels of gas delivery, and that's what we're experiencing. So, we haven't been told anything different, so we would expect to continue to receive our allocation of gas in Egypt.

Geismar, I think we operated at around a 2-million-ton annualized rate in the quarter, so I think nothing really significant to report there. Maybe a few small issues here and there, but nothing significant.

Joel Jackson, BMO Capital Markets

Thank you.

Operator

Thank you. Our next question is from Jacob Bout with CIBC. Please go ahead.

Jacob Bout, CIBC World Markets, Inc.

Hi John. Had a question on discount rates. So clearly methanol price is pretty volatile in the quarter. Maybe just talk a bit about some of the moving parts behind that higher discount rate, certainly higher than what I thought, and then is there anything we should be thinking about, about the discount rate, like is this what we should expect the second quarter?

John Floren, President and CEO

I think, again, in times when prices go up really quick, the discount will narrow, and when it goes down quick it expands. Going forward, I'd be comfortable in guiding to 15 percent discount rate on average. Some quarters would be a little better, some quarters would be a little worse. But I think modeling going forward, 15 is probably a pretty good number.

Jacob Bout, CIBC World Markets, Inc.

Maybe a longer-term question here. In just talking structurally about how you look at the MTO market and the methanol market, under the guise of as we see this U.S. polyethylene capacity ramp, does that change any thing in your mind is structurally how this MTO market looks longer term?

John Floren, President and CEO

Well I think, we would be somewhat concerned more about the naphtha price than what's being built in the U.S. The stuff being built in the U.S., in our estimation based on the data we've seen, will probably be absorbed by 2019. I think if you had a view of really low naphtha prices like we're experiencing today, you might see a preference to build naphtha crackers as opposed to more MTO capacity. So, that would be more of a concern. That really is a factor of oil price, and I don't think anybody really knows where oil price is headed, and we haven't seen a raft of naphtha crackers being announced to being built, so I think everybody's in the same boat, wait and see. There's another three MTO plants under construction that'll be completed in 2018, another 3 million tons. Beyond that we have no other visibility of the next wave of production.

Jacob Bout, CIBC World Markets, Inc.

Okay. Thank you, John.

John Floren, President and CEO

Thanks, Jake.

Operator

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

Cherilyn Radbourne, TD Securities

Thanks, very much and good morning.

John Floren, President and CEO

Morning.

Cherilyn Radbourne, TD Securities

John, I just be curious on your views about the kind of price volatility that we've experienced for the last six months. Do you see that as likely to persist, or do you see it as quite specific to that point in time?

John Floren, President and CEO

Well I think it's not unusual, as these large plants that are integrated downstream come up, that they're going to have some technical issues. These are very complicated integrated plants. What we've seen, and we got to test as we saw pricing almost touch $400 a ton in China, I think it was in February, we didn't see any of the MTO plants turn down for economic reasons, which was very interesting for us. We wish we had tested a little longer, because at that time we saw not only Sailboat but a few other plants have technical issues. The only plant today that's not operating for technical issues is Sailboat. Assuming they come back up and operate well, we would expect to see similar supply-demand fundamentals that we saw early in the quarter—first quarter. So, that to us is the next milestone, we'll watch it, and we're learning as we go here as well about the—how these operations are going to perform going forward.

Cherilyn Radbourne, TD Securities

Okay and then just returning to the Egypt plant for a moment, do you have enough confidence, based on what you've seen on the gas supply, to alter your guidance that sort of near term that plant operates at 50 percent on average?

John Floren, President and CEO

We haven't really officially changed that guidance. I'd like to see the plant continue to operate at high levels. We've had serious amount of technical issues because of the number of times that plant's been up and down over the past three years, so I think maybe next quarter we might give some guidance, but right now I'm still comfortable with 50, we've achieved much better than that. But I'd like to see a few more quarters under our belt, see how the plant operates and see if we continue to get the high gas deliverabilities that we've been told to expect.

Cherilyn Radbourne, TD Securities

Great. Thank you for the time.

John Floren, President and CEO

Thank you.

Operator

Thank you. Our next question is from John Roberts with UBS. Please go ahead.

John Roberts, UBS Securities

Thank you.

Given the experience with Sailboat recently, as we ramp up more of these MTO units, should we expect structural short-term volatility to go higher, because we'll have more opportunities for Sailboat-like effects, or do you think they'll average out and volatility kind of goes back to where it was historically?

John Floren, President and CEO

Well it's a good question, John. I don't know if I have the answer. What we've seen at the other plants besides Sailboat is, when they've had technical issues, they've been very short-term and they come back up and operate at high rate. That's been our experience, so we'll see how this plant operates as they come through their technical issue. As the other three start up, assuming normal start-up, we think there's more demand than supply, which should lead to more higher-cost plants operating or higher methanol prices affecting affordability for some of the other energy applications. So, it's really hard to predict, because there'd be lot of variables that will go in as these other three plants start up, including what new production is on between then and now, which is a bit of a guess at this point.

John Roberts, UBS Securities

Then secondly, outside of MTO, could you talk about any outlier application markets or regions, anything unusually strong or weak in terms of demand outside of MTO?

John Floren, President and CEO

No, we continue to see very good traditional chemical demand growth, so 4 percent year-over-year growth in traditional chemicals. With the exception of DME in China which is not a new story, we see pretty strong demand growth everywhere. So, we're pretty comfortable with what we see around the globe as far as methanol demand.

John Roberts, UBS Securities

Okay. Thank you.

Operator

Thank you. Once again, please press star, one at this time if you have a question. Our next question is from Hassan Ahmed with Alembic Global. Please go ahead.

Hassan Ahmed, Alembic Global Advisors

Morning, John.

John Floren, President and CEO

Hi Hassan.

Hassan Ahmed, Alembic Global Advisors

John, wanted to revisit some of the comments you made on the demand side of things. In the release, you talked about year-over-year demand growth being around 9 percent. Obviously in light of some of these MTO disruptions that we saw, I mean the numbers seem extremely healthy. So just wanted a little more granularity in terms of where you're seeing, above and beyond the MTO side of things, this healthy demand growth.

John Floren, President and CEO

Yes, so MTO is the key change year-over-year, despite having those technical issues in Q1 for several plants as well as Sailboat. You're right to point out we saw 9 percent overall growth year-over-year. I mentioned just earlier that we're seeing about a 4 percent demand growth year-over-year in the traditional demand. So, those two are the real drivers of demand. Other applications like fuel blending etc. continue to grow, but the real change driving that 9 percent growth is the MTO year-over-year growth.

Hassan Ahmed, Alembic Global Advisors

Got it. Got it. Now, part and parcel with that, so demand growth looks quite good, supply-demand fundamentals seem quite snug, particularly as one is going through Q2, but obviously net we've seen you guys announce some contract price declines, right? So, I'm just trying to get a better sense of nowadays, with MTO being as important as it is, we've obviously seen some downside pressure in ethylene pricing, right, in the face of which we had higher methanol pricing. So, I guess the question really is that nowadays, is the true driver of pricing, as you sit there and reset it on a monthly basis, is the true driver of pricing really coming down to MTO economics?

John Floren, President and CEO

Well, it's really…

Hassan Ahmed, Alembic Global Advisors

Above and beyond supply-demand.

John Floren, President and CEO

I think what it's coming down to is spot pricing in China is the influencer, and then the base and imbalances, so. Those are the two things that I think are driving pricing, and spot pricing in China is being driven by supply-demand. So MTO has an impact, as I said earlier, we saw prices rise quite quickly in China when Sailboat came up late last year, and one other plant, and we almost touched $400 a ton in a very short period of time because demand was outstripping supply. Sailboat comes back up, there's no more new supply that's come into the market, so is that repeated, well, time will tell. But the supply-demand fundamentals look really strong for the rest of this year. So, there's no new supply coming on and we see continually healthy growth in demand, and if Sailboat operates and operates well then we see quite a tight market which should lead to healthy pricing.

I would point out, Q2 pricing that we set, based on our contract postings, is still going to be very healthy and will generate a heck amount of cash and EBITDA based on those prices, so. We're happy both ways.

Hassan Ahmed, Alembic Global Advisors

Very helpful. Thanks, John.

Operator

Thank you. Our next question is from Daniel Jester with Citi. Please go ahead.

Daniel Jester, Citigroup Global Markets

Hi, good morning. I just wanted to ask about Trinidad. It seems like the Juniper project is making some progress. I know you haven't changed your kind of outlook officially for Trinidad, but is there, if you think about the risks, is there a risk that Trinidad gas availability starts to improve into 2018 from what you see today?

John Floren, President and CEO

I think we're comfortable with the guidance we provided at 85 percent. There are some interesting activities happening in Trinidad. They're probably a bit overdue and probably just replace declines at this time, so, I think from my perspective, until we see something more significant to the end of the decade, 85 percent is probably a fairly good guidance. If we didn't see these activities, maybe we would have to revise that guidance downward. So, I'm happy with 85 percent.

Daniel Jester, Citigroup Global Markets

Okay, and then, just moving back to China, just wondering if you could maybe refresh us on what your coal view is. I think you talked a bit about the cost curve, but just how do you see the market and the cost curve in China evolving from here? Thanks.

John Floren, President and CEO

Coal in China, like most energy products, kind of trades in a range of oil. When the government sets pricing, it's really—they start with oil and then they look at gasoline, natural gas, coal, etc. So, we're experiencing a little higher coal price because oil prices are $50 instead of $40. So, I'd say it depends on your view of oil price going forward will certainly impact the whole rest of China.

Daniel Jester, Citigroup Global Markets

Okay, thanks.

Operator

Thank you. Our next question is from Laurence Alexander with Jefferies. Please go ahead.

Laurence Alexander, Jefferies, LLC

Good afternoon. Just a couple of odds and ends. First, if you do do the new Chile plant, any working capital build would be on top of the proposed $50 million expenditure, that right?

John Floren, President and CEO

Any working capital build, Laurence, did you say?

Laurence Alexander, Jefferies, LLC

Yes.

John Floren, President and CEO

Or maintenance capital?

Laurence Alexander, Jefferies, LLC

Working capital.

John Floren, President and CEO

Where we are at this time in our working capital, you shouldn't expect any change. If we do see prices go down, then we'll release some working capital, and if prices go up, then we'd probably be right where we are right now. Unless prices fluctuate significantly.

Laurence Alexander, Jefferies, LLC

No, I just meant to support the new Chile plant if you were to go forward with it.

John Floren, President and CEO

Not really, Laurence.

Laurence Alexander, Jefferies, LLC

Okay.

Secondly, can you characterize a little bit your thinking around the Chinese industrial boiler market, what adoption trends are, where methanol prices need to be versus other energy prices to accelerate demand?

John Floren, President and CEO

Yes, so there are about 600 000 of these boilers operating on coal in China. In an effort to clean up the air, the Chinese government is looking to use other clean-burning fuels like methanol. We're working with the Chinese government and the boiler maker to put in standards and handling standards and standards for methanol. So that works under way. There's already about a thousand boilers converted to methanol. Each one of these uses about a thousand tons per year, so you can see the impact is quite large, even with a small penetration, so we would expect other choices to be made, not just methanol, like natural gas if and where it's available. Maybe some diesel, but we think methanol is a great source of clean-burning energy for this application and as we go through and work with the government and the boiler maker on standards we would expect to see even more uptick in this application going forward.

Laurence Alexander, Jefferies, LLC

But have they shown any sort of price sensitivity? Is it just the direct arbitrage against LNG, or…?

John Floren, President and CEO

Well I think, if you have the choice of natural gas, then I'll remind you in China not all—not everywhere in China has the choice of natural gas, probably natural gas would be choice one. Methanol and diesel would be the other choices. So, we're seeing like I said about a thousand boilers today running on methanol, and very effectively.

Laurence Alexander, Jefferies, LLC

Then lastly can you revisit the landscape for de-captivating or acquiring from other owner's other methanol assets and bringing them into your network, because—to take advantage of the network effects?

John Floren, President and CEO

Yes, so, there's—most of them our competitors are state-owned companies, not really—their assets aren't for sale, there's a few out there that might be for sale, but every time we've gotten close to looking at an acquisition, the price that they want for their assets versus where we trade at, it's just a bridge too far. I think assets to trading—our last sale was at $1200 a ton in Egypt. We understand the OCI assets that they sold to TF were in that order of magnitude as well, so, when you're trading at where we're trading, at half that price it doesn't make any sense for us to buy other assets as well, but the industry's growing, like I said, at 9 percent year-over-year, so we need actually more production and—in the market. So, I think we need to see continued building of plants to meet the demand, or else the demand's not going to grow. So, I don't think you should expect us to be looking at acquiring any methanol plants in the foreseeable future.

Laurence Alexander, Jefferies, LLC

Perfect. Thanks.

Operator

Thank you. Our next question is from Matthew Blair with Tudor Pickering Holt. Please go ahead.

Matthew Blair, Tudor Pickering Holt & Company

Hey, John. Thanks for taking my question. It seems like the past six months there's been quite a few methanol production outages, and I'm just curious to get—get your thoughts on this. Is this just normal down time, or do you think that there might be maybe not enough maintenance Capex put into these plants and thus we'd be likely to see high levels of unplanned down time going forward?

John Floren, President and CEO

When we look at the last three quarters, I'd say it's normal. Outside China, the operating rates have been normal, you're right to point out there's a lot of unplanned outages in the industry. That's been the case for years. So, these plants run at very high temperature, there's lots of things that can go wrong, and we do see in our own system volatility in production at our plants. So, we wouldn't expect any change going forward. We invest about $80 million in maintenance cap per year, and I'm sure our competitors invest as well, but there's just a lot of things that can go wrong and we would expect to continue to see plants going down on an unexpected basis, going forward.

Matthew Blair, Tudor Pickering Holt & Company

Okay, and then on your minimum cash levels, if you take out the Egypt cash, I think you're around like 250 or 260 at the end of the first quarter, is that a good minimum cash balance for you, or would you feel comfortable going a little bit lower?

John Floren, President and CEO

Oh, we'd be very comfortable going lower, I mean we think we need about $100 million to run the Company. We have these investments possibly in front of us in Chile, so want to keep a little bit for that. I think we'd be comfortable going lower, so it's really hard, quarter-on-quarter, to get it exactly at the level, and we generated a lot of cash this quarter, and Q2 looks also to be generating a lot of cash, so. We'll continue to look at it on a weekly monthly basis, and we do have our own maintenance to do. I mean we have $65 million more to spend this year on maintenance, so that tends to be lumpy sometimes, so—but we do think there's room to go lower on the cash side.

Matthew Blair, Tudor Pickering Holt & Company

Thank you.

Operator

Thank you. Once again, please press star, one at this time if you have a question. Our next question is from Robert Kwan with RBC Capital Markets. Please go ahead.

Robert Kwan, RBC Capital Markets

Good morning. Just wondering, John the discussion that was had around the magnitude of the dividend increase, and can you just talk about the decision to go with the 9 percent versus something maybe more modest and then allocating the remainder of the capital back to a share buy-back?

John Floren, President and CEO

Well I think we look at it as we're buying back a significant amount of shares, the actual cash outlay is not going to change that much, because a 9 percent increase, it's around $9 million give or take, so as we buy back shares the actual cash outlay won't change.

We look at it once a year, I'll remind you, we don't look at it multiple times a year, so we didn't increase it last year because of the situation of the below price market we were in. So, we looked at it always around AGM time and made the decision that, as we continue to buy back a significant amount of shares, that going 9 percent made sense and probably won't affect the amount of cash we're spending as we buy back the shares that we're planning to.

Robert Kwan, RBC Capital Markets

Understood, and then just on Medicine Hat, just a question around the gas hedging. So, you've got hedges out to 2022. I'm just wondering, can you give some granularity as to the percentage and the shape of the hedges between kind of this year and out to 2022-time frame?

John Floren, President and CEO

Probably take that one off line, Robert.

Robert Kwan, RBC Capital Markets

Sure.

John Floren, President and CEO

Sandra can provide you that detail. I would just say that the hedges that we have entered into in '21, '22, are less than two bucks or around two bucks, so. It may be lower than that at that time, but we're pretty happy to have a cost structure like that into the next decade with our dual on the prairies.

Robert Kwan, RBC Capital Markets

Sure. Thank you.

Operator

Thank you. Our next question is from Charles Neivert with Cowen. Please go ahead.

Charles Neivert, Cowen and Company, LLC

Morning, guys. Couple of quick questions. One, if you get the gas from Argentina and you don't lose anything from Chile from where it is today, would that be enough gas to run or more than run the current operation, in the current one plant that you're running now?

John Floren, President and CEO

Yes. So, like the deal in Argentina is for a quantity of gas, and we have the option to take it at a rate based on what we want, so we could…

Charles Neivert, Cowen and Company, LLC

Okay.

John Floren, President and CEO

…technically, if we wanted to, once we get—the gas starts flowing, run the plant at full rate.

Charles Neivert, Cowen and Company, LLC

Okay. Another question is the drop-down or the small drop-down in the Geismar operating rate, is that more a function of catalyst activity just sort of normalizing, or is it—is that a reasonable…

John Floren, President and CEO

Catalyst activity does—the plant's been running now for—guess one plant almost couple years, and the other one just over a year. Catalysts will degrade over time. We've had a few small issues, like I mentioned earlier, so nothing significant but I think we're pretty pleased with the operating rate of those sites—that site, since it's come up, we're running at over a million tons per year per plant, which is much higher than we ran them in Chile. So, we ran them at about 850 000 tons. So, we're extremely pleased with the operation there and how it's performing.

As well we've had an outstanding safety record there, we haven't had a recordable injury down there since we started up, so we're really pleased with that site and how it's performing.

Charles Neivert, Cowen and Company, LLC

Okay, and last question, do you—are there any maintenance turns the remainder of the year for you guys, or into '18, or do you guys give anything around the schedule of those things coming up?

John Floren, President and CEO

Well we have 10 plants operating today, with the exclusion of Chile Four. We do turn-arounds on our plants every three to four years, so normally in a year you should expect two to three plants to have a turn-around. We don't advertise when those turn-arounds occur, for commercial reasons, but on average you should expect two to three plants being in some sort of turn-around each year.

Charles Neivert, Cowen and Company, LLC

Okay, would you call Canada one?

John Floren, President and CEO

Would I call Canada one?

Charles Neivert, Cowen and Company

The one that you guys had to deal with from the first quarter, would that be—I know technically it wasn't a turn-around, but it did have the same effect as one, so are we now sort of one down two to go, so to speak?

John Floren, President and CEO

It wasn't a turn-around, that was unplanned, because of a technical issue on a piece of equipment, a design issue, so. These are planned well in advance. We have teams that go around the world performing these turn-arounds. You can only get 500, 600 contractors per turn-around, you're doing catalysts, you're doing all the repairs that we accumulated since the last turn-around for the plant. So, these are 30 to 45 days in duration. So, these are well planned and well foreseen, and it's unlikely we'd do two at the same time, because we don't have enough people.

Charles Neivert, Cowen and Company, LLC

Right. Okay. Last question, on the fuel blending side, you mention it's—that certainly is no—it's still partially a driver but not nearly as strong as it had been in the past. Does that—is the growth there more like the current basic chemical side, or is it somewhere between the chemicals and the rest of the businesses? I know it's not up with the MTO numbers, but.

John Floren, President and CEO

Yes, well that—I think that's a good point, Charles, I mean, MTO is dwarfing what we've seen in the other energy applications. As these other three plants come up, it's going to be close to 20 million tons of demand at full rate. So, fuel blending continues to be very solid growing as the car market in China grows, and I would also emphasize MTBE, which is also a fuel component, is really growing strong, especially in markets like China where they're trying to clean the quality of the air—improve the quality of their air, so. Fuel blending is still one of those products that grows, and I mentioned in my notes that New Zealand is looking to adopt, so we're pretty—still pretty excited, because that's a very affordable application for methanol at many different oil prices, especially at low-level blends, and it's very clean-burning so there's a very environmental positive impact as well, so. It's just that MTO is kind of dwarfing the others at this point.

Charles Neivert, Cowen and Company, LLC

Great. Thank you.

Operator

Thank you. Our next question is from Chris Shaw with Monness Crespi. Please go ahead.

Chris Shaw, Monness Crespi Hardt & Company, Inc.

Hey good morning, everyone. I just have a couple of easy ones. Is the Sailboat MTO play, is that the largest in the world?

John Floren, President and CEO

Yes, it is.

Chris Shaw, Monness Crespi Hardt & Company, Inc.

Is like—what—do you know what the second largest, is there something that's close to? I'm just trying to—when I hear news in the future, I want to know what they're saying.

John Floren, President and CEO

Yes, there's a bunch of them that use about 1.8 million tons of methanol, or 600 000 tons of olefin. So, I don't think I remember the exact number, there's three or four in that kind of scale.

Chris Shaw, Monness Crespi Hardt & Company, Inc.

All right, and then, on your outlook for future MTO plants, did you increase that by one plant? I thought that the last time you might have said it was two plants, but now is it three, or is—I miss something (inaudible).

John Floren, President and CEO

Great to see you're paying attention. Yes. It increased by one plant.

Chris Shaw, Monness Crespi Hardt & Company, Inc.

Is that just because there's a—you just got better information on one that was partially being built, or something, or—are there a bunch of plants out there that are like in some state that you could actually add them to the list at some point, or…

John Floren, President and CEO

Well there's a whole second wave of plants that were announced. Until they actually start breaking ground and spending money and erecting steel, we kind of put them in the "announced" category. This one had been announced some time ago and it came under construction this quarter so we've added it to the ones—the three—two, now three under construction.

Chris Shaw, Monness Crespi Hardt & Company, Inc.

Great. That's all I have. Thank you.

John Floren, President and CEO

Thanks.

Operator

Thank you. Our next question is from Bernard Horn with Polaris Capital Management. Please go ahead.

Bernard Horn, Polaris Capital Management, LLC

Hi, good afternoon. Just a quick follow-up question on the coal to methanol production in China. I think you may have referenced it earlier but I just wanted to see if you had any further data on any operating rates or tons produced, and whether or not that's kind of up or down. I know in the release you referenced the restrictions on capacity additions there, so, maybe just comment on that.

John Floren, President and CEO

We haven't seen a big change in coal production operating rates in China. The high end of the cost curve is being set by natural gas today. So, we continue to see the same about operating rates in China on coal as we've seen for the past few quarters. No real change.

Bernard Horn, Polaris Capital Management, LLC

Okay, thanks.

Operator

Thank you. There are no further questions registered at this time. I would like to turn the meeting back over to Mr. Floren.

John Floren, President and CEO

Thank you. Despite some temporary demand shifts related to technical issues in the MTO industry, the methanol industry fundamentals remain strong.

I'm very pleased with the continued record production and sales results we've achieved in Q1, and am encouraged by the improvements we have seen in the gas availability in Egypt and Chile.

In the current methanol price environment, our assets are capable of generating significant cash flows. Our priorities for capital allocation are to meet our financial commitment, meet our near-term growth objectives in Chile, and return excess cash to shareholders.

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.
