

27-Jul-2017

# Methanex Corp. (MEOH)

Q2 2017 Earnings Call

## CORPORATE PARTICIPANTS

**Sandra Daycock**

*Director-Investor Relations, Methanex Corp.*

**John Floren**

*President, Chief Executive Officer & Director, Methanex Corp.*

---

## OTHER PARTICIPANTS

**Joel Jackson**

*Analyst, BMO Capital Markets (Canada)*

**Hassan I. Ahmed**

*Analyst, Alembic Global Advisors LLC*

**Daniel Jester**

*Analyst, Citigroup Global Markets, Inc.*

**Cherilyn Radbourne**

*Analyst, TD Securities, Inc.*

**Jacob Bout**

*Analyst, CIBC World Markets, Inc.*

**Nelson Ng**

*Analyst, RBC Dominion Securities, Inc.*

**Laurence Alexander**

*Analyst, Jefferies LLC*

**John Roberts**

*Analyst, UBS Securities LLC*

**Steve Hansen**

*Analyst, Raymond James Ltd.*

**Jonas I. Oxgaard**

*Analyst, Sanford C. Bernstein & Co. LLC*

**Charles Neivert**

*Analyst, Cowen and Company, LLC*

**Matthew Blair**

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

**Chris L. Shaw**

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

## MANAGEMENT DISCUSSION SECTION

**Operator:** All participants, thank you for standing by. The conference is ready to begin. Ladies and gentlemen, thank you for standing by and welcome to the Methanex Corporation Q2 2017 Earnings Call.

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

---

### Sandra Daycock

*Director-Investor Relations, Methanex Corp.*

Thank you. Good morning, ladies and gentlemen. Welcome to our second quarter 2017 results conference call. Our 2017 second quarter news release, management discussion and analysis, and financial statements can be accessed from the Reports tab of the Investor Relations page on our website at [www.methanex.com](http://www.methanex.com).

I would like to remind our listeners that our comments and answers to your questions today may contain forward-looking information. This information, by its nature, is subject to risks and uncertainties that may cause the stated outcome to differ materially from the actual outcome. Certain material factors or assumptions were applied in drawing the conclusions or making the forecast or projections, which are included in forward-looking information. Please refer to our second quarter 2017 MD&A and to our 2016 Annual Report for more information.

I would also like to caution our listeners that any projections provided today regarding Methanex's future financial performance are effective as of today's date. It is our policy not to comment on or update this guidance between quarters.

For clarification, any references to revenue, EBITDA, cash flow, or income made in today's remarks reflect our 63.1% 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.

As a reminder to all of you, we will be hosting an Investor Day on September 15, 2017 at the The Omni King Edward Hotel in Toronto, with a welcome reception in the evening of September 14. We encourage all of our analysts, shareholders, and other interested investors to attend. To register for this event, please visit the Events tab in the Investor Relations section of the Methanex website.

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.*

Thank you, Sandra. Our second quarter of 2017 financial results continue to demonstrate the improved earnings and cash generation capability of the company. Our second quarter EBITDA was \$174 million. This was \$93

million lower than the EBITDA of \$267 million that we achieved in the first quarter of 2017, primarily due to the impact of the decline in methanol prices.

Adjusted net income was \$74 million or \$0.85 per share compared to \$140 million or \$1.56 per share in the first quarter. Our average realized price was \$327 per tonne in Q2 compared to \$365 per tonne in Q1. There was significant methanol price volatility in Q2, and we're encouraged by the relative price stability experienced over the past weeks.

Methanol demand in Q2 2017 versus Q2 2016 was approximately 5% higher year-over-year. A number of methanol to olefins or MTO facilities, took planned and unplanned downtime for maintenance and repairs in the quarter. All but one of these facilities has subsequently restarted, and we continue to observe high operating rates at MTO facilities that are not experiencing technical issues.

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

Thermal coal prices moved higher late in the second quarter, increasing the middle range of the methanol cost curve. Chinese natural gas based methanol production costs remain unchanged and continues to set the high end of the cost curve. We estimate the current cost curve to be in the range of \$260 to \$280 per metric tonne. Spot prices in China today are above this range.

There are three main factors which caused our results to differ from analyst expectations during the second quarter. A significant portion of the difference relates to the timing issues that can cause fluctuations in our earnings on a quarter-over-quarter basis, but are less impactful over the longer term.

First, our average realized price was lower than consensus forecast. Our average posted price of \$398 per tonne was also lower than consensus in part due to some estimates not reflecting the decline in our posted prices through the quarter. Also, our average realized price of \$327 per tonne in the second quarter reflects a higher-than-normal realized discount of 17.7% compared to 16.4% in the first quarter and our guidance of 15%.

We are responsive to our customer's competitiveness when market pricing is materially lower than contract prices. As a consequence, our realized discount versus our posted prices can widen when market prices decline quickly, as was the case in Q2. The opposite can occur on a rising methanol price environment. Our steady state guidance of 15% for our realized discount remains unchanged.

Also, our average realized price of \$327 per tonne in the second quarter – sorry, second, in the declining methanol price environment, our margins are also equal and tend to be lower than in a stable price environment as a result of the impact of inventory flows on gas costs, and the timing of methanol purchases versus sales. Generally, the opposite applies when methanol prices are increasing, as we observed in the first quarter.

Third, total sales of produced methanol was 1.8 million tonnes, which is slightly higher compared to the first quarter, although somewhat lower than the expectations due to the timing of maintenance and turnaround activities at our production facilities.

Our EBITDA of \$441 million in the first six months of 2017 is almost double of what we achieved in the first six months of 2015, which had a very similar average realized price of \$344 versus \$347. This achievement is a clear demonstration of our improved – improvement of the company's earning power and has resulted from our operating capacity growth in the last few years.

In North America, we undertook planned maintenance at both of the Geismar facilities during the second quarter of 2017. The site produced 437,000 tonnes during the second quarter compared to 493,000 tonnes during the first quarter of 2017. The maintenance activities were completed for both plants by mid-July of 2017.

Our share of Egypt production was 159,000 tonnes in the second quarter, unchanged from the first quarter. The plant continued to receive 100% of its contracted supply of gas during the quarter. We're optimistic that we'll continue to receive our contracted allocation of gas at this facility for the foreseeable future, based on the strong efforts by the Egyptian government entities to improve gas deliveries.

In New Zealand, we produced 350,000 tonnes in Q2 compared to 533,000 in Q1. Production was impacted mainly by a planned significant turnaround at the Motunui 1 facility. The Chile plant produced 60,000 tonnes of methanol during the second quarter compared to 167,000 tonnes in the first quarter. The plant operated solely on natural gas from Chile during Q2. The lower production relative to the first quarter reflects an unplanned mechanical issue at the plant, which has been subsequently resolved, as well as lower gas deliveries during the Southern Hemisphere winter months.

Over the past six months, we've been analyzing the option of either refurbishing our Chile I plant or restarting our Chile IV plant. We have concluded that restarting Chile IV is the best option, and our Board of Directors recently approved \$55 million to proceed with this project. However, prior to initiating the related major capital spending, we will need to contract additional natural gas beyond our current commitments that extend through mid-2018.

We are optimistic that we can contract additional gas at economic prices over the coming months. We will continue to move the project forward to enable the restart of Chile IV, which is targeted for Q3 of 2018. If we are successful in securing sufficient gas to support a two-plant operation, we anticipate spending an additional estimated \$50 million to refurbish our Chile I plant once the Chile IV restart is complete. These modest capital investments have the potential to add approximately 1 million tonnes to our current operating capacity.

In Trinidad, our share of production was 449,000 tonnes in the second quarter of 2017 compared to 396,000 tonnes in Q1 2017. We continue to experience gas curtailments in Trinidad and expect to receive approximately 85% of our contracted gas supply for the foreseeable future.

Yesterday, we announced an increase to our share repurchase program of roughly 1.7 million shares to an amended limit of approximately 6.2 million shares. This equates to 10% of the public quote at the time the bid was first announced and represents the maximum number of common shares that may be purchased under this normal course issuer bid. Since the start of the share repurchase program on March 13 through July 26, we spent approximately \$168 million to repurchase 3.755 million shares.

We ended the quarter with \$361 million in cash on the balance sheet. Methanex share of the cash including our proportionate share of Egypt and Atlas cash was \$307 million. We generated cash from operating activities before changes in non-cash working capital of \$178 million during the quarter compared to \$279 million during the first quarter of 2017. The total increase in cash and changes in non-cash working capital related to operating activities was \$72 million in the quarter.

Our medium-term cash requirements, excluding any changes in working capital, are expected to be limited. Maintenance capital for the remainder of 2017 is estimated to be approximately \$40 million and the next bond maturity is at the end of 2019. Other than our planned \$55 million investment in Chile, we do not anticipate any

significant growth capital expenditures in the near term. Our priority for any excess cash will be to return it to shareholders via share buybacks.

Based on our posted methanol contract prices thus far in the quarter, we expect average methanol prices in Q3 2017 will be lower than Q2 2017, and we anticipate that EBITDA will be lower in Q3 2017 compared to Q2 2017.

I would now be happy to respond to any questions.

---

## QUESTION AND ANSWER SECTION

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

---

Joel Jackson

*Analyst, BMO Capital Markets (Canada)*

Q

Hi. Good morning, John.

---

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Hi, Joel.

---

Joel Jackson

*Analyst, BMO Capital Markets (Canada)*

Q

You talk about expecting to have good gas in Egypt for the foreseeable future. There were some trade reports out last week that perhaps EMethanex wasn't getting gas. Are you getting gas in July or do you have a turnaround plan at Egypt for this month this quarter? And then do you – any other turnarounds expected, any other plans for the second half of the year?

---

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Yes, we don't comment specifically on maintenance activities and plan turnarounds. But what I've gotten to before, Joel, is we have 10 plants running today. These plants need a major turnaround really to replace spent catalyst every three to four years. So you should plan on us doing two to three major turnarounds each and every year. Up till now, we have done one this year which is the Motunui 1 facility in New Zealand.

So, I don't want to comment specifically on when we're going to do turnaround and where for commercial reasons. But you should plan on us doing two to three this year. As far as gas availability in Egypt, it remains very, very available. We're getting – allocated our full share of gas in Egypt. So any activity other than – that you're reading in a trade press is not related to gas.

---

Joel Jackson

*Analyst, BMO Capital Markets (Canada)*

Q

Okay. And then my second question would be, you have really great production in Medicine Hat. You fixed some things there in Q2. You said the Q2 production was great. Should we expect that run rate going forward? And then New Zealand turnaround is on, should we expect normal production in Q3?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Well, again, in Medicine Hat, we had that outage earlier in this year because of the equipment failure on the design issue, and we're really happy with the operation and the production at Medicine Hat. We don't expect it to change throughout the year.

During the summer months, we get a little bit less because of the ambient temperature. We can't run the plant quite as hard. But overall, you should expect similar production in Medicine Hat that we've been witnessing.

New Zealand, 2.2 million tonnes on an annualized basis is still our guidance. We're still trying to secure higher CO2 gaps, which would get us up to 2.4 million. We've had some maintenance issues, as I mentioned, in completing the turnaround. So as far as Q3 goes, we'll be pretty close to full rates is what our current expectation is, provided we don't have any other unplanned events going forward.

Joel Jackson

*Analyst, BMO Capital Markets (Canada)*

Q

Thank you.

**Operator:** Thank you. The next question is from Hassan Ahmed from Alembic Global. 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 I. Ahmed

*Analyst, Alembic Global Advisors LLC*

Q

John, in the press release, as well as some of your prepared remarks, you talked a bit about MTO. Obviously, some of the turnaround is behind us, three new facilities potentially coming online in 2018.

Just wanted your views on the existing facilities, the ones that are up and running. I mean, my understanding is that ethylene demand in China in particular is extremely strong, to a point where just to meet demand, even the high end of the cost curve facilities, i.e. the non-integrated MTO facilities, have been running at pretty high operating rates to meet that demand, right?

So, I don't know whether you guys are seeing similar trends. I mean, in a nutshell, what I'm asking is, are existing facilities sort of running at pretty elevated operating rates right now?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Anybody that is not having technical issues is running at very high rates. We saw significant amount of technical issues during the quarter, both planned and unplanned maintenance. The big [ph] Zhangjiagang (16:11) plant was down. It's still not back to 100%, it's still got its EO unit down, but we understand that's going to be repaired in the

coming weeks. And the other plant that has not restarted because of technical issues, we understand, is the [ph] Fund Energy (16:25) plant, which had a pipeline issue.

So everybody else is running. The average operating rate for the quarter was in the mid-70s and we would expect that to improve in Q3, provided we don't see any other unplanned maintenance events. And we do see those three plants starting up in 2018, and I think another interesting development in China has been the government is now no longer allowing imports of scrap plastics.

Hassan I. Ahmed

*Analyst, Alembic Global Advisors LLC*

Q

Correct, the recycling issue, correct.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

That has a huge – could have a huge impact on the supply/demand balance for ethylene in the country. Some analysts have estimated that's the equivalent of three to four world-scale plants.

Hassan I. Ahmed

*Analyst, Alembic Global Advisors LLC*

Q

Correct, or could be as much as 3 million tonnes, as I understand it.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

That's right. So that will have a huge impact on the market in China as well. So, again, these things are new, continue to evolve but it appears, based on all of what we're seeing and all our knowledge, these MTO plants will run. They'll run at high rates, unless they have technical issues and that's been our view and that continues to be our view.

Hassan I. Ahmed

*Analyst, Alembic Global Advisors LLC*

Q

Understood. Very helpful. Now, as a follow-up, on the trade flow side of things, I'm sure this is sort of fairly temporary, but with this sort of trade blockage on the Qatar side of things, I mean did you guys notice any sort of meaningful trade flow changes, i.e., maybe the Qatar is not exporting as much methanol as they did in the past in Q2 in particular?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

We haven't seen any impact yet, Hassan.

Hassan I. Ahmed

*Analyst, Alembic Global Advisors LLC*

Q

You haven't, okay. Thanks so much, John.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Okay, thank you.

**Operator:** Thank you. The next question is from Daniel Jester from Citigroup. Please go ahead.

Daniel Jester

*Analyst, Citigroup Global Markets, Inc.*

Q

Good morning, John. I just wanted to ask...

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Good morning.

Daniel Jester

*Analyst, Citigroup Global Markets, Inc.*

Q

...today on MTO for a second. We've seen periods where the industry has gone through technical challenges which has [ph] lended (18:31) the plants to run. In your view, has the industry gotten any better at operating those plants? And when you do your own supply/demand analysis, what do you think are reasonable kind of medium-term run rates for the MTO industry, like what kind operating rate should they run at?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Yes, we model about 90%. That's our internal forecast. If I look at the last four quarters, we've seen as high as 87% operating rate, so pretty close to that. I think you're right to mention without those technical issues, the operating rates are close to 100%. It's not uncommon when you build a lot of new productive capability, methanol or MTO and especially MTO because it's integrated into half a dozen to 10 different derivatives downstream, issues do happen. But as they get lined out, our expectation would be that operating rates because of technical issues should improve.

Daniel Jester

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay, thank you. And then you've talked about potential upcoming new methanol supply in Iran for a while now. I think it's something in the order of magnitude of potentially up to 4 million tonnes. Do you have any other sense as to kind of the timing and likelihood of that hitting the market is?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Yes. Our current view is, we don't expect any significant additional production from Iran until next year. It's difficult to pinpoint exactly when. As far as operating rates, we still see restrictions on the existing capacity during their winter time because of lack of gas availability. So one of the questions we have internally is, where is the gas going to come from for this new production and others. So, we'll continue to monitor the situation and adjust our views as more details become available.

Daniel Jester

*Analyst, Citigroup Global Markets, Inc.*

Q

Great. Thank you very much.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Thank you.

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

Cherilyn Radbourne

*Analyst, TD Securities, Inc.*

Q

Thanks very much and good morning.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Good morning.

Cherilyn Radbourne

*Analyst, TD Securities, Inc.*

Q

Just wanted to ask on the restart of Chile IV. The MD&A indicates you are targeting the third quarter of 2108. Just wondering if there's any further color you can provide on what that contemplates in terms of time to secure the additional gas commitments versus construction time.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Well, we're in negotiations with suppliers down there to secure additional gas at economic prices that make sense. We're optimistic we'll be able to do so. In the meantime, we'll continue to move the project forward and make the commitments we need to make in order to be in a position to restart in Q3 next year.

As far as capital spending, you should expect some millions of dollars until we secure our gas contract. And we're optimistic we can get that done in the next quarter or so. So lots of negotiations and lots to do. What I would say is we're kind of joined at the hip with the suppliers of gas down there. They need us, we need them. We just need to find a way to make it a win-win for both parties and that's ongoing.

So we're not going to commit the full \$55 million until we have security on our feedstock cost. And if we don't, then we might have a different announcement in the coming quarters. But right now, we're pretty optimistic we'll be successful and secure gas to allow us to continue to spend money to have that plant restart in Q3.

Cherilyn Radbourne

*Analyst, TD Securities, Inc.*

Q

Okay, that's helpful. In terms of the existing plants that's running in Chile, the production was down slightly in a year-over-year basis which surprised me a little. Is that largely due to the mechanical issue that was encountered?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

That's right. The gas availability does go down there in the winter as the town takes more gas and we're running the plant today at similar rates to what we ran at this time last year. So I think any variant that you saw was related to that mechanical issue I referred to.

Cherilyn Radbourne

*Analyst, TD Securities, Inc.*

Q

Great, thank you for the time.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Thank you.

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

Jacob Bout

*Analyst, CIBC World Markets, Inc.*

Q

Hey, John.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Hey, Jacob.

Jacob Bout

*Analyst, CIBC World Markets, Inc.*

Q

Maybe just going back to Chile, you talk of – maybe give us a bit an update there on the gas development in that area. Is this all around the Punta Arenas area, what's up in Argentina, and what is the pricing that has been discussed right now?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Well, obviously, I'm not going to get into the pricing, but the pricing that we're currently paying for gas is very competitive with what we see around the world. So the gas continues to be developed. Every day, some new gas being connected into the system. All of the development that's happening in Chile is around Punta Arenas. [indiscernible] (23:30) where we have 50% interest continues to look very promising. The latest well has been a real good producer. And there were some issues earlier with water. This well is not demonstrating that issue.

So we're continuing to be optimistic. There's enough gas for us to run the one plant throughout the year down there. Beyond that, we need more gas to be developed in the Chile site, which is happening. And on Argentina site, it's happening very rapidly, and we're being approached by some suppliers now to think about taking gas from Argentina in their summer time or our winter time up here in the Northern Hemisphere.

So it's clear that there's more gas available in Argentina, and we think it'll be a few years before they become self-sufficient. But I think it was interesting they let that export tariff expire. So this is a long-term gain. This is not going to be 0.5 million tonnes to 1.7 million tonnes overnight. But we're continuing to make progress to get towards the two-plant operation by the end of the decade.

Jacob Bout

*Analyst, CIBC World Markets, Inc.*

Q

In the split between – of this new gas, conventional versus non-conventional?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

It's all non-conventional.

Jacob Bout

*Analyst, CIBC World Markets, Inc.*

Q

Okay. And maybe just last question here, so – and it's on the Chinese MTO market. There's seems to be a view up there that the Chinese MTO is the most expensive olefin capacity globally and that as some of this U.S. olefin capacity ramps, it's going to displace some of that higher-cost Chinese MTO capacity. What's your view longer term?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

There's a number of different views and we're not experts on the olefin market. But I think what was interesting is the ban on these imports of scrap plastic which will change the supply/demand balance in China. Our view is the Chinese have built this capacity. They're not just going to walk away and let it shut down. There may be some volatility – there probably will be volatility as some of these crackers in the U.S. come up. But when I look at all the data that I read from the industry experts it looks like that's going to be very short term maybe one or two quarters. The impact on the MTO operating rates is a bit of question mark. It will come down to economics and supply demand balance for those products in China.

And we'll see and we expect that to – we'll have a look at that mid next year. But beyond that, it looks to us based on everything that we're reading the supply/demand balance for olefins looks to be quite attractive into the next decade as that second wave of crackers is not going forward in the U.S. I think for reasons that we see in the methanol and other markets, the cost overruns on building new capacity.

Jacob Bout

*Analyst, CIBC World Markets, Inc.*

Q

Thank you.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Thanks Jacob.

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

Nelson Ng

*Analyst, RBC Dominion Securities, Inc.*

Q

Great. Thanks. Good morning, John.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Good morning.

Nelson Ng

*Analyst, RBC Dominion Securities, Inc.*

Q

I had a quick question on Atlas. I noticed that Atlas' EBITDA grew to I think \$41 million from \$34 million in Q1, which seems a bit counterintuitive given the lower realized prices. I'm just wondering whether you can give some color on the EBITDA increase for that facility and whether it was related to strictly higher volumes or higher realized prices or smaller discount?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Yes, I think higher volumes is some of it and gas prices is the other part of it. I mean, our gas, we don't give guidance on average of our gas contracts. But some of our gas contracts have a lag in the adjustment mechanism and some don't. So I wouldn't read too much into it. I think I would look more over year-over-year on the EBITDA generation and look at that guidance.

Nelson Ng

*Analyst, RBC Dominion Securities, Inc.*

Q

Okay. And then just on my follow up question, just kind of big picture regarding the nat gasoline facility coming on later this year. I believe most of the volume from that facility will be exported. So I guess from a big picture perspective, do you see the, I guess, North American premium price over Asia and Europe narrowing over time or at least in the short term after that facility's running?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Our guidance remains the same on that. We believe over time, the Atlantic Basin, which includes Europe and North America, will trade at about a \$20 premium over the Asia-Pacific price. It'll sometimes be equal, it'll sometimes be higher than that. But that's our guidance and we still believe that's going to be the case. I don't know what our competitors have done, but certainly we've been busy contracting all of our customers on a longer-term basis in North America.

So our posted price that we post is reflective of overall markets, overall supply and demand, as well as trade flows based on logistics. So you might see some volatility, but we still believe on the medium term that's still a good guidance.

Nelson Ng

*Analyst, RBC Dominion Securities, Inc.*

Q

Okay. Thanks, John.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Thank you.

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

Laurence Alexander

*Analyst, Jefferies LLC*

Q

Hi, John. Just a quick one. Can you give an update on your view of the non-MTO demand trends either by end market channel or region?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

I don't have that detail in front of me, but we continue to see good solid GDP, IP growth of the non-MTO demand, so 3%, 4%. But I can take it offline, Laurence, to give you the exact numbers.

Laurence Alexander

*Analyst, Jefferies LLC*

Q

Okay. Thanks.

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

John Roberts

*Analyst, UBS Securities LLC*

Q

Thank you. It's very hard to forecast month-to-month volatility. So the consultant forecast are almost – are always smooth once you go out beyond the first couple of months. Do you think there's enough structural change here that we should buckle up for higher volatility than we've had historically over the next several months? Or do you think once we work through these technical issues in the MTO plants and people get more experienced, the volatility in the future will be similar to the past?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

I don't think it's going to be similar to the past, but I don't expect it to be similar to what was experienced in the first six months of this year. So, really, how these MTO operations run is key because they have huge demand swings in a very short period of time, which impacts the spot market in China which is very liquid. So, we're going to live with more volatility in the future than we have in past, but our expectation is certainly not what we've seen in the first half of this year.

John Roberts

*Analyst, UBS Securities LLC*

Q

Okay, thank you.

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

Steve Hansen

*Analyst, Raymond James Ltd.*

Q

Yes, good morning, guys. Just two quick ones, one on the guidance on maintenance. I think you mentioned, if I'm not mistaken, with both facilities, the maintenance trickled in July. I'm just trying to get a sense for how much of a spillover into Q3 that might have been there?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Very, very limited, Steve. I won't get specific on dates and timing, but we had – these were very short plant maintenance as opposed to six-to-eight week turnarounds where we're changing catalyst, so both plants had – we had identified a couple of vulnerabilities that we wanted to fix before they became bigger problems. So, we had a few weeks at each plant, when we took them down, they were done on time as well with no safety incidents. So, I think it's going to be minimal impact on Q3, but a little bit.

Steve Hansen

*Analyst, Raymond James Ltd.*

Q

Okay. That's helpful. And then just maybe a broader strategy question as it relates to finding home for your molecules over time, and the sales shift is slightly skewed towards Asia in recent years. How do you think about partnering with or selling into the MTO sector to keep better intelligence into that square? I think you do a little bit now. But as new facilities come on over time, is it your objective to sort of sell into that market, or you're continuing to focus on the alternative, sort of more traditional markets?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Well, we have no problem selling all of our molecules that we can produce, and we can sell a lot more if we produce more. So we're lucky that we have the number one position in the market and we're the preferred supplier. So we get to really work with the very top customers around the world, which is a big part of our strategic advantage, and we really like the position we have as a result.

You're right to point out all the growth is coming in Asia. So about 50% of our sales today are in Asia, and I think that's how you should model it going forward. It may become higher, so about a quarter in Europe and a quarter in North and South America and the rest in Asia.

As far as where we sell, we certainly sell a lot to the traditional chemical derivatives, but we do sell to the MTO guys as well, and we've chosen strategically to sell to a couple of large MTO guys in order to really stay on top of what's happening in that industry and have the pulse of the industry.

Going forward, I think you should expect us, as we increase our sales, to sell to both more traditional chemical derivatives and some additional energy derivatives. And all of that growth, mainly with the exception of a bit of what the new production we're seeing with the recent Lyondell announcement in the U.S. to build a new MTBE PO/TBA facility will be in Asia, mainly in China.

Steve Hansen

*Analyst, Raymond James Ltd.*

Q

Very helpful. Thanks.

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

Jonas I. Oxgaard

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Good morning, John.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Good morning.

Jonas I. Oxgaard

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

A couple of questions on the demand side. I'm not going to ask you to do the percentage with three digits. But there's really two things that you talk about in your investor deck that I was hoping to dig into, one is the fuel use in China, if you have any color on how that is evolving.

And the second one is on the use of marine fuel. As far as I can tell, the only vessels in the world that actually uses methanol is the methanol tankers and one little ferry in Sweden that's been converted to use biogas or bioethanol I should say. So the question there is, is that really a growth driver?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Well, let's talk about fuel blending first. I'd say it's been a 20-year trial in China, and they still characterize it as a 20-year trial and they continue to expand right up to high level blends, 85% and 100% engines running on pure methanol. So we see that as a very exciting growth opportunity not only in China but outside of China.

The affordability given at these lower oil prices is still quite attractive and the clean-burning aspects of methanol fuels will continue to drive that demand. It takes a long time to develop that demand. You've got couple of large lobby groups on the automobile side and the petroleum producers not wanting it to happen. So you need to really have government support on standards and structure, and that's what we're seeing in China. It's also developing outside of China. So there's about 5 million tonnes going into that application today, and we see that as a really exciting growth opportunity.

In marine fuel, I know you haven't been covering the company that long, but marine fuel wasn't even an issue two, three years ago. It wasn't even on the radar screen. The small ferry you are calling in Scandinavia is actually the largest ferry that operates in that area. So it's a very large ferry with all the engines running on methanol. And I'd say there they have expansion plans for their ferry fleet, and I think the current economics around bunker oil and ultra-low sulfur marine diesel has tempered that expansion.

We just launched our seven ships last year. So I think the industry is waiting to see how they perform and what the efficiencies are as well as the emissions. And we plan to publish that data around our investor meeting in mid-September. So once people see how we've done, it will be another choice for them to make.

Nobody has to really do anything on this issue till the next decade. That's when the low sulfur emissions standard comes in. So I think you'll see a number of different avenues, scrubbers, ultra-low sulfur marine diesel. New boats might be LNG and methanol. The potential here is huge, it's a 500-million-tonne potential. So even if we see just a small penetration, it could be having a huge impact on the supply-demand balance for our product.

And the neat thing about methanol is it's readily available everywhere in the world. It's easy to store on board and these engines that we're running on our own ships are absolutely flexible. So you have the flexibility to run on methanol or other fuels depending on the economics and the emission standards that might be in at any given time. So I don't see this as a huge demand growth driver in the short term, but as we get into the next decade, I think you'll see a very solid demand growth for this application.

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

Q

Okay. Thank you.

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

A

Thank you.

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

Charles Neivert  
*Analyst, Cowen and Company, LLC*

Q

Good morning, guys. A couple of quick things, one, I just wanted to clarify, the high operating rates that you saw in Chile in 4Q and 1Q, was there Argentine gas contribution there?

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

A

No, Charlie, there was not. We have a contract in place with Argentine producer on a tolling arrangement. But so far as of today in 2017, we have not received any gas under that arrangement.

Charles Neivert  
*Analyst, Cowen and Company, LLC*

Q

Okay. So that's high rate, so just Chilean gas that's seasonally more available?

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

A

That's right. The town in the winter time doubles 2.5 times its demand. So there's – we're the only other user of that gas. So when they need more, we get a little bit less.

Charles Neivert  
*Analyst, Cowen and Company, LLC*

Q

Got it. And the second question is, you're – in effect, you're more or less you're committing to do the Chile IV. Again, assuming you can get a gas contract that goes out far enough to do that. And there's no contingency around I. If IV comes up and there's no additional gas beyond running one plant, number I goes down and that gets sort of, for lack of a better word, mothballed. Is that the way this would work, again, assuming you don't have gas for II at that point?

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

A

Yes, we think today based on what we see as gas availability. Even though we haven't contracted it, especially during their summer months, there's enough gas to run two plants, at not full rates but run two plants on a seasonal basis. That's excluding gas that we may achieve from Argentina especially in their summer time.

So we want to have the ability to run Chile I on a campaign basis or higher depending on how the gas gets developed. Assuming we contract enough gas for Chile IV and then contract enough gas for Chile I, we would then do that turnaround – that major turnaround that I've mentioned for about \$50 million.

Our short-term focus is to get enough gas to complete the Chile IV restart and then we'll have two plants that we can run on a campaign basis. And as gas continues to get developed in Argentina and Chile, we contract more than we can do the refurbishments. So again, I don't think this is going to go from 0.5 million tonnes to 1.7 million overnight.

We're going to slowly build up to a two-plant operation, as gas gets developed on both sides of the border and we contract it through the end of the decade.

Charles Neivert

*Analyst, Cowen and Company, LLC*

Q

Got it. Okay, thanks very much.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Thanks, Charlie.

**Operator:** Thank you. The next question is from Matthew Blair from Tudor, Pickering. Please go ahead.

Matthew Blair

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

Q

Hey. Good morning, John.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Good morning.

Matthew Blair

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

Q

You mentioned how your goal is to return all excess cash to shareholders. You've raised the dividend, you've raised your share repurchase authorization, but at least on my numbers, it looks like you still have quite a bit of excess cash in the next couple of quarters. So, I was just wondering if you could talk about your options here. Can you raise the repurchase authorization again? Are you looking at a special dividend? What are your options here?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Yes, so our – we're [indiscernible] (40:14) maximum under the normal course issuer bid until about mid-March next year. So assuming current pricing for the rest of the year, we think we can complete the normal course issuer bid this year. And then that would be our plan. As we get better pricing, then we can do it faster. We get worst pricing, then we'll do a little slower.

So it gives us tremendous flexibility to do what we need to do with excess cash returning to shareholders based on methanol price and that really what's going to drive our cash generation capability is methanol price.

Now, having said that, beyond the normal course, the next thing we would look at is the substantial issuer bid. But what we'd want to do there is to build up the cash on our balance sheet before we launched it, and we are thinking in the order of magnitude of \$200 million to 300 million to do a substantial issuer bid. So you shouldn't be thinking about special dividends.

The only time we would consider special dividend is that if we thought we're getting closed to intrinsic value of the company with the share price and we're nowhere near that. So excess cash today, we'll continue to repurchase shares under the normal course issuer bid. And if we get a bump on the pricing, we can complete that sooner than our current rate. And then we could start to build cash for a substantial issuer bid, so that's our current plan.

Matthew Blair

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

Q

Okay, great. And then you mentioned three new MTO plants next year, 3 million tonnes of potential demand. Do you have a sense on the timing of those plants? I have two of them starting up kind of in midyear. I'm not sure on the third. Just any more details will be helpful there.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Yes. We have one, the [ph] Jutai Energy (41:52) in Q2 2018. And then the [indiscernible] (41:57) sometime next year, it's not exactly clear to us. So I would put mid to late next year is the best guess. But these things are under construction. Thus far, we're guiding sometime in 2018. I think the [ph] Jutai (41:52) one is the one that's further along.

Matthew Blair

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

Q

Great. Thank you.

**Operator:** Thank you. [Operator Instructions] The next question is from Chris Shaw from Monness, Crespi. Please go ahead.

Chris L. Shaw

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

Q

Hey. Good morning, everyone. How are you doing?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Hey, Chris?

Chris L. Shaw

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

Q

Is there somewhere that you guys highlight or break out the FIFO impact on EBITDA for the quarter?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

No, we don't highlight that anywhere in our documents.

Chris L. Shaw

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

Q

Is there a way – do you know is there a way – can you push me towards a way of figuring that out?

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

I'd follow up with Sandra, but I know it when the accountants get done their stuff, which is about two weeks after the quarter.

Chris L. Shaw

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

Q

Okay.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

We can give you a bit more color offline.

Chris L. Shaw

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

Q

I'll do that. I'll call Sandra on that. Thank you, okay.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

A

Thanks.

**Operator:** Thank you. There are no further questions registered.

John Floren

*President, Chief Executive Officer & Director, Methanex Corp.*

Okay. Great. So our Q1 2017 EBITDA of \$267 million was our highest since Q4 2007 and our second highest ever. Our second quarter EBITDA of \$174 million is our sixth highest ever and second highest since Q1 2014. The strong results reflect the improvement in earnings power and cash flow generation capability of the company from the capital investments we have made over the last several years to grow our operating capacity.

I remain very encouraged by the improvement we have experienced regarding gas availability in Egypt and excited to proceed with the excellent opportunity we have ahead of us in Chile. Our priorities for capital allocation are to meet our financial commitments, meet our near term growth objectives in Chile and return excess cash to shareholders.

Thank you for your interest in our company.

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

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2017 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.