28-Jan-2021

Methanex Corp. (MEOH)

Q4 2020 Earnings Call

CORPORATE PARTICIPANTS

Kim Campbell
Director, Investor Relations, Methanex Corp.

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

OTHER PARTICIPANTS

Joel Jackson
Analyst, BMO Capital Markets Corp. (Canada)

Jacob Bout
Analyst, CIBC World Markets, Inc.

John Roberts
Analyst, UBS Securities LLC

Michael Leithead
Analyst, Barclays Capital, Inc.

Steven Hansen
Analyst, Raymond James Ltd.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Cherilyn Radbourne
Analyst, TD Securities, Inc.

Nelson Ng
Analyst, RBC Capital Markets

Eric B. Petrie
Analyst, Citigroup Global Markets, Inc.

Ben Isaacson
Analyst, Scotia Capital, Inc.

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

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

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC

MANAGEMENT DISCUSSION SECTION

Operator: All participants please stand by. Your conference is ready to begin. Ladies and gentlemen, thank you for standing by. Welcome to the Methanex Corporation Q4 2020 Earnings Call. I would now like to turn the conference call over to Ms. Kim Campbell. Please go ahead, Ms. Campbell.

Kim Campbell

Director, Investor Relations, Methanex Corp.

Thank you. Good morning, everyone. Welcome to our Fourth Quarter 2020 Results Conference Call. Our 2020 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 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 2020 MD&A and to our 2019 Annual Report for more information.

I would also like to caution our listeners that any projections provided today regarding Methanex's future financial performance are effective as of today's date. It is our policy not to comment on or update this guidance between quarters. For clarification, any references to revenue, EBITDA, cash flow or income made in today's remarks reflect our 63.1% economic interest in the Atlas Facility and our 50% economic interest in the Egypt Facility. In addition, we report our adjusted EBITDA and adjusted net income to exclude the mark-to-market impact on share-based compensation and the impact of certain items associated with specific identified events. We report these non-GAAP measures in this way to make them a better measure of underlying operating performance. And we encourage analysts covering the company to report their estimates in this manner.

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

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Thanks, Kim. Good morning.

We hope that everyone has continued to stay safe and healthy. I'd like to take a moment to thank our team, around the world, who have shown incredible dedication and flexibility in a year, where we've had to change how we work, to ensure that our team remains safe, while continuing to deliver reliable supply to our customers.

In the face of these challenges, we achieved stronger Q4 results, demonstrating the resilience of our business. This morning, we'll comment on our Q4 and full-year 2020 results, provide an overview of what we are seeing in the methanol markets, review our operational results and share our near-term outlook, including how we will continue to manage our business, given that the economic recovery path remains uncertain.

Now turning to our financial results, in the fourth quarter of 2020, we recorded adjusted EBITDA of $136 million and adjusted net income of $12 million or $0.15 a share. We recorded higher fourth quarter results compared to the third quarter primarily due to the realized prices, highlighting our significant leverage to methanol prices. Our results were partly offset by changes in the mix of produced and purchased methanol sold.

For the full year of 2020, our financial results were lower compared to 2019 primarily due to lower realized methanol prices. We recorded adjusted EBITDA of $346 million and an adjusted net loss of $123 million or $1.62 per share for 2020.

Now turning to the methanol market, in the fourth quarter, they continued improvement in the global methanol demand combined with various planned and unplanned methanol industry outages and delayed start-up of new industry capacity led to tighter market conditions and lower inventory levels supporting higher methanol prices.

Global methanol demand began to recover in the second half of 2020 after falling in the first half of the year due to the impacts from the COVID-19 pandemic and a lower oil price environment. We estimate that global methanol demand increased by approximately 2% in the fourth quarter of 2020 compared to the third quarter. Overall, we estimate that the global methanol demand total approximately 82 million tonnes in 2020, which is a 3% decrease compared to 2019. Before COVID-19, we forecasted global methanol demand growth were approximately 3%. As a result, we estimate that 2020 global methanol demand is approximately 5% to 6% lower than pre-COVID expectations.

The methanol industry [ph] ran a little over operating rates (4:58) in 2020 due to plant shutdowns to respond to the lower methanol demand, as well as various planned and unplanned outages. In the fourth quarter, there were a number of plant outages around the world, particularly in Iran and in China, where there was a diversion of natural gas to meet seasonal power demand instead of methanol production. The delayed start-up of new industry capacity additions also contributed to tighter market conditions. We estimate that the industry cost curve, which continues to be set in China, is approximately $260 per tonne. The cost curve is higher than the third quarter as a result of higher coal prices. Spot prices in China are above this range today.

So far, in the first quarter of 2021, market conditions remain tight and we've posted higher prices for January and February 2021. We recently posted our February North American price, which increased to $492 per tonne and our Asia-Pacific price, which increased to $430 per tonne. Our European contract price is set quarterly, and our first quarter posted price is €390 or $475 per tonne.

We mentioned on our Q3 quarterly call that we would provide update guidance to our discount rate to posted methanol prices. In 2021, we expect to see a higher discount rate of approximately 17% on average compared to our prior 15% guidance, as we saw more competitive environment given broader economic uncertainty. Recall that when prices increase quickly, our discount rate tends to decrease and then reverses through when prices decrease quickly.

Now turning to our operational results, we will speak to our fourth quarter production results and provide comments regarding our production outlook for 2021, including ongoing natural gas curtailments that are expected in New Zealand, Trinidad, and Chile. Our production levels were higher in the fourth quarter compared to the third quarter due to higher gas availability in New Zealand and Chile and record production at our Geismar facilities.

In New Zealand, our production levels were higher in the fourth quarter due to improved gas supply. In 2021, our outlook for New Zealand production is uncertain. Our gas suppliers have recently advised that a major offshore gas field, which supplies the New Zealand market, and underpins a portion of our production, has experienced significant and unexpected production declines, which will result in lower gas deliveries. Given that gas deliveries are expected to be lower in 2021, we are consolidating production in our two large Motunui plants, which have a combined operating capacity of 1.7 million tonnes and temporarily idling our smaller Waitara Valley plant. We estimate production in New Zealand for 2021 of 1.5 million to 1.6 million tonnes compared to our 2020 production of 1.7 million tonnes.

In Geismar, both plants ran at full operating rates during the fourth quarter. Our production benefited from the completion of our low cost debottlenecking project at our Geismar 1 plant. And we have seen a 10% increase in our daily production capability of this plant. We expect to complete the debottlenecking work at our Geismar 2 plant in 2021. When the debottlenecking activities are complete, the Geismar facilities will have an operating capacity of 2.2 million tonnes on an annual basis.

In Trinidad, our production levels in the fourth quarter were similar to the third quarter as planned turnaround activities at our Atlas facility impacted both quarters. Looking into 2021, we have been advised that upstream production declines and the delay of upstream maintenance work due to COVID-19 will result in lower gas deliveries. It is unclear how long these lower gas deliveries will persist. Based on our current gas deliveries, we estimate production in Trinidad for 2021 of 900,000 tonnes, reflecting Methanex's interest compared with our 2020 production of 1 million tonnes.

All 2021 production is expected to come from the Atlas facility, as we announced earlier this month, that we expect that the Titan facility will remain idle indefinitely because we have not been able to reach an acceptable longer-term natural gas agreement. We continue to have discussions around opportunities for longer-term gas supply.

In Chile, our production levels were higher in the fourth quarter, as we received higher gas deliveries. However, due to lower gas deliveries, later in the fourth quarter, resulting from upstream production declines in Argentina, we are unable to run both plants in December. Our Chile IV plant remains idle today and it's uncertain how long these lower gas deliveries will persist. We estimate production in Chile for 2021 of 900,000 tonnes to 1 million tonnes compared to our 2020 production of 800,000 tonnes.

In Egypt, production in the fourth quarter was similar to the third quarter. In Medicine Hat, our plant ran at nearly full operating rates after the completion of a planned turnaround that concluded at the end of October. Our 2021 production is forecasted to be similar to 2020 production of 6.6 million tonnes, although actual production may vary by quarter, based on gas availability, planned outages, extended unplanned outages, and anticipated factors.

Now, turning to our balance sheet, we took a series of decisive actions in 2020 to further strengthen our business and our balance sheet. As a result, we ended the year with strong liquidity position of over $800 million in cash, a $300 million undrawn revolving credit facility, and no debt maturities until the end of 2024. Our disciplined approach to capital allocation has not changed. And over the long-term, we believe we are well positioned to meet our financial commitments, execute on attractive growth opportunities that exceed our hurdle rate, and deliver in our commitment to return excess cash to shareholders through dividends and share repurchases.

Regarding our Geismar 3 project, as we previously discussed, this is a high-quality project with substantial capital and operating costs advantages. In April 2020, we placed the project on temporary care and maintenance for up to 18 months given the significant uncertainty regarding the global economy due to COVID-19. The project was in excellent shape and progress had been safe, on-time and on-budget. And the projects have been significantly de-risked. Construction on the Geismar 3 project remains on hold. We have a robust decision-making process for evaluating the project, and before deciding whether to restart construction, management and our Board will need to carefully consider many factors, including the strength of the global economic recovery and the overall methanol industry outlook.

We are encouraged by the early signs of economic recovery that began in the second half of 2020. However, given that the COVID-19 pandemic continues to limit our near-term visibility, it is difficult to predict how methanol demand, industry supply of methanol prices will ultimately recover on a sustained basis. For now, we remain cautious and we are prioritizing liquidity and financial flexibility.

Now, turning to our outlook for the first quarter, in the near-term, based on our posted prices so far, we expect realized methanol prices in the first quarter of 2021 will be higher than the fourth quarter of 2020. We expect that our production levels will be similar compared to the fourth quarter given the natural gas curtailments in New Zealand, Trinidad and Chile that we mentioned earlier. Adjusted EBITDA is expected in the first quarter to be higher compared to the fourth quarter.

In 2021, we will remain focused on operating our plants safely and reliably, delivering secure and reliable supply to our customers and protecting our strong financial position and financial flexibility. We are well-positioned to continue delivering significant value to shareholders over the medium- to long-term as market conditions improve.

We would now be happy to answer any questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question is from Joel Jackson of BMO Capital Markets. Please go ahead. Your line is open.

Joel Jackson
Analyst, BMO Capital Markets Corp. (Canada)

Q

Hi. Good morning, John.

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

A

Good morning, Joel.

Joel Jackson
Analyst, BMO Capital Markets Corp. (Canada)

Q

John, I know you can't predict the future. Can you help us [ph] handicap (14:12) as you sort of plan your business, how you would see the different past issues you're facing right now sort of more normalizing, like, can you prioritize what you think will come back to be normalized faster? It would seem like you think New Zealand might be the one that's most likely not to normalize soon because of the consolidation of plants. Can you just give us as much as you can about how you see it happening?

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

A

Yes. It's really difficult to predict. The New Zealand news and the Trinidad news came late last year. Nobody was expecting that news, including our gas suppliers. So, we're working with them to really understand the problem. I think, in New Zealand, the suppliers have tried some things, to see if they could impact what's happened in the field, and unsuccessfully. So, I think what we understand is there has to be some drilling going on there to recover the field fully, and that's going to take some [ph] time enough to get rigs, etcetera (15:09).

So hopefully, sometime later this year, but really hard to predict, and then we have to make an investment. We were planning to take our Waitara Valley plant down February 1 for a fairly significant turnaround from a statutory point of view. Obviously, without the gas, it doesn't make sense to spend any money on that plant. So, we'll have to have a really good view that we'll have enough gas for a three-plant operation for a sustained period before we invest any money in that Waitara Valley plant. It may be better for us just to run the two larger ones for the foreseeable future, but early days, and we're still working with our gas suppliers to understand the issue.

I think Chile, you know, Argentina didn't have much investment in gas because of COVID-19. That's changed in the fourth quarter. And there, we are being told by our gas suppliers to expect gas deliveries later this year. But until we see it, we'll continue to run one plant. In Trinidad, it's pretty opaque. So, I really don't have any anything to update with Trinidad other than we were told a few weeks ago to expect gas deliveries at about 80%.

Joel Jackson
Analyst, BMO Capital Markets Corp. (Canada)

Q

That's helpful. Thank you. And then my last question would be, you know that U.S. Gulf spot methanol prices were somewhat weak in January, I think, down about $30 a tonne. You were able to set the February posted price contract at about $10 a tonne higher month-over-month. Can you talk about some of the dynamic there? Despite a slower, a weaker spot market, you were able raise prices. I guess spot prices don't matter. Your customers are happy. This is related to some of your now lower gas availability. Anything there would be helpful. Thank you.

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

A

Yes. I've have always said in Europe and North America that the spot markets are pretty illiquid. Very little product gets traded on the spot markets. They're an indication, but they don't really drive pricing decisions in those two markets.

In Asia and China, especially as spot market is very large, so it has a bigger impact, and when we're thinking about prices. So, I know our team looked at supply/demand fundamentals for the next period 30 days, 60 days. They talked to the customers about what they're seeing and their supply/demand balances. And then, we make decisions on pricing. And based on those discussions, we increase our prices slightly. So, we still continue to see inventories quite snug and demand not back to 2019 levels, but better than it was in the first half of last year. But I'd say, this tightness is being driven by unplanned and planned maintenance around the world as well as gas availability issues in places like Iran and China.

So, when those will turn around, who knows? We were above the cost curve all of 2018 by $100 a tonne. And that's kind of where we are today, $100 a tonne above the cost curve. When that changes, it really will be a factor of supply coming on. There's anticipated new supply as well from a plant from the United States and really around demand recovery.

So, I think the hardest thing for us to predict today is demand recovery in this COVID-19 environment, as we see the second wave, and governments taking different actions, and really, the vaccine rollouts are starting, but probably going to take some time to work their way through, and see restrictions lowered somewhat, so really tough environment to predict, Joel.

Joel Jackson
Analyst, BMO Capital Markets Corp. (Canada)

Q

Thank you very much.

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

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

Good morning, John.

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

A

Good morning, Jacob.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

Just a question on G3. Are you still targeting mid-2021 decision and how far can you push out this decision before there is more financial penalties?

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

A

Yes. So, our target to make a decision on G3 is in the summer. Obviously, our teams are working hard to see what different options we might have at that time. And we certainly will want to look at what's going on in the methanol markets as part of that decision. So, I know our teams are working hard to see what are our options to defer or start or other things, and really don't have any numbers at this time around them.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

Okay. And then coal – thermal coal prices have actually moved quite a bit in China. Interested in getting your thoughts around where you think the cost curve floor is for methanol right now.

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

A

Yes. Today, we see it around $260, Jacob. Again, it's based on coal and some natural gas as well. That coal has moved up to the higher end of the range that the government had stated after the 2016 price collapse in oil. It's really driven by supply/demand. It's hard to predict. But I don't think coal is going to go much higher than where it is today, unless you see oil going to $60, $70, $80, which is not our view. So – but we'll continue to watch it. We're a bit surprised how high the coal price is in China at this point.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

Thank you, John.

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

A

Thanks.

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

John Roberts
Analyst, UBS Securities LLC

Q

Thank you. Nice quarter. There's been a lot of disruption in freight for containerships. Are bulk liquid shipments being affected at all? I know you have your own ships. But is the methanol industry at all having any logistical challenges here?

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

A

Well, we're not. I'm not aware of any others. There seems to be available shipping for chemical liquids. No, I'm not aware of any, John, at all. And I am aware of what's going on in the container industry though. And I think that's more driven by lots of product coming from China and not much going back. So, I think it's different in the liquids market.

John Roberts
Analyst, UBS Securities LLC

Q

Okay. And then earlier this year, you talked about your own maintenance being challenging during the pandemic. Is that a significant cause of the greater industry downtime? Are competitors either delaying maintenance and that's reducing their reliability and causing some of the outages, or when they're doing maintenance, it's just being more disruptive to supply?

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

A

Yes. I can only speak to our own experience. But if you're following COVID-19 safety protocols, you've got a lot more time to follow those. So you have extended from original schedules. You've got probably more investment because you have social distancing and all of those things, and it's tough to get people, experts into certain countries.

When we did our Trinidad turnaround, it was really difficult to get our – usually, we bring 40 or 50 global experts in to help. So, a lot of that was done remotely by cameras and videos, and that takes a lot longer and not as efficient and maybe not as good either. So, that's been our experience. And I'm sure anybody in the petrochemical or anybody that's running a large plant, that goes to these kind of turnarounds, is experiencing the same thing.

John Roberts
Analyst, UBS Securities LLC

Q

Right. Thank you.

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

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Hey. Thanks. Good morning, John.

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

A

Good morning.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Firstly, just a question on the higher discount rate that you mentioned for 2021. I was hoping you can maybe just talk a bit more about what's driving it, whether it's a specific region or start up a new capacity. And is it more indicative of what's going on here at the beginning of the year or do you kind of expect this to be the ongoing level of discount kind of moving forward?

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

A

Yes. That guidance is for 2021. Most of the contracts globally for methanol are negotiated in the fourth quarter of any given year. Like I mentioned in my remarks, we were expecting 3 million to 4 million tonne growth in methanol demand and we saw a 3 million tonne decline. So, that's about 6 million tonnes different than what the industry was expecting its four or five world-scale plants. So, I think there was a lot more, or I don't think, I know there is a lot more rivalry as we negotiated contracts, and some competitors, maybe that didn't have home for their products really offering all-time high discounts.

So, we're in this for the long-term. We work with our customers over the long-term. And we're certainly not going to be moved aside on a price basis because of a short-term, what we believe is a short-term demand situation. So, we took the decision to be competitive, when it's a commodity, and you need to be competitive, and that's what's gone on here. So, we've seen this before, but not to the extent of the rivalry that we saw, at the end of last year.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Got it. That's helpful. And maybe just a broader industry question on methanol demand. There's obviously been a lot of talk lately about clean energy and the use of hydrogen. Obviously, methanol has a lot of merits as a clean burning fuel source, and Methanex has done a lot of work advocating for that. Curious, in your conversations, if you've seen, a change, in the conversations, with potential customers, about methanol, and the energy opportunity, and if, that's changed your long-term view at all in that regard?

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

A

Well, we've had an investment in this clean burning methanol, clean – sorry, zero carbon methanol in Iceland for 10 years. It's a small plant. But it takes water, and splits it into hydrogen and oxygen, and takes CO2 out of our power plant, and we make methanol. So, it's 100% carbon-free.

The challenge is the cost. The cost of that kind of methanol is two times to three times methanol made from natural gas. Now, there's the odd customer that will pay that kind of pricing based on they wanting to have a green footprint. But it's a very, very small part of the overall industry.

The technology works. It's scalable to – not to the extent that we see natural gas, but you can probably do a 50,000-tonne to 100,000-tonne plant, but you need 10 of those to meet a world-scale plant from natural gas. We don't have customers today that are asking for millions of tonnes of carbon-free methanol. Doesn't mean it won't happen in the future. But we are ready to scale. We are ready to move. But we need a much higher price than even what we're seeing today in the methanol markets to make a return on capital. So, it's a bit of a chicken and the egg. The technology's there. We can do it. But right now, we haven't had the customers lined up to pay $1,000 a tonne for that kind of methanol. So, we're certainly not going to blindly invest in multiple plants based on this technology without having some secured contracts to – that makes sense from a return on capital employed basis.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

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

Steven Hansen
Analyst, Raymond James Ltd.

Q

Yes. Good morning, John.

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

A

Hi.

Steven Hansen
Analyst, Raymond James Ltd.

Q

John, I know it's hard for you to comment on others specifically, but the challenges that you've seen here, on your gas supply specifically, it sounds like there's some unique situations in each country. But as a general common theme, it sounds like some upstream – or lack of upstream capabilities or maintenance or whatever it has been through COVID, it's had some impact across the board. Are there other instances in the industry that are suffering from the same challenges? I'm just trying to get a sense to whether this can be something more broad, or if it's just for whatever reason, isolated to yourself.

And just as a related question, Trinidad strikes me as the most interesting just given that we've seen the new plant startup there recently. So just can you walk us through your thoughts on that if you could?

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

A

Yes. I don't have any specific information about gas issues in other countries other than what we've already reported on productions in places like Trinidad and Venezuela as two examples. We understand there could be issues maybe in Indonesia as well. But we don't have any specific information on why or how come. It seems to be more and more gas is diverted in places like China and Iran in the wintertime, which has been a phenomenon we've seen for the last, jeez, 10 years. But it seems to be more acute this year. Is that because of colder weather? Could be. Is that because of more demand? Probably. But we're not in at the table and these governments making these decisions.

I would say I'm really happy that we have three plants in North America, where there are no gas issues, and looks like no gas issues for the foreseeable future. And Egypt's a really good news story, where there's a lot more gas than there is demand right now, and that's because of all of this success they've had in the exploration of the upstream. So yes, we've seen these issues. I can go – and you remember Medicine Hat was shut down for 10 years and they just [ph] shut Forte Louisiana (28:55) and we only were down to one small plant in New Zealand.

So, this has been an issue for us the 20 years I've been at the company. So, it's really hard to predict when these things happen and how long they last. But we'll work with our suppliers and we'll get through this. We don't think this is a significantly long-term issue in any region, but we need to be cautious about when and if we can resolve these problems.

Steven Hansen
Analyst, Raymond James Ltd.

Q

Okay. That's fair. And just to follow up, if I may, on the discount question earlier, you're suggesting this is a somewhat short-term issue. But, I mean, if we're thinking about into 2022, should we think about that 17% rate holding or do you think we'll get back to that more normalized 15%? And just as related to that, is this a regional-specific issue or is this a more globally, as you negotiate contracts?

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

A

Yes. So again, I don't like predicting the future. But I'd say not all of our contracts come up every year. There's a portion of them come up. So you can see the impact of even a portion of the business being renegotiated in a very competitive environment. See, I think it's going to be a factor what's demand look like, how do we recover demand and how does the new supply get absorbed.

So, beyond the coke plant in the United States, there's not a heck of a lot coming on in the next five years. So, it could be – it depends on what your view of short-term is, but we're pretty excited about the medium-term supply-demand fundamentals as long as we can get beyond this pandemic and get some more normal activity on a global basis.

Steven Hansen
Analyst, Raymond James Ltd.

Q

Okay. Very good. Thank you.

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

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Good morning, John.

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

A

Good morning, Hassan.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

John, wanted to sort of touch on the outages that the industry experienced, particularly in the back half of the year. I mean, if my numbers are correct, I believe it was like slightly north of 8 million tonnes of methanol capacity that was going through be it planned or unplanned outages. Now, you touched on certain sort of gas issues, out in

Trinidad, issues out in New Zealand as well. I mean, where would you see that number being through the course of 2021?

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

A

Yes. Again, I have no idea. What are unplanned outages? We know what planned outages are. They're – these plants need to turn around every three years to four years. But what else is going to go on with those plants and what other vulnerabilities, I have no idea, Hassan.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Okay. Okay. Now, as a follow-up, obviously an administration change here in the U.S., and I'd like to think that the current administration would not be as hawkish on the Iranian side of things. Are you seeing any sort of early signs of Iranian products sort of making it into the export market, currently, and what are your expectations, call it, over the next couple of months?

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

A

Yes. Iran has been experiencing quite a few restrictions, we understand, on gas. They've had some technical issues, we understand as well. So, we haven't seen normal amounts of product coming out of Iran, which is a phenomenon we've seen this time, every year, for the last number of years. I'd say it's more acute right now. What the new administration in the United States just decides to do with the Iran nuclear deal and sanctions is beyond my pay grade levels. So, I'll take a pass on that one.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Oh, yes! Thanks so much, John.

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

Cherilyn Radbourne
Analyst, TD Securities, Inc.

Q

Thanks very much and good morning. Steve sort of asked my question on gas availability. But with respect to New Zealand, in particular, can you just comment on what you would need to see in order to undertake a significant turnaround at the Waitara Valley plant, and what sort of lead time you would need to undertake that kind of decision?

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

A

Yes. Well we are in the midst of planning that turnaround when we got the news. So, the planning is done. It's a matter of people and a bit of equipment. But I'd say we need to see gas availability and the technical issues resolved on that field to allow us to have run a three-plant operation for a significant period of time.

That's what we were set up to do, when we planned the turnaround of Waitara Valley, and this is a very significant field, and we're half the gas market in New Zealand. So, you can imagine the impact not only on us but the electrical generation and others in New Zealand. So, our suppliers weren't expecting this to happen, and they tried other things to resolve it. And they've been unsuccessful. So, we rely on them to give us information on what they see. I think there's going to have to be some drilling done, in this field, to correct the problem, if it's correctable. So that's going to take some time.

Cherilyn Radbourne
Analyst, TD Securities, Inc.
Q

And then just with respect to capital allocation, I'm going to ask this a couple of ways. So just comment on how you think about Geismar 3 versus share buybacks versus dividends. And is there a scenario, over the next couple of years, where you don't resume spending on Geismar 3, but do feel comfortable allocating some cash to buybacks or dividends or increase dividends, I should say?

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

Like I mentioned in my remarks, nothing's really changed with our capital allocation strategy, grow the company at the rate of growth of the methanol market, which obviously didn't grow in 2020, and then return excess cash through dividends and share buybacks. That's been our strategy. That hasn't changed.

I'd say, in this environment, where financial flexibility and liquidity trump all of those, and if we have pricing like we see today, for a couple of years, we'll have tonnes of cash to grow the company, to return money to shareholders through dividends and buybacks. So, to me, it's all about demand. What happens with demand, do we get back to a more normal situation of demand growth? And if we do, then beyond the coke plant that's coming up, we think the supply/demand fundamentals are very attractive, which will lead to pricing that allows us to generate a lot of cash and fulfill our strategy on capital allocation. But today, it's really uncertain. So, we'll keep our powder dry. And when we look the G3 decision in the summer, we'll have a bit more information around how the pandemic is impacting demand for methanol.

Cherilyn Radbourne
Analyst, TD Securities, Inc.
Q

Okay. Thank you for the time, John.

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

Thank you.

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

Nelson Ng
Analyst, RBC Capital Markets
Q

Great. Thanks, and good morning, John.

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

Good morning.

Nelson Ng
Analyst, RBC Capital Markets
Q

My first question relates to Trinidad. In terms of the CGCL methanol plant being fully commissioned, like does that materially reduce the availability for natural gas potentially for Titan or any other facilities or needs in Trinidad? I was just wondering in terms of – you've recently put Titan – you've idled Titan indefinitely, but I'm just wondering if conversations are still taking place and whether the [ph] outlook has does/doesn't look (37:06) very favorable there.

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

A

Yes. So, I had mentioned before the upstream, and the government, are negotiating, different terms than what are today. The terms that they're in today don't allow us to run that Titan plant through the cycle so that we've kept it down and ready to go for eight months and add those solutions. We decided to idle it more on an indefinite period. The supply and demand balance of gas in Trinidad is really attractive price. And we don't know where the gas is coming from for the new plant, but obviously it will impact the overall supply/demand balance. But many of our other people on the site, ammonia and methanol have also experienced the same thing we have and shut down capacity. So, there's a lot of capacity in ammonia/methanol that's not running. And I think we're going to need to see more gas development and to get back to a balanced market there. So, it's complicated.

And we were unsuccessful and some of our people that manufacture ammonia had been unsuccessful and made the same decision we did. So, we'll continue to talk to the government. And if here's something that makes sense on a medium-term basis, we'll look to restart that plant. But it'll take capital as well. So not too dissimilar to what we're seeing in Waitara Valley. We'll have to spend money and hire people and that takes time.

Nelson Ng
Analyst, RBC Capital Markets

Q

Okay got it. And then moving on to Chile, based on all the various supply agreements you have in place, are you able to give a bit of color in terms of how much gas you typically expect from Argentina?

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

A

Yes. So we – I mentioned before we had gas contracts signed up to run two plants throughout the year, except for the wintertime or summertime for about three months. So, we expected to have 75% operating rates throughout the year. I also mentioned the Argentinean gas was interruptible both by us and by the supplier. And then, we chose to interrupt that gas in April when COVID happened and shut down one of our plants because of demand. So, they've also exercised their rights on interruptible gas because of the lack of exploration and development in 2020. Well, that's changed now that there's a lot more being spent, and we're being told to expect gas to run both plants sometime this year. But until we see it, we'll continue to be cautious and run the one plant.

Nelson Ng
Analyst, RBC Capital Markets

Q

And are – is all that gas from Argentina on that tolling arrangement where they send you gas and you process it to methanol and send it back?

A

No, we haven't had that arrangement for four years or five years, Nelson so.

Nelson Ng
Analyst, RBC Capital Markets

Q

Okay. Got it. All right. Thanks for that.

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

A

Thank you.

Operator: Thank you. [Operator Instructions] The next question is from Eric Petrie of Citi. Please go ahead. Your line is now open.

Eric B. Petrie
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning, John.

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

A

Good morning.

Eric B. Petrie
Analyst, Citigroup Global Markets, Inc.

Q

As North America turns to a net exporter of methanol, do you see any change in pricing relationship between the regions?

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

A

Yes. We watch that pretty closely. And up to now, we haven't seen any impact. I guess the next milestone will be the coke methanol plant but what else happens in the basin. It's not just a North American situation. It's the whole Atlantic basin. And the supply demand fundamentals there will dictate if there's any impact. But up to now, we haven't seen any impact on the pricing and the basin balances.

Eric B. Petrie
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And then on G3, you noted your preference to do a partner on that project. Can you discuss what the pool of potential parties looks like or has that stalled given COVID-19?

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

A

Yes. We're pretty well in the stall mode on partner discussions. You recall, this time, last year, we had hired a banker to run the process for us. And then it's actually one year to the today that we had our first case in BC. So, obviously when COVID happened, those discussions – people weren't looking to invest in methanol plants at that time. So, I think it's difficult in this environment to pursue partnership discussions, but that's still our preference.

Eric B. Petrie
Analyst, Citigroup Global Markets, Inc.

Q

Okay, and then last, could you just give an update with your planned operating changes what a $10 per tonne price change in methanol translates to EBITDA and free cash flow?

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

A

Yes. We'll take that offline.

Eric B. Petrie
Analyst, Citigroup Global Markets, Inc.

Q

Okay.

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

A

Ask him to follow-up, Kim.

Eric B. Petrie
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Kim Campbell
Director, Investor Relations, Methanex Corp.

A

Yes.

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

A

Yes.

Operator: Thank you. The next question is from Ben Isaacson of Scotiabank. Please go ahead. Your line is now open.

Ben Isaacson
Analyst, Scotia Capital, Inc.

Q

Thank you and good morning, John.

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

A

Hi, Ben.

Ben Isaacson
Analyst, Scotia Capital, Inc.

Q

First question is where is methanol demand the weakest right now? If you want to answer that by region or by end-use market, would that be fuel blending or MTBE? And, kind of, what gives you the greatest concern about demand recovery going forward?

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

Did you say where is the deepest?

Ben Isaacson
Analyst, Scotia Capital, Inc.
Q

[indiscernible] (42:47-42:50).

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

Yes. So, if I look at 2020 versus 2019, which I think is the most recent data we have, traditional demand was down 5%; energy was flat, but really driven by MTO, which is up 12%. And then the other energy that's really for transportation, like MTBE, DME, fuel, they were all down 5% to 6%. So, the only shining star in 2020 was MTO and that was up 12% year-over-year. Let's say, as far as regions, China's back to where it was, as far as demand, 2020 versus 2019. The rest of the world, I'd say North America is down the most by about 9%. The rest of the world, between 4% to 6%, and that's year-over-year.

Ben Isaacson
Analyst, Scotia Capital, Inc.
Q

Great. Thank you. And as a follow-up, is there a market for China or others buying used plants? I'm just thinking like if you think about Titan or Chile IV, or Waitara in New Zealand, is there a way to offset the CapEx or partially offset the CapEx at G3 by selling some of these plants to the Chinese for a few hundred million and that would reduce the risk profile for G3?

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

Yes. What we've looked at – the Chile IV, you remember was a bolt-on to Chile I, II III and not only Chile I. So, that's not really a stand-alone plan except for what we've been able to do integrating it to Chile I. We looked at moving Titan, and the way it's built, it's probably worth not very much as some equipment and some steel.

And Waitara Valley is pretty old, needs quite some tender loving care. So, I don't think we're at the point today where we're going to be selling these plants for cents on the dollar. We're going to try and see a little bit more visibility on the gas situations in all three. We've had these challenges before. There's lots of attempts to buy our Medicine Hat plant, the 10 years, it was down, and we sold two and kept one. I'm glad we kept the one because we got cents on the dollars for the other two. And would it be nice to have a three-plant operation there today. So, the future is very hard to predict. So, I think, well, we're not in that mode yet, Ben.

Ben Isaacson
Analyst, Scotia Capital, Inc.
Q

Okay. Thank you so much.

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

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

Well thank you. Question, right now, LNG prices spiked up to, I think, $20 per mmbtu. Coal prices spiked and it seem to be on the way back again. In your experience, and you've seen these things in the past, does that have any material impact on global production like do producers take a brief hiatus during a spike like this?

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

A

Methanol producers?

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

Q

Yes.

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

A

Yes. In the past, and when these spikes have happened, we haven't seen any impact on the LNG. Now, coal was to spike beyond where we are today. It's just a matter it will move the cost curve up. But like I mentioned earlier, we're already $100 a tonne above the cost curve. So, we would think, in this environment, anybody that could run a methanol plant is running as hard as they can. So, there's lots of room for coal prices to go up and still be cash-positive in China. So, it's really a factor of how high the price is and how long they think the price is sustainable. But there's lots of room today to have every plant that can run, run at full rates.

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

Q

Okay. Then, I have a separate question. Just want to follow up on that carbon-free methanol in Iceland. So, you mentioned that it's expensive to produce. But if you think of it, as a carbon sequestration, how does the cost compare to sequestering CO2? And this seems to be a potential solution for places like Iceland that can sequester CO2. So, how does it compare to other possible CO2 elimination efforts?

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

A

Yes. It's more favorable. I mean when we looked around the world at technologies to produce methanol carbon-free, this was the one that made the most sense to us, expensive and smaller scale. I haven't dusted off the sequestrations numbers for a bit. But it was very expensive to – for one of our plants like in Louisiana or Medicine Hat to sequester carbon. But I haven't dusted those numbers off, so I'll have to take that offline and get back to you.

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

Q

Okay. Thank you.

Operator: Thank you. The next question is from Matthew Blair of TPH. Please go ahead. Your line is now open.

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

Q

Hey. Good morning, John. The release noted that global methanol demand rose 2% quarter-over-quarter in the fourth quarter. Could you share any insights on how that might be progressing so far in Q1 2021 here?

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

Yes. Q1 is usually the low quarter for methanol demand. So, when we look at quarter-over-quarter, we see it pretty well flat to down a little bit. But that's based on forecasts, so I'm not very good in the forecasting business but that's our expectation today.

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

Sounds good. And then, John, you always have helpful commentary on China. Could you talk about the current dynamics in the country with natural gas being diverted to home-heating use? And do you have any numbers you can share on just what kind of impact that's having on methanol production in the region?

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

Yes. Like I mentioned, anybody that can produce methanol today will be producing at full rates because of the pricing dynamics. It was already mentioned on the call, LNG prices have spiked. China is a large importer of LNG. At $20 an mmbtu, doesn't make sense to make methanol. So, we've seen this in the past, and we would expect as temperatures come into the summertime, and prices for methanol stay where they are that we would expect more natural gas producers to be making methanol. But until we see it, like I said, we, in 2018, because of supply issues, we saw the price remain above the cost curve by $100 the whole year. Kind of unusual to see that, but it's really hard to predict in this environment. To me, it's all about demand and demand recovery that will lead to sustainable good pricing.

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

Sounds good. Thank you.

Operator: Thank you. The next question is from Adam Starr of Gulfside Asset Management. Please go ahead. Your line is now open.

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC Q

Hi. Thank you for keeping me in the queue. Yes. What do you expect capital spending to be this year, excluding any decision on Geismar, and what would – what do you think the cost of completing Geismar would be, if you go ahead with that?

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

Yes. Our maintenance capital spend this year will be about $110 million. And to complete Geismar, well, a team is doing that work right now. But based on our initial numbers, if we decide to restart the construction later this year, the budget that we're looking at is not too different than what we had already signaled to the market, which is a range of $1.3 billion to $1.4 billion. And up to the end of this year, we had spent $365 million. So, we've got about $900 million to $1 billion to go.

A

Yes. Adam, we have about $80 million of cost to spend this year on the care and maintenance program. And then after that, it's about $900 million, to get to John's number of the $1.3 billion to $1.4 billion total.

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC

Q

In that care and maintenance, is that within the $110 million of maintenance CapEx for the whole company?

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

A

No. That is in addition.

A

That's in addition to the $110 million.

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC

Q

Got you. That's very helpful. I appreciate it. And the Argentine situation, does that have anything to do with the most recent change in government? Had there been policies that have affected gas production or is this entirely business-related and has nothing to do with the political situation?

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

A

Yes. There were a number of reasons including politics. No investment happened for most of 2020. But that has changed in the fourth quarter. And we're seeing more development of gas. So, that doesn't mean it can't change again. But there are policies in place today that are very helpful and encouraging to suppliers in the upstream.

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC

Q

Okay. Thank you very much. I appreciate your answers.

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

A

Thank you.

Operator: Thank you. The last question is from Steve Hansen of Raymond James. Please go ahead. Your line is now open.

Steven Hansen
Analyst, Raymond James Ltd.

Q

Yes. Sorry, John. Just to follow up here on G3. So if we presume, and I'm not going to say that's the conclusion yet, but if we presume, that there is a deferral of G3 this summer, if there's a decision, not to proceed, what happens next? What is the next [ph] gating milestone (52:41) after that? I know you can't put these projects on care and maintenance for a longer period of time. But will you revisit it annually, quarterly? What is the process here coming into this important decision?

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

A

Yes well, we're going through that now. So what are our options? I think the more you delay, the more risk to the project. That's clear. Project team is still in place. And a lot other things that we put in place are still there to this care and maintenance period. If you have a further deferral, extended time, that adds more risk to the project. So our teams are working through what are our options and probably comes down to start/restart or defer for a period and depending on how long that period is, you'll have different risks and different costs. So, our teams are working on that. It's pretty too premature to be sharing any of that data yet, Steve.

Steven Hansen
Analyst, Raymond James Ltd.

Q

Okay. No, that's fair. And just as a follow-up, I was thinking back a few years now, you were reported to have some Chinese partners, potential partners at the table. A lot of that got squashed with some of the political dynamics taking place. A new administration in the U.S. again, I mean, how do you feel about reengaging on one or two of those Chinese partners that you had in previous discussions with?

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

A

Yes. We'd love to have a Chinese partner for the Geismar project, Geismar 3. But I think China is going to take a wait-and-see attitude towards the new administration. I'm not a political expert. But are things going to change significantly between the two countries? I don't know. So we'll see. I think they're going to take a wait-and-see attitude as well.

Steven Hansen
Analyst, Raymond James Ltd.

Q

Okay. That's fair. Thanks. Appreciate your time.

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

Okay. Well thanks very much. We've continued to demonstrate the strength of our business model throughout the pandemic and our competitive advantage on delivering secure and reliable supply to our customers around the world. We are encouraged by the continued improvement we have seen in methanol demand, in prices, although the near-term economic recovery path remains uncertain. We remain focused on operating our plants safely and reliably, delivering secure and reliable supply to our customers, protecting our strong financial position and financial flexibility.

We continue to believe that the long-term outlook for methanol remains intact. Methanol is a key chemical building block that is used to boost a variety of everyday consumer and industrial items. Methanol is also used in a growing number of clean burning and economic alternative energy applications. While there are limited industry capacity additions expected beyond 2022, based on lower investment in the current environment, we expect that demand for methanol to rebound and grow as global economic activity recovers. We will emerge from this pandemic stronger than ever, and we'll continue to execute on our consistent strategy, to deliver significant value to shareholders, over the medium- to long-term.

Thank you for joining us today, and we'll speak with you in April. And 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.