Corrected Transcript

16-Jul-2021

Methanex Corp. (MEOH)

Business Update Call

CORPORATE PARTICIPANTS

Kim Campbell
Director-Investor Relations, Methanex Corp.

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

Michael J. Herz
Senior Vice President-Corporate Development, Methanex Corp.

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

Vanessa L. James
Senior Vice President-Global Marketing & Logistics, Methanex Corp.

OTHER PARTICIPANTS

Jacob Bout
Analyst, CIBC World Markets, Inc.

Michael Leithead
Analyst, Barclays Capital, Inc.

Ben Isaacson
Analyst, Scotiabank

Daniel Rizzo
Analyst, Jefferies LLC

Nelson Ng
Analyst, RBC Capital Markets

Bria Murphy
Analyst, BMO Capital Markets Corp. (Canada)

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

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

John Roberts
Analyst, UBS Securities LLC

Steve Hansen
Analyst, Raymond James Ltd.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Methanex Business Update. 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.

Good morning, everyone. Welcome to our Methanex Corporation business update conference call to discuss our decision to restart construction on our Geismar 3 project and to provide a business update. A news release announcing our decision was distributed earlier this morning and posted along with presentation materials on the investor relations page of 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 conclusion or making a forecast or projections, which are included in the forward-looking information.

Please refer to the forward-looking information warning that is at the end of our news release from earlier today, regarding Methanex to restart constructions on Geismar 3 project or slide 22 of our investor presentation that was also posted on our website earlier today.

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, adjusted EBITDA, cash flow, illustrative free cash flow, or income made in today's remarks, reflect our 63.1% economic interest in the Atlas facility and a 50% economic interest in the Egypt facility. These items are non-GAAP measures that do not have any standardized meaning prescribed by GAAP and therefore unlikely to be comparable to similar measures presented by other company.

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. Hello and thank you for joining us. Our news release and presentation posted earlier today, provided an update on our business and capital allocation priorities, including our decision to restart construction on our Geismar 3 project. We have a few remarks that we'd like to share this morning and then we'll open up the call for your questions.

I wanted to start by sharing our outlook for the methanol industry. Current methanol industry dynamics are favorable. Methanol prices have rebounded quickly over the last year, supported by a healthy recovery in methanol demand, low global inventory levels, ongoing industry supply challenges and a constructive energy price environment.

Over the last few months, we completed an in-depth review to reassess our medium- to long-term industry outlook, including our growth outlook for methanol demand following the sharp demand shock we saw in 2020, our outlook for new industry capacity additions, particularly in Iran and China, and how we expect new and existing methanol plants will operate over the coming years. Our conclusion from this detailed work is that the methanol industry outlook is positive. We believe that new industry supply, including our Geismar 3 plant, will be needed to meet growing methanol demand.

Forecast for methanol demand growth are strong and we expect growth of approximately 16 million tons over the next five years. Healthy global GDP forecasts over the next few years support this outlook. In addition, a rising energy price environment and increasing interest in methanol as a lower emission fuel provide additional support for methanol demand growth.

Regarding methanol industry supply, we foresee approximately 14 million tonnes of new capacity additions, including G3, mainly in the US, Iran, and China, over the next few years and limited new project commitments beyond 2022. Based on our forecast for methanol demand and supply, our view on methanol prices over the coming years is positive.

Now turning to our financial position. Today, we have a strong financial position to restart construction on G3 project and execute on our capital allocation priorities. We have a healthy balance and cash balance with over $800 million in cash on our balance sheet at the end of Q1 2021. We have taken steps to delever through a strategic partnership with Mitsui O.S.K. with proceeds of $145 million and by repaying $173 million drawn on our G3 construction facility. And we continue to generate meaningful cash flow across a wide range of methanol prices and have an undrawn backup liquidity, including our $600 million G3 construction facility and our $300 million revolving credit facility.

Our strategic partnership with Mitsui O.S.K. enables us to generate value from existing asset to further enhance our financial strength and flexibility without diluting the significant cash-generation potential from the G3 project. With MOL, we will expand our 30-year methanol shifting relationship and benefit from MOL's broad shipping experience to enhance our waterfront shipping operation. We will also work with MOL to advance commercialization of methanol as a lower emission marine fuel.

At current realized prices of approximately $375 per tonne, we estimate that we have the potential to generate approximately $125 million in free cash flow before G3 CapEx every quarter. We intend to fund our remaining G3 capital costs with cash on hand and future cash flow. We expect to be able to fund the project without incurring incremental debt at methanol prices of approximately $275 per tonne and above.

Now turning to our G3 project. The timing is right to restart construction on Geismar 3, which is a unique project with significant capital and operating cost advantages that enhance the project's returns. An abundant and low-cost natural gas supply in the US underpins production for this project. In addition, we estimate that G3 will have one of the lowest CO_2 emission intensity profiles in the industry. Ultimately, Geismar 3 will strengthen our asset portfolio and substantially improve our future cash generation capability.

We believe that Geismar 3 will deliver significant long-term value for our shareholders. Based on the remaining capital cost for the project, we estimate the project's IRR to be approximately 20% to 28% at methanol prices between $350 to $400 per tonne. This price range is in line with current third-party industry publication long run methanol price forecasts.

Our capital cost estimate for the project is $1.25 billion to $1.35 billion. We expect that approximately $435 million would be committed to the project to the end of Q3 2020 through the care and maintenance period. We expect approximately $800 million to $900 million of remaining capital cost after resuming construction in October 2021. The remaining budget includes healthy allowances for both cost escalation and remaining risk on the project.

We are confident in our ability to complete this project on time and on budget. We have substantially reduced the project – execution risk profile of the project over the last 24 months. The key remaining risks for the project are construction labor and bulk material costs. Firstly, we're well-positioned from a labor availability perspective ahead of other major capital projects in the US Gulf Coast. We also benefit from our proven experience in the local area, again through our Geismar 1 and Geismar 2 projects.

Secondly, we have secured prices for most of our bulk material costs, which reflect mainly piping and structural steel. We will confirm prices for our remaining bulk materials before the end of 2021, limiting our cost escalation exposure. We are confident in our ability to complete G3 on time and on budget, and we believe G3 will deliver significant long-term value to our shareholders.

Now turning to our capital allocation priorities. Our capital allocation priorities remain the same. We use the cash that we generate to maintain our business, pursue value-accretive growth opportunities and continue our strong track record of returning excess cash to shareholders.

Going forward, we will increase our emphasis on financial flexibility in three ways. We plan to hold more cash, targeting a minimum of $300 million of cash on hand, plus our remaining G3 capital cost during construction. We plan to target lower leverage and reduce our debt levels over time to a target of approximately 3 times debt to EBITDA at methanol prices between $275 and $300 per tonne. And we will increase our weighting on flexible vehicles for distributions, such as share buyback combined with a sustainable dividend to return capital to shareholders.

We announced that we reset our quarterly dividend to $0.125 per share. Over the coming quarters, as we progress with the project, we anticipate that we will have the ability to further delever and increase shareholder distributions at methanol prices of approximately $325 per tonne or higher.

Geismar 3 is the only significant growth capital in our plans over the next few years. We expect that G3 will substantially increase our cash generation capability and support a significant increase in our future shareholder distribution potential. It is an exciting time for our company and we believe that the steps we are taking today will enable us to deliver meaningful long-term value to shareholders.

We would now be happy to answer questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from Jacob Bout with 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

Hey, Jacob.

Jacob Bout
Analyst, CIBC World Markets, Inc.
Q

First question here is just on the revision in your capital costs, lower from previous estimates. How does that square with what we're seeing as far as labor inflation and material cost inflation?

Michael J. Herz
Senior Vice President-Corporate Development, Methanex Corp.
A

Okay. Hi, Jacob. It's Mike Herz, Senior VP, Corporate Development. So, just a little bit broader answer to that. We've done a lot over the period of time that we've been in care and maintenance to advance activities that take risk out of the project. And so, when you see the cost decrease, it's reflecting that. So, we have allowances when we started at FID and announced this project.

And we hadn't completed all the engineering. At this point, 95% of the engineering is complete. So that takes away risk on perhaps scope being larger than you expected. We've got all the equipment onsite. We've got most of our critical equipment onsite over the levee. And FID, we would have been wondering, can vendors deliver on time, will we be able to when the equipment arrives onsite get it over the levee and on to our site, will the river levels be at risk. So those risks being behind us, allow us to have a lot more confidence in the cost going forward. And so, when you see the reduced range that we have, that reflects the reduced risk profile on the project.

Jacob Bout
Analyst, CIBC World Markets, Inc.
Q

And then my second question here is, just about what the impact on earnings will be from the sale of the minority stake in Mitsui?

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

Hi, Jacob. It's Ian Cameron, CFO. The proceeds of the transaction are approximately $145 million and that will all go through to the equity line. There's a bit of an accounting complication around how it's reported, but it all – it gets recorded as equity.

Jacob Bout
Analyst, CIBC World Markets, Inc.
Q

Okay. And then the...

[indiscernible] (12:42)

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

Sorry. That the revenue stream associated with the 40% stake?

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

A

Yeah. So, obviously, there's an earnings stream from Waterfront Shipping. And so, our shareholder, our new shareholder will have a part of that. And like I can't remember the exact number per year, we estimate that – no, I don't think we want to publicly disclose it, but there'll be some earnings that they'll get from the Waterfront earnings.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

Okay. Order of magnitude, tens of millions or...

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

A

I can't say that.

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

A

We just don't want to disclose that, Jacob.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

Okay. I'll leave it there. Thank you.

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

A

Thank you.

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

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. Thanks and good morning, guys.

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

A

Good morning.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

I guess first, thanks for the update and that slides are helpful. I guess how should we think about the priorities for excess cash flow beyond G3? It sounds like, John, the near-term focus is maintaining the higher cash balance level, lower leverage levels. Should we think about debt paydown being the flywheel or I guess just from an equity holder perspective, how should we think about the potential for returns of excess cash?

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

A

Yeah. Beyond our maintenance capital and then the G3 growth, we've just reset our dividend, so that'll be – the first use of excess cash is to maintain that dividend. And then we'll want to retain more flexibility in how we return cash to shareholders. There also is other vehicles we could consider, but we want to have more flexibility as we've seen three pretty large volatile demand shocks in the last 12, 13 years.

As well, we want to hold more cash in general on the balance sheet. We've targeted around $300 million, plus the – whatever's left in the G3 project as we move forward here over the coming quarters. And then we want to delever. The next opportunity at this time is the bonds that are coming in 2024. We've looked at, could we retire those earlier. It doesn't make sense today based on how they're priced and the penalties we'd incur. But if those bonds became more attractive due to changes in the bond market, we could consider retiring those early. So, those are the things we're looking at.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Got it. That's helpful. And then, maybe on that line, John, obviously there's been a good amount of shareholders that have wanted or advocated for a more aggressive buyback or return of cash approach, especially where the shares are currently trading versus restarting G3. So, I understand completely why you like G3, but curious how you and the board kind of weighed or thought about the relative advantages of that project maybe versus a more aggressive buyback or a return of cash approach?

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

A

Yeah. We did a detailed analysis of that and our share price would have to be substantially lower than where it is today, to have an equivalent return to the company. So, we're not anticipating our share price to go substantially lower than where it is today, so it made sense to complete G3.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Got it. Thank you.

Operator: Our next question is from by Ben Isaacson with Scotiabank. Please go ahead.

Ben Isaacson
Analyst, Scotiabank

Q

Thank you very much. Sorry, I may have missed it, but I didn't see any talk about a potential strategic partner. Is that off the table now?

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

A

No, it's not off the table, Ben. But what I would say is where project gets more and more derisked, we raised additional liquidity from MOL. So, we have the pretty compelling situation for us to take on a partner at this time. To me, what the deal we did with the MOL is just like a partner as far as adding liquidity without giving away a third of a really great project. So, we found a way to get additional liquidity without having to give away a portion of a great project. We're still talking to a number of firms and we'll continue those conversations. But as time goes by here, I think, it's less and less likely that we'll secure a strategic partner at conditions that makes sense for us. But we'll continue those talks.

Ben Isaacson
Analyst, Scotiabank

Q

And can you just remind me how the gas will work for G3? I see that forward curve has moved up over the next two years. Are you going to be contracting that gas or is that going to be on a spot basis or some kind of mix?

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

A

Yeah. It's part of our – we take a North American portfolio gas strategy, so our Medicine Hat and there will be our three plants in Geismar. And we like to have most of our gas mixed as it is in Medicine Hat. We have hedges in place for Geismar 1 and 2, so for about 70% of our gas for those two plants. And we'll plan to do the same for Geismar 3. We'll look to layer in hedges here as we go forward and complete the project.

Ben Isaacson
Analyst, Scotiabank

Q

And then just very last one, I've seen some MTO plants moving upstream into CTO and eliminating that merchant methanol need. But on the flip side, we've seen China kind of cracking down on these CTOs. Can you just talk about that that balance there between what China is doing environmentally and the MTOs looking to go upstream?

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

A

Yeah. That's happening in the inner part of China, Inner Mongolia, Shanxi Province where there's abundant coal. This is in our forecast with the numbers I've given you about demand and supply includes the backward integration of those methanol merchant plants that are going to CTO. Just directionally, especially on the coast of China, we continue to see further environmental restrictions on burning coal or chemicals.

So, we've talked about that for quite some time and that trend continues. But we've looked at all of what we think, our assumptions are around supply/demand on all plants around the world, including China and that's what's in our numbers as far as our forecast for the next five years on supply and demand.

Ben Isaacson
Analyst, Scotiabank

Q

Thank you.

Operator: Thank you. [Operator Instructions] Our next question is from Laurence Alexander with Jefferies. Please go ahead.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Good morning. This is Dan Rizzo on for Laurence. Thanks for taking my question. We're trying to know if you can put this agreement in perspective. If MOL's entire fleet ran on methanol, what would the demand be? And given that green methanol costs so much more than conventional methanol, is the signal here that you both intend to subsidize the use of green methanol or that epic Geismar 3, the next Methanex capacity, should be renewable methanol to sell through a new JV?

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

A

Yeah. So, MOL has around 800 ships, give or take. It's a very large shipping company, one of the largest in the world. An average ship like a 45,000-tonne vessel, on a year, if it's burning methanol all year long, it's about 12,000 tonnes. So, you can do the math. Right? I'm not really good at math at the top of my head, but that's a lot of methanol.

I don't think we should be thinking about this as converting current ships, it's more of new builds. When you build a new ship today as a – for a 50,000-tonne deadweight vessel, it's around $50 million give or take. And with the methanol, what happens is it's flexible, so you can burn many different types of fuel in addition to methanol through the engine, and that engine cost about $2 million more. So for about $2 million more dollars, you can get all of this flexibility, including being able to burn methanol. So that's how we should think about it going forward.

The likelihood of conversions on ocean going vessels, I think its low, but new builds for sure, we're starting to see a lot of traction with Maersk and Proman and others really interested in going forward. So, I have always said, this is a – second half of the decade demand driver. It takes about two years to build a ship. And so, we're seeing a lot of interest. It's about 2021-mid, so we should be seeing quite a good demand mid-decade going to the end of the decade.

As far as green methanol, I mean, we've looked at green methanol. We've been pioneers in green methanol. We have an investment in an Iceland or a plant in Iceland for a long time. The challenge with green methanol, the technology worked, it's the price. I mean the cost of producing green methanol or even blue methanol if you do carbon capture and storage, is significantly higher than the methanol from natural gas. And we are making some green methanol in Geismar as well, using renewable natural gas or bio natural gas, whatever you want to call it, and selling that to some of our European customers. But these are very small quantities.

There's not a market out there today that's willing to pay the price that we would need in order to commercialize at a large scale the green ethanol plant, but that doesn't mean that that won't change in the future. So we are looking at different technologies and scanning all of the announcements and everything we see that's out there, and to-date, we haven't found anything that really allows us to be confident to spend significant capital and get a return. I mean, you see forecast prices for methanol in the mid-$300s to $400, you'd need twice that or higher to make sense for green methanol.

So we're watching this space very closely. We're not afraid to invest in it. But I think it would be – that of Geismar $1.8 million, a large investment in a green methanol plant would be 100,000 times. So, you need 18 of those to make up a Geismar. So, the capital cost would be quite a lot higher.

Daniel Rizzo
Analyst, Jefferies LLC

Q

That's really helpful. Thank you very much.

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

A

Thank you.

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

Nelson Ng
Analyst, RBC Capital Markets

Q

Great. Thanks. Good morning, John.

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

A

Hey, Nelson.

Nelson Ng
Analyst, RBC Capital Markets

Q

Just a quick one. In terms of G3, the risk profile has reduced and there's, obviously, more clarity on that project. But could you just touch on some of the key items that could still quite impact the budget and the schedule?

Michael J. Herz
Senior Vice President-Corporate Development, Methanex Corp.

A

Hi, Nelson. Mike Herz again. When we look at it, at this point, it looks like a construction project and we've got all the materials and equipment onsite. So, quite confident as we go forward. But the key risks that remain are really around construction and labor. On that front, and I probably didn't answer the last question very directly, but we see that that market is good for us. It was good at FID. We were ahead of other major capital projects in the area and today, we remain ahead and maybe even more ahead that other projects have pushed their time schedules back.

So, we don't see ourselves competing aggressively for labor in this market. We see that we should be able to work with the same contractors we worked with before, with some of the same people we worked with before. So that's a nice position to be in. And we'll have to manage very carefully productivity. And the project team spent a lot of time, just making sure that that one risk, productivity risk, as you go and do the construction with millions of man hours to go, is well managed. So, we feel like we're in a really good spot for that.

There's a bit of bulk materials that we still need to procure, most of its onsite, but steel and the like. And when we look at that, we've got most of it fixed or firm in price, and the rest of it will be fixed or firm in price in the coming months. So, we're pretty comfortable that there's a very limited risk there as well.

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

A

We also have a very healthy contingency, as I mentioned in my remarks. We've had third party people look at this project from a readiness point of view and they comment that's – we have a very large contingency versus other projects at this stage. So, we're being very conservative by keeping that contingency in the estimates.

And we're also very positive with our current construction people that we've used for G1 and G2 and they're telling us labor is available and not – there won't be a problem. So we'll see how we do. But we're ahead of the curve and there's labor available and well, now it's a construction project, as Mike said.

Nelson Ng
Analyst, RBC Capital Markets

Q

Okay. Thanks. Then follow-up question is, just in terms of return of capital to shareholders. Can you just talk about your decision to raise the dividend versus share buybacks. Like, do you feel that the dividend needs to be at a certain level before you do share buybacks?

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

A

No, we were very disappointed last year to have to cut the dividend substantially and I never thought we have to do that. But here we were with a tough decision and we didn't know how the world was going to turn out at that time. It was pretty uncertain and demand had fallen off a cliff, et cetera. And pricing, I think, was below $200 in China.

So, it was a pretty tough environment when we made that decision. Dividend, fixed dividend has always been part of our distribution strategy. We had three pillars to it, meaningful, growing, sustainable, obviously, our own dividend I guess was not sustainable, because we had to cut it. So, I mentioned we've seen three pretty big volatile events around, the financial crisis, the oil collapsed in 2015 and the COVID-19. So that's three big events in very short period of time 12, 13 years, which has led to a lot of volatility on methanol pricing and therefore our cash generation ability.

So, when we looked at it, we want to have a fixed dividend, we wanted to return to cash to shareholders every quarter. So, we decided to increase it to $0.50 a share. And we believe that's sustainable with even the volatility that we've experienced in the last 12, 13 years. And it kind of has a 1.5% yield based on today's share price.

So, I don't think we're going to get a lot more interest in our stock if we were at a 4% yield versus the 1.5% yield. And we have flexibility to look at it as we derisk G3 further, as we continue the construction and get more and more comfortable with completion and the budget range that we put out there. So, yeah, I think, overall we want to remain more flexible in the future than we have been in the past with our distribution of cash.

Nelson Ng
Analyst, RBC Capital Markets

Q

Okay. Thanks, John. I'll leave it there.

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

A

Thank you.

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

Bria Murphy
Analyst, BMO Capital Markets Corp. (Canada)

Q

Hi. This is Bria Murphy on for Joel. Thanks for taking my question. Just following up on that last question, you talked about in the release the potential to increase shareholder distribution during G3 construction, if methanol price is sustainable at $325 a tonne. Considering, I guess, the large likely CapEx spend in 2022, is this commentary more focused on 2023 and beyond?

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

A

No. I wouldn't say that. I think, we're generating $125 million, $150 million a quarter now at current prices. I think, at above $325, our first priority will be to make sure we keep enough cash on the balance sheet, around $300 million-plus to complete G3, our first priority. If we do have delevering opportunities, I mentioned the 2024 bonds, they don't make sense today, but if that was to change, we'd take a look at that as well. And we'd have room to do buybacks as well. So I think, at $325 and above, you shouldn't be thinking that's a 2023 story.

Bria Murphy
Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay. Thanks. And then, just I guess, how concerned are you on the gas issues that's at Titan and New Zealand? How did that play a part in your decision to restart G3?

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

A

Yeah. I probably won't comment on those, because we're really close to quarter end here and certainly, leadership in this industry is very important to us and it generates a lot of value for our company. So, we think of leadership not specific assets. When we think of how we maintain and grow our leadership, our goal is to grow in line with the market. That's still our goal. And I'll comment more about Titan and New Zealand in about 10 days from now when we have our second quarter call.

Bria Murphy
Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay. Thank you.

Operator: Thank you. Our next question is from Eric Petrie with Citi. Please go ahead.

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

Q

Hey. Good morning, John.

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

A

Good morning.

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

Q

In your IRR calculation, what is your embedded cost of freight to Asia? And I know, WFS added eight dual-fueled ships at the end of last year. Would you have to add in more ships to transport that methanol to Asia?

Vanessa L. James
Senior Vice President-Global Marketing & Logistics, Methanex Corp.

A

Hi. It's Vanessa James, SVP, Global Marketing. So, we have an embedded freight rate and the calculation around, you could call it, $70, which is above whatever you see there in the market today. So, we built again conservatism into how we look at moving that product to Asia.

And I think, your second question was around, would we need to add for G3. We're always in a fleet renewal program. We have eight vessels being delivered over the next two years as part of our fleet renewal and all those vessels will be dual fuel. So, I think, it's fair to say, we'll continue to look at our vessel program as we build G3 and we'll continue to renew that fleet.

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

A

Yeah. With the loss of New Zealand, the loss of Titan, and so less production in Chile, we needed a few less ships than the long route. So, we run our shipping as a global industry or basis and we're always looking, like Vanessa said, to renew with our partnership with MOL and it will create other opportunities that they may have some idle or excess capacity that we could look at as well. So, I think, they got 800 ships. I know they're not all chemical tankers, but still it gives you a tremendous amount of flexibility when you've got a partner like that to think about, maybe different ways of organizing our shipping.

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

Q

Great. Helpful. And then, on slide 10, the China capacity additions of the 6.6 million tons, is that gross or net? And are you expecting closures in that number of higher costs, smaller plants? And then what's the upside to your 14 million tons of estimated committed industry capacity additions that – is there a band that we should be thinking of compared to the 16 million tons of demand growth over the same period?

Vanessa L. James
Senior Vice President-Global Marketing & Logistics, Methanex Corp.

A

Hi. It's Vanessa James again. So, within that number within China, that includes the two backward-integrated MTO plants within that 6 million. So that's been well foreshadowed in half of that number. Yeah. And there's another coal-based plant that's being constructed, which ultimately we'll see as being a replacement for an existing plant. So, we have seen – and that's a gross number, so that's capacity additions. We know, China over time, lower operating rates overall. And I think, as we go forward, the expectation is probably somewhere between 0 to 2 million tons, consistent with what we've seen historically. And John's comment previously around environmental concerns going forward, I think that's going to weigh more heavily on future additions within the methanol chemical space in China, in particular.

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

A

Yeah. Look, outside of China, we have a pretty good view on what's being built. And like you said, it takes about five years to build a project. So I guess one of the benefits of the COVID-19 downturn was projects that were being considered were obviously shelved quite significantly, as we've seen in the Northwest innovation, for one example in Washington.

So, even if we made an FID today on a new plant, it's probably going to be four and five years from now. So, pretty good timing, I think, when G3 comes up. The market should be – will need the product and should be a great supply/demand balance to lead to good pricing. So, we'll see. It's hard to predict next year, never mind two-and-a-half years from now. But based on our detailed analysis of supply/demand, we're pretty confident we'll be in a good environment on pricing as G3 comes up.

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

Q

Thank you, John.

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

A

Thank you.

Operator: Thank you. Our next question is from Matthew Blair with Tudor, Pickering, Holt & Company. Please go ahead.

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

Q

Hey. Good morning, John. Could you talk about the cadence of the $800 million to $900 million remaining spend? It looks like there's going to be about $50 million in Q4 2021. And then what would be the split between 2022 and 2023?

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

A

Yeah. So, when we're looking at 2021, it's about $100 million in Q4. 2022, about $410 million and then 2023, about $355 million.

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

Q

Great. Thanks. And then, I think, you mentioned that G3 would have the lowest CO2 emissions in the industry, could you talk about how you're able to do that? And is that something that you'll be able to monetize with the customers or are we still a little ways away from that?

Michael J. Herz
Senior Vice President-Corporate Development, Methanex Corp.

A

Okay. Mike Herz again here. Thanks. It's a good question. We really like the positioning of G3 in terms of just the carbon curve. It's one of the lowest, it will be one of the lowest emissions in the world. And the way that happens, we don't – we take the [indiscernible] (35:42) from G1 and G2, so hydrogen coming across. We have an ATR, very similar to what we did with our Chile plant. And when you do that that has a much lower CO2 emission intensity than what you've traditionally seen, which is older SMR plants, steam methane reforming plants, that have been traditionally around on gas-based methanol. And you see something that is five to seven times less than your typical plant producing methanol in China from, say, coal.

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

Q

Great. Thank you.

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

A

But to answer to your question is, there there's no market for customers that are willing to pay specifically higher for G3 molecules at this time.

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

Q

Okay. Thanks.

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

John Roberts
Analyst, UBS Securities LLC

Q

Great. Thank you. If I look at the $145 million that MOL is paying and divide that by 40%, is it fair to say Waterfront Shipping is capitalized at about $360 million and what actually is in there?

Michael J. Herz
Senior Vice President-Corporate Development, Methanex Corp.

A

So, are you asking what's in the enterprise value for waterfront?

John Roberts
Analyst, UBS Securities LLC

Q

Yeah. But, obviously, there's no ships in there, right? It's a small number.

Michael J. Herz
Senior Vice President-Corporate Development, Methanex Corp.

A

So, Waterfront provides shipping service to Methanex and then also deploy ships for backhaul in shipping markets. So, the revenue from Methanex, the revenue that's derived from the activities in clean petroleum product shipping is the revenue that's within Waterfront and your number is ballpark appropriate.

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

A

Plus some debt.

John Roberts
Analyst, UBS Securities LLC

Q

And what do you think is the difference between the outlook at IHS and MMSA? Is it primarily a difference in energy forecasts that they're using or do they have supply/demand differences?

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

A

I think you have to ask them, John. I don't speak for IHS or MMSA.

John Roberts
Analyst, UBS Securities LLC

Q

Okay. Thank you.

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

Steve Hansen
Analyst, Raymond James Ltd.

Q

Yeah. Thanks for that. Hey, John, for – or to the extent that you can, can you just speak to what MOL really aims to get out of this new investment in Waterfront? I can certainly understand your motivation, but given that the day-to-day operations are only set to change here, I'm curious what their primary objectives are near term? And perhaps what the longer-term objective is, even are they looking for a complete ownership of the group over time? Just trying to understand what they're getting for $145 million here?

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

A

No, we're not looking to sell Waterfront Shipping. We want to have – maintain it as part of our integrated logistics. So, I think it's very important that we maintain that. And we have not given up any of our flexibility, any of our ability to send the ships wherever. So, we have exactly the same conditions as pre-ownership by MOL.

I think, MOL is a shipping company and we're a very attractive customer for them, and we've been a part – we've been doing business with them for 30 years. And they like the methanol business, they like Methanex and they saw this as an opportunity to enhance their relationship with the world's largest producer and shipper of methanol. And I won't see this as a creeping takeover at all. I think, we're happy with the 40/60 split and for both of us to cooperate on methanol fuel ships is really the price.

I mean, the shipping industry is going to have to move from where they are today on the fuels that they use and methanol is one of the solutions. So, there is a road here to green methanol at some point in the future when it makes sense, it doesn't make sense today. But we know there are ways – pathways to green methanol. And I think that's what most shipping companies like MOL and Maersk and others are thinking about. We can't get there tomorrow, but we certainly can get there over time.

So, they're expanding their business all the time and this was just a nice bolt-on for them and to get to work with the largest producer and shipper of methanol. So, it makes a lot of sense for everybody in this transaction and that's usually the best types of transactions to conclude.

Steve Hansen
Analyst, Raymond James Ltd.

Q

No, fair enough. I appreciate that. And do you think just on the marine opportunity, I mean, as you know, we've been – many of us on the line here have been following this for the better part of five, six, or seven years even, and it always feels like it's just around the corner. But do you think there's been a tipping point here or some sort of collective momentum that's generated in the last six months? You've mentioned a few of the key catalysts already, but what do you think is driving that momentum in the last couple of months, around some of these few orders and commitments? Is it the emission side that's really driving it now at this point or how do you view that?

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

A

Well, we've never said it's just around the corner, so I don't know where that's coming from. We've always been clear, it's a mid- to late-decade demand driver. I've been very clear with that. When we started the first Stena engine, way back when, seems like a long time ago now, we were kind of laughed at. It's never going to work. What are you doing, how is that ever going to make sense? And then, we bought our first two vessels with this flexible fuel system. And again, we're probably [indiscernible] (41:16) that's because it's all going to be LNG, it's going to be LNG, what are you guys doing? Methanol is not going to be the – we had a different view. We had a view that methanol was readily available around the world, east of the bunker, which we've proven recently in Rotterdam and a good substitute for heavy fuel oil. And it could work and we've proven that.

And the shipping industry looks at all the different options they have to meet today's regulations and future regulations, and LNG is pretty tough. LNG is hard to handle, it's not readily available. Its storage is difficult. So I think, the realities of LNG have sunk in as shipping companies have looked at it, and they're looking at methanol and saying, yeah, there is a pathway to green. I think, that's for them, where they want to end up some years from now. So it works, it's available, it's cost effective. It lowers emissions today and there's a pathway to zero. So that's why all the interest.

And I think, shipping companies we're looking to see if this worked and we proved it worked and now others are following on. So, I still see it as a demand driver in the second half of this decade and going into the next decade. So, we'll see.

Steve Hansen
Analyst, Raymond James Ltd.

Q

That's great. And then, just squeeze one last one, if I may. It's just around the cadence on the debottlenecking at the existing [indiscernible] (42:37), how does that interrelates with the G3 restart?

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

A

I'll comment on the debottlenecking at the quarter end. It's too close to quarter end to make any comments around that, but we'll have some news in a week, Steve.

Steve Hansen
Analyst, Raymond James Ltd.

Q

Okay. Very good. Thanks for the time.

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

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

Thank you. Our outlook for methanol industry is positive and we have a strong financial position to restart construction on our Geismar 3 project and execute on our capital allocation priorities. Geismar 3 we will strengthen our asset portfolios, substantially improve our future cash generation capability and support a significant increase in our future shareholder distribution potential.

Thank you for joining us today. We'll speak with you again on July 29 to discuss our Q2 2021 financial results. Thank you for the interest in our company.

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