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PRESENTATION

Operator

Welcome to the Methanex Corporation Q4 2017 Earnings Call.

I would now like to turn the conference call over to Mr. Dean Richardson, Vice President, Treasury and Investor Relations. Please go ahead, Mr. Richardson.

Dean Richardson, Vice President, Treasury and Investor Relations

Thank you. Good morning, ladies and gentlemen. Welcome to our Fourth Quarter 2017 Results Conference Call. Our 2017 fourth 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 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 fourth quarter 2017 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'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 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 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 like to now 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 and Chief Executive Officer

Thanks, Dean. Good morning, everybody. 2017 ended up on a very positive note. Our fourth quarter financial results illustrate the strong earnings power and cash generation ability of our business. Methanol prices increased throughout the quarter, and this, combined with another record quarter of production volume and sales, drove fourth quarter Adjusted EBITDA to $254 million. For the full year of 2017, we achieved EBITDA of $838 million, a record that was achieved with an average realized methanol price of $337 per tonne. Adjusted net income for the fourth quarter was $143 million or $1.70 per share.

After increasing sharply in late 2017, methanol prices have remained firm in early 2018 in all three major regions. January contract prices in North America and Asia-Pacific were $479 per tonne and $470 per tonne, an increase from December prices by $67 and $40, respectively.

Our first quarter 2018 posted price for Europe is €380 per tonne, up 15 percent compared to the fourth quarter. We recently announced increases to our February contract prices for North America to $506 per tonne, and in Asia to $480 per tonne. We believe that the strength in methanol pricing late in 2017 and into 2018 can be attributed to a number of factors.

Methanol demand in 2017 from both traditional and energy sectors was solid. Olefin prices in the fourth quarter supported high affordability for methanol to olefin MTO production and demand from that sector was strong. More recently, a number of MTO facilities have undertaken planned or unplanned downtime for maintenance and 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 a combined capacity to consume over 3 million tonnes of methanol annually at full operating rates.

On the supply side, a combination of environmental controls and the diversion of natural gas away from methanol production to residential heating curtailed supply in China. In addition, methanol planned outages in the Middle East and Southeast Asia during the quarter contributed to demand exceeding supply and drawing down global inventories. As a result of these factors, methanol prices increased sharply and continue to sit well above the cost curve.

Turning now to our operations, we had an excellent fourth quarter of production volume at 1.9 million equity tonnes, another Company record. All plants in all regions ran very well during Q4.

In Trinidad, we continue to expect to receive approximately 85 percent of our contracted gas supply for the foreseeable future.

In Egypt, we continue to receive 100 percent of our contracted gas supply and the plant has operated at capacity since mid November 2016, excluding the turnaround completed in the third quarter last year. We continue to be optimistic that we will receive a strong allocation of gas at this facility for the foreseeable future and reiterate our guidance of 85 percent annual operating rates in Egypt.

In Chile, one plant product 109,000 tonnes compared to 78,000 tonnes produced in the third quarter, operating slowly on natural gas from Chile. In January 2018, we began to receive natural gas from Argentina under a tolling agreement with YPF which will enable us to run the Chile 1 plant at full rates. The plant is currently running at high rates and we would expect to get to full rates over the coming weeks. We expect production from the Chile operations to be higher in 2018 than 2017.

We announced in December 2017 that we had contracted sufficient natural gas through ENAP to support the restart of our Chile IV plant. We are making good progress on the project and we expect—which we expect to complete late in Q3 2018 at a cost of approximately $55 million. We continue to work with our gas suppliers in Chile and Argentina and remain optimistic that we can secure additional gas supply to underpin a two-plant operation operating at full rates by the end of the decade. If we are successful in securing sufficient gas to support a two-plant operation, we anticipate spending an additional $50 million to refurbish our Chile I plant. These modest capital investments have the potential to add approximately 1 million tonnes to our current operating capacity.

Annual maintenance capital expenditures for existing operating capacity are approximately $85 million, on average, over a three- to four-year cycle, and may be higher or lower in any given year depending on the timing of turnarounds. Our planned maintenance capital for 2018 is estimated to be in the range of $90 million to $135 million, and will be finalized in the coming months depending on the number of turnarounds to be performed during 2018. Other than our planned $55 million capital investment in Chile, we do not anticipate any significant growth capital expenditures over the next 18 months.

Regarding the recent enactment of U.S. tax reform, at today's methanol prices, we estimate a future effective global tax rate of approximately 25 percent, with a slightly lower rate expected at lower methanol pricing.

We ended the quarter with $375 million in cash on the balance sheet. Methanex share of the cash, including our proportionate share of the Egypt and Atlas cash, was $303 million. During the fourth quarter we were pleased to reach an agreement with the lenders in Egypt—lenders to the Egypt debt facility that allows for distributions of cash to shareholders. In keeping with our track record of returning cash to shareholders, in 2017, we returned $388 million through our regular dividend and the completion of our normal course issuer bid.

Looking forward, and building on our long track record of growing the regular dividend, I'm pleased that the Board has approved a 10 percent increase to our quarterly dividend to $0.33 per share. It's also our intention to initiate a new 10 percent normal course issuer bid at March 2018, which is the earliest time allowed under securities regulation. The pace we complete the bid will depend on the methanol price and our ability to generate excess cash.

Our outlook for the first quarter of 2018 is positive. We expect higher average methanol prices in the first quarter of 2018 compared to the fourth quarter of 2017, based on our posted contract prices in January and February. We also anticipate that production in Q1 2018 will continue to be strong. As a result, we expect Adjusted EBITDA to be much higher in Q1 2018 compared to Q4 2017.

I would now be happy to respond to any questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. If you're using a speakerphone, please lift your handset before making your selection. Press star, one at this time if you have a question. Please limit your inquiry to one question, plus a follow-up question. After that, if you have further questions, please re-join the queue.

Our first question is from Daniel Jester from Citi. Please go ahead.

Daniel Jester, Citigroup Global Markets

Good morning everyone.

John Floren, President and Chief Executive Officer

Good morning.

Daniel Jester, Citigroup Global Markets

I think, John, you mentioned this in your prepared remarks about the production issues in China, the natural gas issues and then the environmental shutdown. Can you just kind of parse the effects that both of those have had, and as you look into the second quarter and the third quarter, is there any way to size how much you expect this capacity to come back online? Thanks.

John Floren, President and Chief Executive Officer

Yes, it wasn't only that natural gas was diverted but the price is much higher than it was in the fourth quarter as well, which has led to a much higher cost curve in Q1 than we would have seen last year, late last year. We would expect as things normalize there that some gas, natural gas methanol plants will start up again. It's really hard for us to estimate exactly how much but we would expect some additional capacity to be operating in natural gas as we get into the late second quarter.

As far as the environmental, I mean, it's been pretty clear in the five-year plan in China for some that, especially on the East Coast, they're looking to clean up the air, and part of that is getting rid of industries that consume coal. We would expect that trend to continue. To what extent? It’s really hard, again, to guess. As I've mentioned before, there's over 200 plants in China and we monitor them all but how they're all going to behave at any given time is really hard to guess. But fundamentally, we do expect the environmental restrictions and improvements to continue and probably a little bit more supply from natural gas-based methanol late into Q2.

Daniel Jester, Citigroup Global Markets

Okay, that's helpful. Thank you. Then, three or four months ago the Chinese government set some targets for ethanol usage, and I was wondering, since that's been out there for a bit, if you'd had some time to think about what the implications could be for methanol in the gasoline pool in China in the next couple of years. Thanks.

John Floren, President and Chief Executive Officer

We don't see any impact on the use of methanol on the gasoline pool as a result of the announcement. We're reading the same stuff you do. Ethanol will be part of the gas pool in China. But what we're seeing in China is a move to more high blend methanol, like 85 percent and 100 percent, and that's what we think, and we've always said the future of methanol is in the fuel pool. The early stages is low level blends, which we've seen in China, and now we're seeing a lot of work at the high level blends and yearly producing 100 percent methanol engines for cars.

We continue to be very optimistic that, even at current prices, that methanol is a very affordable clean burning fuel. It not only meets the goal of reducing imported oil dependency but also the cleaning up the air. I think the cleaning up the air in the environment is going to be more important in the future than it has been in the past. I think methanol will continue to be used and we'll see more and more movement to high level blends over the months and years.

Daniel Jester, Citigroup Global Markets

Okay. Thanks, John.

Operator

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

Joel Jackson, BMO Capital Markets

Hi. Good morning, John.

John Floren, President and Chief Executive Officer

Hey Joel.

Joel Jackson, BMO Capital Markets

I could be wrong about this. I think in the past you've talked about maybe a 25 percent or 30 percent tax rate range. Looking at U.S. tax reform, looking out to this year, considering a G1, G2, maybe have a disproportionate share of earnings versus cap (inaudible) or production, what is sort of the tax rate number guidance rate we should be going with for this year?

John Floren, President and Chief Executive Officer

Yes. I'll have Ian Cameron, our CFO, answer that for you, Joel.

Ian Cameron, Senior Vice President, Finance and Chief Financial Officer

Yes. Joel, yes, we have guidance for that 20 percent to 30 percent tax rate depending on methanol price. As John mentioned in his remarks, we would expect that the future tax rate globally to be about 25 percent at today's methanol prices and slightly at lower methanol prices. We do benefit from the lower statutory rate but there are certain deductions that were available to us pre-tax reform that have less value for us today going forward.

Overall, guidance is not that dissimilar to what we've guided in previous periods.

Joel Jackson, BMO Capital Markets

Okay, that's helpful. Thank you. Also, I mean, I think you talked in your release about seeing 4 percent methanol demand globally in 2017. It's a tiny bit lower than kind of the 5 percent range I think you've been discussing over the midterm. Can you maybe share, John, what in 2017, what parts of demand mix was better than expected, what was the weaker than expected? Thanks.

John Floren, President and Chief Executive Officer

Well, I think we had those MTO technical issues as we came out of February of last year and lasted for most of the—rest of the first quarter and the second quarter. I think that was the big difference. These are very large plants consuming very large quantities of methanol and when they're down it has a big impact on the supply/demand balance and the overall growth in demand.

That really, to us, was really the only hiccup versus what we were forecasting.

Joel Jackson, BMO Capital Markets

Nothing stronger than you were expecting?

John Floren, President and Chief Executive Officer

Well, the coal boilers. Coal boilers in China would have been a surprise on the upside. Everything else pretty well within what we were expecting.

Joel Jackson, BMO Capital Markets

Thank you very much.

John Floren, President and Chief Executive Officer

Thanks, Joel.

Operator

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

Cherilyn Radbourne, TD Securities

Thanks very much, and good morning.

John Floren, President and Chief Executive Officer

Good morning.

Cherilyn Radbourne, TD Securities

Clearly, I thought, strong production was a highlight of the quarter and just understanding that there are turnarounds and seasonal fluctuations in gas availability. Can you just talk about whether you're going to be holding the team to that kind of a standard in 2018?

John Floren, President and Chief Executive Officer

Well, I think we can produce more. I'm going to hold them to a higher standard. If you look at our reliability rate, we've still got room there. I think we achieved around 93 and our goal is 97. We think there's another 200,000 to 300,000 tonnes on a normal run rate that we can get and that's our goal and that's what we're going to be looking at.

As far as gas availability, Egypt's great. Trinidad's been basically where we've been guiding, and Chile's better. As long as we run these plants well—and we've invested a lot of capital in these plants and we've invested a lot in people and training—we expect to get a little bit more and I think there's opportunities for us to debottleneck certain plants, like in the United States, and there we can get another 10 percent to 15 percent as we do that.

I don't think we're at the end of our growth in production volumes. I would expect us to continue to look to set records on quarterly production. Having said that, we will have turnarounds and I've guided to two to three per year, depending on the schedule, and in those quarters, we'll probably have a little less than record production, but overall I think our production is showing to be quite strong and based on the investments we've made over the last years and we're not done yet.

Cherilyn Radbourne, TD Securities

Great. Separately, I realize it's early days on this, but can you talk about what you're seeing and hearing in terms of the Chinese decision to ban the import of recycled plastics, just in terms of enforcement and what implications that may have for Chinese olefin demand?

John Floren, President and Chief Executive Officer

Yes, it's still early days, like you mentioned, but if the ban does take full effect, it's the equivalent of four world scale crackers. Very significant amount of olefins coming out of the global chain. They've also, I think, recently banned imports of newsprint as well, I think. I think they're looking to not be the recipient of the world's recycled product because I think their resources, like water, et cetera, are really limited. I think, directionally, that this is going to continue and I think it's really good for the MTO producers in China and I think it's good for the olefins industry.

Cherilyn Radbourne, TD Securities

Great. Thank you for the time.

John Floren, President and Chief Executive Officer

Thank you.

Operator

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

Jacob Bout, CIBC World Markets, Inc.

Hi John.

John Floren, President and Chief Executive Officer

Hey Jacob.

Jacob Bout, CIBC World Markets, Inc.

Looking for a little more colour on the gas situation in Chile. Just remind us again, in Argentina, and that supply coming from there, how seasonal is that and what type of volumes should we be thinking of?

John Floren, President and Chief Executive Officer

Yes, it's a contracted volume that we have the ability to bury the offtake. You should think of it as a chunk of gas. It will be seasonal. I wouldn't expect the tolling gas we're getting today to be available in their wintertime, our summertime, but we have the ability to take it at a rate that allows us to run the plant at 100 percent and that's what we'll do with the gas. We'll fill in whatever shortage we have from Chile and fill it in with Argentina gas from the tolling arrangement to allow us to run the plant at full rates, which really gives us a lot better efficiency on the gas that we are using from Chile. That'll improve our economics and obviously helps our fixed cost as well.

I think it's a real positive. I've said before, I think longer term, especially in their summertime, we are expecting to get gas from Argentina, from other gas suppliers that we used to deal with and now that the border's open and the metres are flowing, I think it's a really positive thing. I think there's a lot more gas being found in the Neuquén basin in Argentina and as that becomes more and more successful, we would expect the gas in the south that's still there to become available for export. We haven't secured anything beyond the tolling arrangement now. We're working hard to do so. But I think it's really trending positively for getting more gas in the future from Argentina.

Jacob Bout, CIBC World Markets, Inc.

Then, as we think about the ramp of Chile IV, what would be the conventional versus the non-conventional gas spud there?

John Floren, President and Chief Executive Officer

Well, it's all non-conventional in Chile. The gas from YPF—I'm not sure which pool—it’s probably conventional, the gas they've had in the ground for some time, but the unconventional gas in Argentina is really a bit more in the north. Probably what will happen is, as that gets developed, it will back out of the Southern Gas, which is conventional. It depends on what time of the year, because I’ll remind you that the town of Punta Arenas, in their winter, doubles their consumption of natural gas. I think Chile Gas will continue to represent the vast majority of the gas that we're going to run Chile IV on and I think that the Argentinean gas that we're hoping to contract will allow us to underpin the refurbishment of Chile I as well as additional Chile gas.

Lots of moving parts, it continues to be moving in the right direction and, for a modest capital investment, we think we can get some additional capacity as we come through the end of the decade.

Jacob Bout, CIBC World Markets, Inc.

Maybe just one more quick one, just on MTO capacity utilization in China, how do you think about that? Have we hit a floor here, even though prices may go higher?

John Floren, President and Chief Executive Officer

I think what's been written by the industry experts is a little bit misleading. They include, in their operating rates, MTP, or methanol to propylene, which hasn’t run for four years. I don't know how you can include that in an operating rate. They also include plants that are down for planned or unplanned maintenance. If you exclude those with—plants that can run and have been running at really high rates, 85 percent to 95 percent operating rates. We didn't see any change as we saw 450 methanol spot pricing in China.

I think this whole affordability equation is really misunderstood by the industry experts as well and we've been saying that consistently for the last year. We've had a real nice run here for two months to test the affordability and it appears to be a lot more inelastic than people had thought. We're not seeing any change in the operating behaviour of the MTO participants based on $400 methanol today. It's been there for quite some time now, so we would think if they were losing tons of cash, they would shut down. We'll continue to monitor. As I’ve said before, this is all new space for us and what we're seeing is pretty well what we thought would happen and it's nice to see our models being reinforced by behaviours but we’ll continue to monitor it.

Jacob Bout, CIBC World Markets, Inc.

And as far as those three new plants coming online, do you expect any sensitivity there?

John Floren, President and Chief Executive Officer

We don't. We think the MTO that—once it starts up and it's integrated, will run. I think there will be teething issues like we've seen with some of the other MTO plants or any major chemical plant as it starts up. We would expect technical issues to arise, especially as these plants are fairly complicated and integrated, but once they get these issues lined out, we would expect them to run at high rates and, in fact, some of the guys that are running today are planning to do turnarounds this year to debottleneck and add significant capacity over and above what they have today which will lead to a lot more methanol demand that have not been talked about by any industry expert I've seen. I think the MTO space is really misunderstood and it obviously is a key driver for methanol supply/demand balance and pricing.

Jacob Bout, CIBC World Markets, Inc.

Thank you.

Operator

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

Hassan Ahmed, Alembic Global Advisors

Good morning, John. John, a question on the supply side of things. Obviously, you mentioned earlier, as it relates to the whole sort of environmental curtailment side of things, that there are 200 plants in China and sort of tough to keep track of each and every one of those, but associated with that, could we, or could you, sort of say for sure if there is X amount of capacity that's never going to come back online on the Chinese side. Part and parcel with this question on the supply side, again, are the (inaudible) facilities still off line and what are you guys hearing about sort of gross allocation there? Will they come back online? Will they run at reduced operating rates? I mean, any thoughts around that would be great.

John Floren, President and Chief Executive Officer

Yes. As far as SABIC, I think they've had some issues in the fourth quarter. We understand there are some continued on issues. We've been told, or have read, that they're technical in nature. We have no inside information that it's gas-related but they've had ongoing issues of supply—available supply out of their plants and that has not been resolved as of today, based on our understanding.

As far as China, I mean, it's a guess—we can't predict the behaviours of what people will do, but what I would say is that China is not—you need to have approvals to do things and directionally there, they want to clean up the environment. Even if I wanted to start up my coal plant, I would need permission and those permissions may or may not be granted depending on a number of factors that are really hard to predict.

But directionally, especially on the coast, we would expect less coal consumption for methanol, ammonia, heating, et cetera, as they look to clean up the air, and how does that get related quarter-by-quarter? It's really, really tough to predict. But I'll remind you, too, Hassan, that the coal price has gone up significantly. We're over RMB700 for coal now. That has had a huge impact on the cost curve as well. If you think prices are going to fall dramatically here in the next nine months, I think you have to look at that cost curve with RMB700 coal and 300 gas where it is.

There's a lot of production that's well above $250 a tonne that would have to turn off. In order to get to that kind of level, you would have to see demand destruction like we saw in 2008. We're not predicting that but certainly there are people out there predicting that. We'll see what happens.

Hassan Ahmed, Alembic Global Advisors

Understood. That's helpful. Now, on the demand side of things, towards the end of last year, a couple of news items coming out of India talking about how India may consider as much as 15 percent methanol blend. What are you hearing about that, be it in terms of timing, how serious these guys are and what that could actually mean in terms of global demand?

John Floren, President and Chief Executive Officer

Yes. I think they're very serious. We've read a lot of stuff about it and they're moving forward quite quickly. I think their long term plan is to produce the methanol from coal in India to service that demand. Probably, if there was any demand drivers, it would be shorter term and not a lot. I think they will gradually ramp it up, but their coal is not high quality and it's in the mountains so it's hard to access as well. I've said this before, it's a natural market for Middle Eastern and Arabian Gulf producers to service and the more that they take there, the less it will be shipped elsewhere.

I think it's, again, a positive directional move by India, but I don't have any real predictions on how much and when and how it's going to be serviced. Like I've said all along, this is a global commodity, supply always equals demand and just a matter of what price and the more demand, you would think the more affordability for the—higher affordable applications. I think it's a positive development.

Hassan Ahmed, Alembic Global Advisors

Makes sense. One final one if I may: over the last couple of months, obviously it seemed that inventory levels, particularly in China, were quite lean. Where do you see inventory levels right now, particularly in China?

John Floren, President and Chief Executive Officer

Very lean, around the world, very lean. We've had a huge drawdown, we had, I think, some consumers and people in the industry thinking production from new plants was going to come on late last year, which hasn't and is further delayed which has led to a real shortage of products, especially in China, but not—also in the Atlantic basin. If you look at the spot prices in the Atlantic basin, they've moved up quite rapidly and well above $400 a tonne. There are a lot of industry experts out there predicting that the price of the Atlantic would collapse. Here we are with real data showing that that hasn't happened and the pricing continues to be quite strong and demand continues to be quite strong. We'll continue to watch what happens as new production eventually makes its way into the market, but at the same time, if you have a normal growth this year, excluding the three new MTO plants, you're still going to grow by 2 million to 3 million tonnes. I don't know where all that methanol is going to come from, but we'll certainly watch it closely.

Hassan Ahmed, Alembic Global Advisors

Very helpful. Thanks so much, John.

Operator

The next question is from Jonas Oxgaard from Bernstein. Please go ahead.

Jonas Oxgaard, Bernstein

Good morning, guys. I have some follow ups on the earlier question on Chinese methanol. My understanding is that there is (inaudible), China is already effectively maxed out on oxygenate and so any ethanol consumption has to be at the expense of methanol and BTE. How do we see the Chinese increase in ethanol without seeing a similar decrease in methanol demand?

John Floren, President and Chief Executive Officer

That's not our understanding. We don't view it that way. They continue to increase MTBE production in the country and we would expect them to continue to use more and more methanol, especially high level blends. We would have a difference of opinion on that point.

Jonas Oxgaard, Bernstein

Is that different since they will produce engines that run on high oxygenates or is it that oxygenate limit doesn't apply to methanol?

John Floren, President and Chief Executive Officer

As I mentioned earlier, people like Geely are producing 100 percent methanol engines and cars that run on 100 percent methanol. I've mentioned earlier that the FFB85s that you see in North America can run on very high level blends of methanol as well. The technology is there, it's being implemented and we would expect the trend in China on methanol consumption for automobiles and trucks to be at the high level blends.

Jonas Oxgaard, Bernstein

Okay. Is there any kind of planned figures for these 100 percent methanol vehicles?

John Floren, President and Chief Executive Officer

Figures as far as production?

Jonas Oxgaard, Bernstein

Yes.

John Floren, President and Chief Executive Officer

Yes, they're producing about 100,000 of these per year and they plan, from what I understand, Geely has announced doubling of that capacity.

Jonas Oxgaard, Bernstein

Okay, thank you.

John Floren, President and Chief Executive Officer

Thank you.

Operator

Thank you. As a reminder, please limit your enquiry to one question, plus a follow-up question. After that, if you have further questions, please rejoin the queue.

The next question is Nelson Ng from RBC Capital Markets. Please go ahead.

Nelson Ng, RBC Capital Markets

Great. Thanks. John, you mentioned that you expect three MTO facilities to come online this year. I was just wondering whether that includes or excludes the Jutai (phon) energy facility in Inner Mongolia, because I wasn't sure whether that one was officially pushed out to 2019 or not?

John Floren, President and Chief Executive Officer

Yes, that's one of them. That includes that one.

Nelson Ng, RBC Capital Markets

Could you comment about whether it's been pushed out to 2019 or is that—or has yet to be determined?

John Floren, President and Chief Executive Officer

No, I don't know where you are reading that. But our current information from our team in China is it'll be second half of 2018.

Nelson Ng, RBC Capital Markets

Okay, great.

John Floren, President and Chief Executive Officer

That may be pushed out a little bit from their initial—maybe it was first half ’18—that may be the confusion, but our information is still the second half of ‘18 for that plan.

Nelson Ng, RBC Capital Markets

Okay, got it. Then, just a clarification for Egypt. Presumably, you will be trying to make cash distributions as early as allowable. But in terms of the 12-month test period on plant capacity, would any of the 2017 quarters be used in that test period or does it start from, I guess, January 2018 in terms of months to be used in that test period?

John Floren, President and Chief Executive Officer

I’ll let Ian Cameron, our CFO, answer that question.

Ian Cameron, Senior Vice President, Finance and Chief Financial Officer

Yes, Nelson, it would include that—2017 is a trailing 12-month period but excludes periods where you're under turnaround.

Nelson Ng, RBC Capital Markets

Okay, got it. There was a turnaround in Q3, I believe, right?

John Floren, President and Chief Executive Officer

That’s right. Yes, effectively, as long as we're running at more than 70 percent for the next 60 days, we'll be able to do distributions and that's our intention is to distribute, to our partners and to ourselves, the available cash.

Nelson Ng, RBC Capital Markets

Okay, great. Thanks a lot.

Operator

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

Steve Hansen, Raymond James

Yes, good morning, guys. Just a quick one on Trinidad, just looking at the production data over the last three years; the guidance really hasn't changed that much but you have seen a notable step up in production here in ’17, at least, and I think the for export data from the country would support that as well. What’s changed there? Is it just the new field that have come online in the upstream D.C. that is continuing at current rates, getting better, just give us a bit of a sense for where we should expect the cadence to go going forward?

John Floren, President and Chief Executive Officer

Yes, our guidance has been consistent. Again, it's a complicated market. We've had—seen some new gas come on, we've seen some depletions and we've seen some of our competitors be less fortunate as far as their gas contracting strategies and having to shut down capacity and you would have seen an announcement from an ammonia producer last week shutting down capacity. As those capacities get shut down, at points there's more gas available for other users.

But how do you predict that in the future? All we can do is give you the guidance that we think is fair for what we expect to happen. If we over-achieve that guidance, that’s great. I mean, we will take that all the way to the bank but I think we're comfortable in the guidance. If we have other information that we think we’ll produce at a higher rates then we will change that guidance, but right now we're really comfortable with that 85 percent on average. But if we are going to exceed it, penalize us, Steve, please. Okay?

Steve Hansen, Raymond James

Fair enough. Just one follow up on the MTO side. You've given us good description here about how you've been pleasantly surprised by MTO operating it. I'm still a little bit surprised they've held in so strong given the move you’ve had in methanol. Olefin has certainly moved as well, but they've lagged relative to methanol. What is it that we don't understand about the economics of the MTO producer level or the supposed experts don't understand it? Do you have a sense for that? Is it contractual downstream obligations or has it just been a misunderstanding of the actual economics of the facility? I'm just trying to sense for that so we can better gauge what the true economics might be.

John Floren, President and Chief Executive Officer

Well, tons of misunderstanding, many different parts. You mentioned we've been pleasantly surprised. We're not surprised. I think our models have proven out what we thought. I mean, it’s nice to be reaffirmed when you're the lone wolf in the wilderness talking a different story than everybody else, so that's always nice to have that confirmation that we're not really off our rocker and the analysis we do is quite solid.

I'd say the big change from what people were thinking is the olefin prices themselves have been much higher. If you look at Q4 olefin price, you look at oil, it's almost at $70 now. That has an impact on ethylene and propylene and naphtha, et cetera. But the integration, as well, we've always said that the plants that are integrated, you can't just take the price of propylene and ethylene and three times the price of methanol and run an affordability model. That's not how it works. Now, that's definitely how it works for the methanol to propylene plants that aren’t running, but they haven’t been running for four years since we saw the collapse of oil in mid-2014.

I think there's a number of misunderstood factors and people reporting things that people are shutting down for economic reasons when they're technical. I don't know why people do that, but we will just have to live with our data and we’ll live with what we know. We're talking to these—they are customers of ours. We're talking to them on a daily, if not weekly, basis and our understanding of the industry is different than some of the industry experts. I think it's led to a lot of confusion and until we see more data of how they run at different price points, there’ll probably continue to be confusion. We will do our best to clarify and to put our position out there. But, at the end of the day, people will make their own decisions based on what they think and what they believe.

Steve Hansen, Raymond James

Okay, very helpful. Thank you.

Operator

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

John Roberts, UBS Securities

Thank you. A nice quarter.

John Floren, President and Chief Executive Officer

Thanks, John.

John Roberts, UBS Securities

You normally guide for minimal profits on the methanol that you buy and resell, but in a rapidly rising environment for pricing like we had in the quarter, do you actually make material profitability on the distribution because the price is moving up after you've bought it?

John Floren, President and Chief Executive Officer

Yes, we make material profitability on the products we produce. If you look at our EBITDA generation at $400 a tonne, it's about $150 a tonne. That's where we make our money. We've guided on our purchase product which includes commission, the long term offtake and spot that, over the cycle, we'll break even or make a few million dollars. You're right to point out when prices are rising we'll make a few more, but when price is low we might lose a few. But it's immaterial. I mean, it's not in the tens of millions of dollars. It's a rounding error, really. When you produce a quarter like we did this quarter and the quarter ahead of us, that's just a rounding error. If our production behaves, we'll more than make up for that increase in the purchased product sales. It's all about production and methanol price, equity production.

John Roberts, UBS Securities

Thank you. Then, I think you normally talk about $1,000 a tonne in terms of reinvestment costs from ethanol. The IGP methanol project made an announcement during the quarter with a much lower capital cost number. Is that apples and oranges? Is there something not comparable about the Haldor Topsoe process that they're doing with what you normally talked about in terms of reinvestment economics?

John Floren, President and Chief Executive Officer

Yes, pretty preliminary stuff. We haven't seen much data. What I would say, the data that's out there in the public for two other projects that we monitor, they are at $1,200 a tonne today, so—and climbing, maybe, because nothing's been completed. I think there's a lot of announcements with a lot of numbers. They never haven't—at least, that product hasn't said what's in that number. Is it just EPC, what is it? Until we get more data it is a bit of a guess for us, but all of the hard data that we have today with the plant that's under construction and others that are looking to move forward, like Yuhuang, are in that $1,200 range. If they can do it for that price, I may buy one from them, so we will see.

John Roberts, UBS Securities

Okay, thank you.

Operator

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

Laurence Alexander, Jefferies, LLC

Hi, there. Two questions. One, can you flesh out a little bit your thinking around the U.S. or North America capacity addition that you think the industry will do over the next say, three, five years, because as you say there are some very large projects being floated but parsing which ones are likely? Secondly, when you—can you just remind us, as your capacity—as your new plants ramp up, when we—which quarters we should see the working capital build?

John Floren, President and Chief Executive Officer

Okay. As far as new production, and I think there's an OCI plant that's under construction that we would expect to be completed in the next three to five years, probably sooner and that will add about 1.7 million tonnes. There's a Yuhuang plant that I just mentioned that we expect to be completed towards the end of the decade, into 2020, probably at the earliest. Beyond that, there's nothing under construction. There's a lot of things announced, a lot of things talked about, but I'll remind you that the later construction availability and productivity for building anything in the United States, especially in the south, is really tight. As well, our current estimate is that when you start with FID to when you turn on the tap, it's about 40 months, so what are we now? February 1, 2018? Unlikely we're going to see anything beyond those two plants that I just mentioned in the United States in the timeframe you're talking about. If there is something more, it will be at the end of that five-year window that you're talking about.

Can you just clarify for me the question you asked about our working capital as—are you saying our inventory is going to go up as we add the Chile production? I wasn't really sure, Laurence, what you are getting at?

Laurence Alexander, Jefferies, LLC

Exactly. Since you have a bit of a working capital build, as the plant ramps up, is it just—how does the—how does that flow through and—or does it just get—or does it turn over so quickly it won't be noticeable?

John Floren, President and Chief Executive Officer

Yes, I think we're getting more and more efficient all the time. It may—there may be quarters where we have a bit more inventory and quarters with a little less inventory but if we're carrying a million tonnes and we're selling 11 million, that's pretty good turnover and considering that about a third's on the water and a third's at the plants, so it's not staying in the tanks very long.

Laurence Alexander, Jefferies, LLC

Okay, thank you.

Operator

The next question is from Matthew Blair from Tudor, Pickering, Holt. Please go ahead.

Matthew Blair, Tudor, Pickering, Holt & Company

Hey, good morning, John.

John Floren, President and Chief Executive Officer

Good morning.

Matthew Blair, Tudor, Pickering, Holt & Company

You always seem to have good insights on methanol start up timing due to your shipping capacities and capabilities. Are you expecting any new Iranian methanol supply in the first half of 2018?

John Floren, President and Chief Executive Officer

No.

Matthew Blair, Tudor, Pickering, Holt & Company

Got it. Then, any updated thinking on potential longer-term U.S. methanol expansion for Methanex? It seems like you can make a pretty good case here, just given the commodity environment in the U.S. with natural gas staying below $3 even though oil is above $70 or around $70. You also have a more stable tax environment and then your financial position is pretty strong here. Could you just kind of lay out how you think about a potential U.S. expansion?

John Floren, President and Chief Executive Officer

Yes. We're really fortunate to have some really low cost options in front of us to expand capacity like Chile. I mentioned earlier, we have some debottlenecking capability or opportunities in Geismar for both plants, so we're going to be focused on those. But we still have teams, internal teams, working on a second plant in Medicine Hat and a third plant in Geismar. We think they're privileged projects. We haven't done the feed work et cetera, but based on our initial basic work, we think they're pretty privileged projects and we look to execute those when the timing is right.

We have these other projects that are adding capacity to our Company for a fraction of the new build, even if it is a privilege project, but we're continuing to work on those and you should expect us to add capacity to—our next new brownfield or greenfield addition to be in North America; that's where we will be focused and the timing on that is really subject to market conditions and as we complete our other lower cost opportunities. But, I said in my remarks, don't expect us to be spending any significant capital on new build for the next 18 months. But we'll continue to work on these projects and be ready to execute them when we think the timing is right and that's when—as we complete our other opportunities to grow our Company for a fraction of brownfield cost. But these plants, I think you have to look at the many new brownfield builds that are over million tonnes, are going to have to—all that product's going to have to find its way to China and that's how we would do the economics.

We do agree with you that the gas market here is quite attractive and the conditions in the United States are quite attractive especially with the new tax rate, and considering we have a workforce and a site and a terminal and all that stuff in Geismar and we can buy oxygen across the fence and utilities; yes, it's pretty attractive. We can use the off gas from our existing G1 and G2 which would allow us to lower capital on a brownfield site. We think we have projects there that's better than anything that's currently under construction or being considered. But we will focus on the brownfield—sorry, the debottlenecking and the Chile opportunities and stay tuned.

Matthew Blair, Tudor, Pickering, Holt & Company

Thank you.

Operator

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

Charles Neivert, Cowen

Good morning, guys. A few quickies, I guess. If you look at the discount off of the list price for the year, it was about 15 percent but then more recently it's 13 percent. Is it something that we might see just down even a little bit more in a rising price scenario? I mean, it typically goes up when things are going—when the prices are coming down? Could we see this either stabilize around 13 percent or maybe even get a little bit lower from here?

John Floren, President and Chief Executive Officer

Thanks for bringing that up because I've been pretty consistent in guiding to 15 percent, so I'm glad that's where it ended up. I look good again, for a change. But guidance is the same. When pricing is going up, you should expect the discount to be a little lower than 15 percent, and when prices are going down, you should expect it to be a little higher but, on average, 15 percent is a good number and I am glad that's what it was in the '17, so good news.

Charles Neivert, Cowen

Yes. When we look globally, is there any difference between regions in that discount, is it little bit—again, without hitting a number, but is it a little bit bigger in one place than any others, or is it pretty much similar across the board?

John Floren, President and Chief Executive Officer

Yes, the only differential I would say is in Latin America and Western Canada. Those are pretty regional markets where we get a little bit better, but the other markets are fairly—this product moves around the world pretty easily, so discounts are fairly similar. I mean, there may be slightly differences but it's immaterial.

Charles Neivert, Cowen

Okay, lastly, the number—well, two things, I'm sorry. One, the number in New Zealand was clearly higher than it's been. It started to—was there any high CO2 gas involved in there or are we still running on the normal gas that you guys have typically gotten?

John Floren, President and Chief Executive Officer

Yes, we have some CO2 gas, but that did not change in the quarter. We're still actively pursuing higher CO2 gas and think that's one thing I've been talking about for a long time now, we haven't achieved it. We will continue to work on it but I said before, with the Todd and Shell group separating, I think there's more opportunity for us in the future to get the high CO2 gas, but certainly wouldn't be putting it in your models at this time.

Charles Neivert, Cowen

Right, and that would increase output if it were to come?

John Floren, President and Chief Executive Officer

Yes, if we got all high CO2 gas we needed, we would go from 2.2 million to 2.4 million.

Charles Neivert, Cowen

Okay, and were there any turnarounds in 4Q or was it pretty much we're running flat out? I mean, where you could run, you had—you did, but you guys don't turnaround in 4Q..

John Floren, President and Chief Executive Officer

Yes, we didn't have any turnarounds. I think we could have squeezed out some more production, but I'm not unhappy with the record as well. I'll continue to be more happy as we increase our regular production from current facilities. There's degrees of happiness, Charles.

Charles Neivert, Cowen

Good. Well, always leaves room. Good to have some room going up anyway, on that front. All right, well, thanks very much. Appreciate it.

John Floren, President and Chief Executive Officer

Thank you.

Operator

Thank you. The last question is from Chris Shaw from Monness, Crespi. Please go ahead.

Chris Shaw, Monness Crespi Hardt & Company, Inc.

Hey, guys, how are you doing?

John Floren, President and Chief Executive Officer

Good, Chris.

Chris Shaw, Monness Crespi Hardt & Company, Inc.

I'm curious, the start of the year pricing basis, I'm just wondering if we are sort of following a pattern from last year, reaching sort of high levels early February, March and then some plants, some CO plants were down for technical reasons due to Chinese New Year and pricing weakened from there. I mean, is that going to be—do you think there could be a similar pattern to this year or is demand stronger or are these plants that have gone down, the MTO plant, are they as big as the ones that went down last first quarter?

John Floren, President and Chief Executive Officer

I never predict the future but what I would say is the conditions today are quite different than this time last year and we have more demand, less supply. The MTO guys have been running for a year longer, they're lined out more. Again, we're in a high price environment that none of the experts were predicting. I think the predictions were less than $300 a tonne and we are north of $400 a tonne, so I don't like to be in the prediction business because you're always wrong and you're wrong by a lot most of the time. I think we like the supply/demand conditions that we see today which should lead to a really good price environment.

The next milestone for us that we're watching is any new production that might come on and there'll be some around the edges and extra, like I said, natural gas possibility in China and maybe temporary demand slowdown because of Chinese New Year, but that's happened every year. Inventories are really low. It's going to—even if production came back to perfection, it will take some time for inventories to build back up. Again, the future is hard to predict. We like what we see right now and we will continue to monitor as new production comes on, where it flows and what that does to the overall supply/demand balance.

But a big change this time this year versus this time last year, the oil price is close to $70 which is impacting affordability. Coal is over RMB700 which has really impacted the middle to three-quarter part of the cost curve and natural gas is really high in China which has led the cost curve to move up quite nicely.

Even if we see some moderation, I think we demonstrated, at $337 a tonne, we recorded a record year and that was with production that we think we can improve on. We'll do well at any price of methanol over the cycle and obviously at current pricing, we're going to do extremely well and we will continue to return that excess cash that we don't have to grow the Company, or our regular dividend to shareholders through repurchases. We've been very consistent about that and that's what we'll continue to do.

Chris Shaw, Monness Crespi Hardt & Company, Inc.

You don't see any pricing developing, any seasonality then?

John Floren, President and Chief Executive Officer

Seasonality? Well, I think the past doesn't predict the future. You could look and see, in the last few years, as we get into the fourth quarter, pricing has gone up and there's not one reason for that. I think to say that in the future would be a stretch, but we've never really witnessed a lot of seasonality in our business and we don't expect that to change. We'll continue to look at it. I think, like I said, the next new marker is new production that may come on sometime this year and we'll watch how that impacts the supply/demand balance.

Chris Shaw, Monness Crespi Hardt & Company, Inc.

Great, thanks a lot.

John Floren, President and Chief Executive Officer

Thanks, Chris.

John Floren, President and Chief Executive Officer

Well, if there's no more questions, I will close. I'm very pleased with our 2017 performance, generating Adjusted EBITDA of $883 million, the highest in the Company's history, driven by record sales and production volumes. These results reflect the improved earnings power of the Company and our ability to generate significant cash flows across a broad range of methanol prices. Our priorities for capital allocation are to meet our financial commitments, meet the near-term growth objectives in Chile and return excess cash to shareholders. Thank you for the interest in our Company and have a great day.

Operator

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