Q1 2023 Earnings Call *(Raw version)*

⌵ Event Details

Date: 2023-04-27
Company: Methanex Corp.
Ticker: MX-CA

⌵ Company Participants

Sarah Herriott - Methanex Corp., Director-Investor Relations
Rich Sumner - Methanex Corp., President, Chief Executive Officer & Director

⌵ Other Participants

Joel Jackson - Analyst
Ben Isaacson - Analyst
Hassan I. Ahmed - Analyst
Steve Hansen - Analyst
Laurence Alexander - Analyst
Matthew Blair - Analyst
Jacob Bout - Analyst
Joshua Spector - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Brent and I will be your conference operator today. At this time, I would like to welcome everyone to the Methanex Corporation 2023 First Quarter Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers remarks, there will be a question-and-answer session. Thank you.

I would now like to turn the conference call over to the Director of Investor Relations at Methanex, Ms. Sarah Herriott Please go ahead, Ms. Herriott.

Sarah Herriott

Good morning, everyone. Welcome to our first quarter 2023 results conference call. Our 2023 first quarter news release, management's discussion and analysis and financial statement can be accessed from the Reports tab of the Investor Relations page on our website at methanex.com.

I'd 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 conclusions or making forecasts or projections which are included in the forward-looking information. Please refer to our first quarter 2023 MDA and our 2022 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 guidance between quarters. For clarification, any references to revenue, average realized price, EBITDA, adjusted EBITDA, cash flow, adjusted income or adjusted earnings per share made in today's remarks reflects our 63.1% economic interest in the Atlas facility, our 50% economic interest in the Egypt facility and our 60% interest in Waterfront Shipping. 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.

These items are non-GAAP measures and ratios that do not have any standardized meaning prescribed by GAAP, and therefore are unlikely to be comparable to similar measures presented by other companies. We report these non-GAAP measures in this way because we believe they're 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 President and CEO, Mr. Rich Sumner, for his comments and a question-and-answer period.

Rich Sumner

Thank you, Sarah, and good morning, everyone. We appreciate you joining us today as we discuss our first quarter 2023 results.

For the first quarter, our average realized price is $371 per tonne and produced sales of approximately 1.65 million tonnes, generated adjusted EBITDA of $209 million, and adjusted net income of $1.11 per share. Adjusted EBITDA was higher in the first quarter compared to the fourth quarter, primarily due to higher sales of Methanex-produced methanol driven by higher production in Egypt, Atlas and Chile.

Throughout the first quarter, we saw a relatively balanced global market, which continues to be underpinned by high global energy prices. Global methanol demand in the first quarter was flat compared to the fourth quarter of 2022. Demand for traditional chemical applications decreased slightly due to the seasonal slowdown in manufacturing activity, including the slowdown in China during the Lunar New Year.

Demand for methanol-to-olefins, or MTO, increased slightly in the first quarter with some improved operating rates through the quarter as several production units increased production on improving margins and increased methanol availability.

Demand for energy applications, including MTBE, biodiesel, and various fuel applications in China increased slightly driven mainly by levels of economic activity, as well as continued cost competitiveness in today's high energy price environment.

During the first part of the quarter, industry operating rates in China and Iran were negatively impacted by the seasonal diversion of natural gas to meet power demand, and Atlantic operating rates were lower due to planned and unplanned outages. Starting near the end of the first quarter, we saw strong operating rates in the US Gulf and easing of gas curtailments in China and Iran leading to increased production, which led to a lower methanol prices globally. Our average realized price for the first quarter was $371 per metric tonne, compared to $373 per metric tonne for the fourth quarter. And our first quarter discount rate was in line with our guidance for 2023 at approximately 21%.

Coal pricing in China continues to remain strong in a level above RMB 1,000 per ton. And we estimate the industry cost curve based on a marginal producer cost in China to be approximately $320 to $340 per ton. Our main posted prices in North America, Asia Pacific, and China decreased by $20, $10, and $15 per metric tonne respectively. And our Q2 European price was posted €10 per metric tonne higher than Q1 2023.

We continue to closely monitor the macroeconomic and energy price environment with inflationary pressures and resulting tight monetary policies presenting headwinds for global economic growth. Notwithstanding these risks, we expect demand for traditional chemical applications to increase as we move into the housing and construction season and from continued growth in the Chinese economy after their COVID reopening and Chinese Lunar New Year holiday in the first quarter.

In addition, MTO operating rates have continued to improve, and two MTO units representing approximately 1.5 million tonnes of annual demand are in the process of restarting production. We also continue to see a high global energy price environment, which enhances methanol's cost competitiveness against alternative fuels, supporting demand growth.

In the short term, we expect the recent methanol operating rate increases mainly from Iran and China to support increasing demand. For the remainder of 2023, we do not anticipate capacity additions besides one plant in China and our Geismar 3 project with expected production in the fourth quarter.

Regarding the emerging marine market, interest from the marine industry and orders for dual-fuel vessels able to run on methanol continue to grow. During the first quarter, approximately 35 additional vessel orders were placed, bringing the total number of dual-fuel vessels on order to over 135. We estimate that demand potential will grow from approximately 300,000 tonnes today to 4 million tonnes over the next four – next few years.

In February, we completed the first-ever net-zero voyage, fuelled by bio-methanol produced from our Geismar plant in partnership with Mitsui OSK Lines or MOL. Our collaboration with MOL demonstrates the versatility of methanol as a great fuel with a pathway to net-zero emissions.

Turning to operations, our production levels were higher in the first quarter compared to the fourth quarter with limited unplanned outages. The team safely and successfully completed a planned turnaround at G1 with the plant restarting production in February.

We ended the first quarter in a strong financial position with approximately $709 million of cash, excluding noncontrolling interest and including our share in the Atlas joint venture and with $300 million of undrawn backup liquidity.

We remain committed to return excess cash to shareholders through our ongoing 5% normal course issuer bid that expires in September. And we announced that our board approved an increase of our quarterly dividend by 6% to $0.185 per share. This group increases in line with our 5% share repurchase program and maintains our cash outlay for dividend payments at approximately $50 million per annum.

Construction on our G3 project is progressing safely, on time, and on budget, with production expected in the fourth quarter of this year. Overall, the G3 project is over 80% complete, and the team has started to shift from mechanical construction activities to commissioning activities. The expected G3 capital remains unchanged at $1.25 billion to 1.3 billion, and we have spent approximately $995 million before capitalized interest to the end of the first quarter. The remaining $330 million to $380 million of cash expenditures, including approximately $75 million in accounts payable, is fully funded with cash on hand.

Looking ahead to the second quarter of 2023, we expect a lower methanol price environment and, as a result, we're expecting a lower adjusted EBITDA in the second quarter of 2023 compared with the first quarter. Our overall production guidance for the year of 6.5 million metric tonnes of equity production excluding G3 remains unchanged.

In the medium term, the methanol market outlook is positive, and we will have growing cash flow generation capability with G3 production expected in the fourth quarter of this year. At a $375 per tonne realized price and $4 per mmBtu gas price, we expect G3 to generate approximately $250 million of adjusted EBITDA per year.

With our G3 project being fully funded with cash on hand and our ability to generate meaningful cash flows across a wide range of methanol prices, we are well-positioned during this period of economic uncertainty to maintain a strong balance sheet, pursue economic value, growth of value-added growth opportunities, and continue returning excess cash to shareholders.

We would now be happy to answer questions.

QUESTION AND ANSWER SECTION

Operator

Your first question is from the line of Joel Jackson with BMO Capital Markets. Your line is open.

Analyst: Joel Jackson

Question – Joel Jackson: Hi. Good morning.

Answer – Unidentified speaker: Hi, Joel.

Question – Joel Jackson: One trend that we've been watching in methanol has been that the – your posted price for North America versus U.S. Gulf spot to the premiums – of the North American posted price versus U.S. Gulf spot have been quite high, touching, you know – reaching some of the peaks that you've had in the last seven years. Can you talk about that?

Answer – Unidentified speaker: Yes.

Unidentified speaker

Question – Unidentified speaker: And typically, that's not been a bad time to have Methanex stock when the premiums actually been higher than normal.

Answer – Unidentified speaker: Yeah. So, maybe I'll just start with a little history that, over time, there's been a new capacity added in the US. The US is a heavily contracted market. And we believe a lot of the new US producers, they've undercontracted their overall production positions. And so, in the fourth – in the first quarter, we saw U.S. Gulf production quite relatively low. And then, as we move through the quarter, it all came back operating at relatively high levels. A lot of those producers are relying on exports at a very small spot market in the US, which is – I think the spot market probably trades overall less than 5% of overall methanol business in the US.

So, at those times when there's a lot of volume, we see distress pricing. And certainly, the pricing we saw in the spot market went to

When there's a lot of volume we see distressed pricing, and certainly the pricing we saw in the spot market led to I think at one point it went all the way down $250 per tonne. It's now closer to, I think, back closer to $300 per tonne. So I think there's points in time, Joel, where that that that gets pretty, pretty low based on a small level of cargos trading that doesn't have a home, especially when everyone's running at high rates at the same time.

So I certainly don't see that as indicative overall and that's what I'll price globally. But there has been new supply on the market with Iran and China as well as US Gulf producers. And that's why we've lowered our contract pricing for a couple of months in a row.

Unidentified speaker

Question – Unidentified speaker: Okay, before I ask my second question, I just want to get a clarification. Did you say that Q2 earnings would be lower than Q1 of 2023 or lower than Q2 of 2022?

Answer – Unidentified speaker: Lower than Q1 of 2023, just based on our decrease methanol prices that we've had over the last few months.

Unidentified speaker

Question – Unidentified speaker: And then my question would be then so in the commission phases of G3, that's great and still targeting first production for Q4. Is there a path if things go right, you could have first production in Q3, like what would have to happen that first production in Q3? Or is that not possible?

Answer – Unidentified speaker: Yeah. Maybe just I'll speak to G3. So during the quarter, you know, we completed our 60% construction completion review. This is the kind of last real deep dive on both cost and schedule. And you know, that confirmed both our cost estimates of 1.25 to 1.3 as well as our expected startup timing in the fourth quarter. We are really concentrated first and foremost on safety for this project and then, of course, quality as well.

And so we're not – we're – we feel really good about the progress

that we're making there, and the time lines we have is to deliver a high-quality projects on – safely on time, on budget.

Unidentified speaker

Question – Unidentified speaker: Okay. Thank you.

Operator

Your next question is from Ben Isaacson with Scotiabank. Your line is open.

Analyst: Ben Isaacson

Question – Ben Isaacson: Thank you very much, and good morning, everyone. Two questions for me. One long-term and one short-term. On the long-term, Rich, when you think out, kind of, 5, 7, 10 years into the future, can you talk about the possibility of a new project from Methanex. Is that something you're thinking about? And if so, what would the, kind of, time line be? And what locations would you be thinking about?

Answer – Unidentified speaker: Yes. Thanks, Ben. When we look out, we're seeing favor – when we look out, we see a favorable demand, supply outlook, certainly in the medium and longer-term. Thus, we are watching current economic headwinds for the pace of demand growth, obviously. But when we take even modest growth rates, without considering a lot of the potential demand for marine fuels, we don't see a lot of capacity additions.

Now, G3 position us really well in the medium term, but to deliver a project even today, with the work that has to be done, even when you're starting today, it would be – it wouldn't be until the end of the decade before you, kind of, add a project. So, we are going to be – what we're looking at right now is just advancing a portfolio of options that we have. This wouldn't be any meaningful, kind of, in the next few years, but it's really just creating options for the company of both deciding which of the next best growth opportunities are out there, and which is the one we would want to focus on.

That doesn't mean we are going to commit.

which is the one we want to focus on. That doesn't mean we are going to commit. Obviously, we would take our time to assess where the markets at and where we want to be from a growth perspective. But the timelines are if you start today, even if you're an option to select, that will take a few years. And then you get into brief, you know, feed activities and then FID and into construction and start-up, you're already at the end of the decade before you'd have a new project.

Unidentified speaker

Question – Unidentified speaker: And just as a follow-up to that – excuse me – how do you balance some of the idle plants, such as Waitara Valley or Titan or even in Chile? It doesn't run through the summer. Would it be something that you would consider possibly relocating one of those plants, or is this something that would be greenfield, or is it just way too early right now?

Answer – Unidentified speaker: I think that the few options we have, we're looking both at brownfield as well as – so we have brownfield opportunities within our portfolio, obviously, Geismar, Medicine Hat. We have land in Egypt. We also look at greenfield sites and in other regions as well. In terms of relocation, it's an option, but probably not the focus. I think when we look at moving plants, the economic advantages aren't necessarily there. But it's not something we're totally closed off to. I mean, right now our main focus is getting enough gas to bring those plants online. And our focus would be to try have opportunities to utilize that capacity where it's in place. But, yeah, we're looking at both brownfield as well as greenfield options.

Unidentified speaker

Question – Unidentified speaker: Great. And then – thank you. And then just my quick short-term question. You talked about the cost curve. You talked about supply and demand and a little bit about freight. So can you just talk about inventories? Where are inventories through the channel?

Is it – are they elevated in terms of what you have visibility towards?

Answer – Unidentified speaker: I think it's probably a bit of a tale of – it depends which market you're looking in. We've been had very, very low inventories in the Asian markets and China. And I think even when you look today, we're probably not back to where average inventories would be, that there is product – we would expect that that might be partially solved with some more product coming on from Iran, but still below average there.

And then, when you look in the Atlantic markets with recent operating rates, certainly, that's why you saw some of the pricing you did in the US was because we had to get this volume that needs to be exported in that market. Europe is probably in that balanced inventory levels, and then the US was getting high and having to export.

So, it depends on overall where you are in the world. But I would say, right now, we're in a kind of overall balanced market today.

Unidentified speaker

Question – Unidentified speaker: Great. Thanks so much. Appreciate it.

Operator

Your next question comes from the line of Hassan Ahmed with Alembic Global. Your line is open.

Analyst: Hassan I. Ahmed

Question – Hassan I. Ahmed: Morning, Rich. Just wanted to revisit near-term supply/demand fundamentals. Obviously, in the commentary, a bunch of puts and takes around supply. I mean, obviously, you guys mentioned natgas being redirected in Q1 in Iran and China. And, obviously, now operating rates sort of picking up over there. Obviously, a new facility expected to come online in China this year, G3 as well. But some sort of positive commentary on the demand side with China reopening and the like.

So, I guess, the question is that with all of these Reopening and the like. So I guess the question is that, with all these puts and takes both on the supply and the demand of side effect, do you still expect 2023 to be a year where demand growth outstrip supply growth? Also keeping in mind how sequentially, obviously in Q1, you know, demand growth was relatively flat.

Answer – Unidentified speaker: Yeah, it's a – that's a good question, Ahmed. And so we're obviously looking at that really closely right now. We saw demand sort of when we look at what happened coming into Q1, demand came down quite meaningfully in Q4. And then that was our base heading into Q1. What we would say is that it started – starting to look better at the tail end of Q1, but overall we saw flat demand Q4 to Q1.

What we see in the different segments is that, you know, we look at the traditional demand segment and it's a seasonally slow period in the first quarter. So we'll be coming into the housing and construction season, which should help demand. In China, certainly the post-Chinese Lunar New Year and the opening up impact. We are expecting some positivity there. We haven't seen, it's been a little slower than what we would have anticipated for traditional demand. And then on the MTO side, we saw steadily increasing rates through Q1 and then we have two plants in the process of starting up, which is 1.5 million tonnes of demand.

So overall, we still need to see more demand growth from where we are today up, I think, to balance off some of the supply that's coming into the market. And when we look overall, I think when we look at Q1 annualized, Q1 annualized is certainly not back to where, you know, 2022 full year was. So we need to see continued demand growth to see overall growth in the industry, which would mean a balanced market with new supply. And really, G3 is starting up in the fourth quarter, so isn't going to impact, really, the market until we get into the first quarter of 2024, really.

So, not a lot of new capacity being added. We are really closely watching demand and seeing, you know, are we going to be in overall growth for the year. We do expect that today, but we're watching very closely.

Unidentified speaker

Question – Unidentified speaker: Understood. Very helpful. And as a follow-up, you know, kind of something you alluded to towards the end of your answer, just the G3 ramp up. I mean, you obviously talked about first production in Q4. But, you know, obviously, you guys, particularly in Geismar, have had relatively recent sort of startup experiences. So, how should we expect to see that ramp up through the course of Q4? And when do you think we will be at sort of full production with regards to G3?

Answer – Unidentified speaker: Yeah. I probably wouldn't get too specific here with this. I mean, we have our schedule and there's a lot of puts and takes to that. But maybe just give you a sense of where we're at on the actual projects and how that startup phase happens.

Today, where we're at, we were in mechanical – we're – mechanical construction has been the focus. We've been working on a lot of the piping and piping installation, the welding, the – all that that takes to build the plant. We've now shifted into electrical installation, fireproofing, painting. And we're – we're working on system turnover. So, that means, you know, handing the systems over to the different parts of the plant.

We're also getting into activities like steam blowing and hydro testing in the piping system. So, you know, all of those things have to take place and we've got it all scheduled in for a startup so that once we actually go to start up the plant, it's a – it's a period of weeks, not months.So that once we actually build a start-up of the plant, it's a period of weeks, not months. So we're very – we're confident in the start-up schedule in the fourth quarter. And I wouldn't get too precise at its actual timing there.

Unidentified speaker

Question – Unidentified speaker: Got it. Thanks so much, Rich. Very helpful.

Operator

Your next question comes from Steve Hansen with Raymond James. Your line is open.

Analyst: Steve Hansen

Question – Steve Hansen: Yes. Good morning, guys. Just a quick follow-up, Rich, to some of your remarks earlier on Joel's question, I believe. Can you remind us as to how the G3 contract structures work in terms of the sales? Where are you targeting geography wise? How much of the volume is already contracted? Just so we can get a sense for how the volumes are going to flow here once we go live.

Answer – Rich Sumner: Sure. So maybe the way we think it, we grew our sales position last year, and we probably grew our sales position to a level. I think you'll see that we're kind of trending in 11.5 million tonne sales range. When we think the next year, we don't need a lot of sales growth to position in G3. So we've already really pre-marketed at least half of that plant today. What we did last year is we grew, and I think we grew pretty balanced with a more of a heavily weighting to the Atlantic markets. And as we think to this year, we'll – you'll probably see a modest increase in our sales position, but we weren't looking to – we don't need to be in the market to – in a heavy way for recontracting or more contracting for G3. What you'll likely see is a lower level of purchasing in our system once G3 starts up. So it'll be a balance between lower purchasing and some increased sales for next year.

Question – Steve Hansen: Okay. That's helpful. Thank you.

Answer – Unidentified speaker: Does that help? Okay.

Question – Steve Hansen: Yeah. No. That's really good perspective.

That's a really good perspective. I guess, trying to think about it in the context to some degree of where the price points will be hit. There's quite a delta between Asian contracted prices in North America. I know you talked about underwriting the economics of the plant as an export facility to Asia, but I did not know volume was going to flow necessarily.

Answer – Unidentified speaker: Yeah. I think, last year, we were – we did increase a fair amount in the Atlantic markets and that was on the basis of a lot of with the Russian sanctions and a lot of Russian material flowing to different – needing to flow to different markets. So, I think we were successful there. We'll be looking at where we'll be marketing. We don't have a huge need for sales growth for next year. So, I think we're in a really good position to be selective on what markets we'll be selling into.

Unidentified speaker

Question – Unidentified speaker: Okay. Helpful. And then, just one quick follow-up on the capital allocation. The dividend going up in line roughly with the buyback. Is that a good way to think about future allocations going forward? You're going to have a lot of cash flow, of course, in the next year and beyond. I presume the buyback will continue. But should we expect a dividend to really increase with the same pace 00:26:47 buyback goes out?

Answer – Unidentified speaker: Yeah. I think what we want on the dividend is we have – we want it to be sustainable. And I think part of that will be when we see improvements in the dividend. We – sorry, improvements on the business. I think we will look at the dividend. We have had a preference for flexible distributions with share repurchases. But with G3 coming online, it's a chance to look at the dividend as well. So, I don't want to say that that's just – that's the only way to think about it going forward.

Unidentified speaker

Question – Unidentified speaker: Very helpful. Thank you.

Operator

Your next question is from the line of Laurence Alexander with Jefferies. Your line is open.

Analyst: Laurence Alexander

Question – Laurence Alexander: Good morning. I guess, first of all,

with China reopens, where do you see the combination of MTO, DME and industrial boiler demand going in the next couple of years? How much flux should we be thinking about for the supply demand balance?

Answer – Unidentified speaker: Sure. I mean, when we, look maybe we're starting from today, Laurence. When you look at maybe Q1 when we look at MTO today, yeah, I think MTO operating rates in the first quarter, around 65% or so is the number we have. That represents around 14 million tonnes to 14.5 million tonnes. There's about 21 million tonnes of capacity. So a 10% increase in that operating rate is about 2 million tonnes of demand and typically we've seen 80% to 90% operating rates.

And so I think if all 00:28:28 in a healthier position and is operating at what we've seen a historical rate, there's probably three 3 million tonnes of structural demand there. When we think about China reopening on other derivatives, obviously traditional derivatives will – those will run with GDP and economic growth. And there's a considerable amount of traditional derivative demand in China.

And then on the other energy applications, similarly with more movement around the country and the economy growing, you're going to have higher demand for transportation fuels, heating and cooking. So that will also impact demand. I think that the numbers for traditional demand in China is the equivalent of about 20 million tonnes per year. And then the energy demand in China is about 15 million tonnes to 20 million tonnes.

So, you know, obviously we think China reopening has a meaningful impact. We haven't seen it really translate yet today So obviously, we think China reopening has a meaningful impact. We haven't seen it really translate yet today, but you can kind of apply those – those growth rates to those volumes, too, if it's – hopefully, that's helpful.

Unidentified speaker

Question – Unidentified speaker: No, very helpful. And then, can you give us a sense – I know we had a bit more time to digest the US and European stimulus packages, where you see of the various proposed green methanol platforms showing – coming on the cost curve after subsidies.

And then, I guess related to that, we're hearing a lot more about ammonia as a competitor for methanol 00:30:08 in the – to replace the bunker fuel. Can you give a sense for where you see the arbitrage there playing out?

Answer – Unidentified speaker: Sure. Maybe to start with the first question on regulations. I think that probably the most significant regulations that are – we're looking at right now is the Inflation Reduction Act, is the one that – I know a lot of companies are looking at opportunities under the – under the Inflation Reduction Act. So certainly, we're looking at the economics of carbon capture in Geismar under the Inflation Reduction Act, on both because of that government incentive, as well as the infrastructure that's being built for carbon capture.

So, it – preliminarily, those – the capital costs are large. And certainly, the government incentives help, but there's premiums still required in the market to make that – to make that project go forward.

As it relates to green fuels, there's various subsidies that are out there that are driving some demand. The UK fuel blending market, we think, is around 150,000 to 200,000 tonnes of green methanol going into that market. A lot of the – a lot of the demand, though, is being driven on just customer's willingness to pay. We're seeing increased interest in paying a premium for low-carbon methanol, so.

is being driven on just customers' willingness to pay. We're seeing increased interest in paying a premium for low carbon methanol, so. And we're in discussions with a lot of shipping companies in that regard. So that's a bit about the regulations.

On the competitiveness side, when we think about the shipping market, the shipping market by itself represents on an energy equivalent basis probably 400 million to 500 million tonnes of annual methanol demand. So the shipping market is huge, and when we think about methanol, ammonia, hydrogen, the future shipping fuels, there's a lot of room for everyone. And as shipping companies commit to vessels, you know, which is already at 4 million tonnes of demand potential and growing, because we already are hearing other commitments, so I expect that number's going to continue to grow.

Once the – that decision is made, you know, it becomes a – not competing against ammonia or hydrogen. It's really about economics to the diesel alternative. And so, you know, I think there's going to be demand potential there, and it's going to come down to methanol's cost competitiveness against diesel and as well the cost to decarbonize both those fuels as well. So we're really, really, really excited about that opportunity. And our low carbon solutions group is actively working in this space to see what opportunities lie ahead and what solutions we can provide to the shipping industry.

Unidentified speaker

Question – Unidentified speaker: And if I may, as you mentioned kind of shippers already or, sorry, not shippers, customers already discussing in some areas sort of the green premium, is that showing up in terms of – can you give a sense for what size of premium is being discussed? And is it also showing up in terms of longer term offtake agreements? Or is it really just transactions?

Answer – Unidentified speaker: I'm going to say it's early and certainly something that

- with the zero-carbon voyage that I've – zero-carbon voyage I mentioned in the opening remarks, that was based on renewable natural gas. And we're obviously active in the renewable natural gas market, and we're having discussions with shipping companies about whether that makes sense to do longer term for their needs. And so, we're hoping to be able to announce things going forward, but still early discussions.

Unidentified speaker

Question – Unidentified speaker: Okay. Thank you.

Operator

Your next question is from the line of Matthew Blair with TPH. Your line is open.

Analyst: Matthew Blair

Question – Matthew Blair: Hey. Good morning. Thanks for taking my question. I was hoping you could talk a little bit more about the operations in New Zealand in the quarter. Operates looked quite strong, but you held your 2023 guidance unchanged, I believe. So, yeah, any more details on New Zealand would be great.

Answer – Unidentified speaker: Yeah. So, we did have a strong quarter in New Zealand, and it was in line with our expectations. When we look actually for the remainder of the year, we said that we have three turnarounds this year and we will be doing some maintenance in New Zealand this year. So, we are holding to our production forecast for the year.

When we look at New Zealand, we have two primary suppliers there, OMV and Todd. And the production volumes and forecasts we provide are based off of us working with them on the results of their production and their upstream activities that they're working on.

So, we continue to hold to the forecast today. We're quite comfortable at this level for the next few years, and we're working with them on the results of the work that they are doing in the Taranaki Basin. And we'll continue to provide guidance on where that leaves us on production forecast but that's why we're holding to the number that we have for the year.

Unidentified speaker

Question – Unidentified speaker: Sounds good. And then, could you expand a little bit more on your RRNG efforts, I guess. What percent of your total feedstock is RNG and how might that change going forward? Do you ever see yourself, you know, moving into the actual RNG production market? And what's the driver here? Is this, you know, coming from customer requests or is this Methanex looking to, you know, comply with, you know, GHG targets and ESG targets?

Answer – Unidentified speaker: So maybe just in terms of the size of that business today, it's relatively small. So today we have really one contract that's on a longer term RNG contract at very, very small volume. But it's a good starting point. And then on terms of what's driving it and it really is – it really is based on customers. So we have interest from the shipping industry as well as some traditional chemical customers that are interested in green methanol.

Of course, this comes at a meaningful premium. And so we're working with them on – and the way to contract, the best contract is that longer term off takes and longer term customer commitments. So we're working with both of those segments on their interest in green methanol. In terms of the RNG market the total R&D market in North America is about the equivalent of 3 million tonnes of methanol demand.

And there's competition for that as well because a lot of the RNG goes into natural gas vehicles. So it's certainly an area that we want to explore and we want to work with our customers on competition for that as well, because a lot of the RNG goes into into natural gas vehicles. So, it's certainly an area that we want to explore and we want to work with our customers on. We're not the only off-taker for that RNG. So, there's a competitive perspective to it, that we'll also have to consider. And so, yeah, we're exploring that, certainly, off a customer interest, and we're excited about the opportunities and working with customers on that. So.

Unidentified speaker

Question – Unidentified speaker: Great. Thank you.

Operator

Your next question is from the line of Nelson Ng with RBC Capital Markets. Your line is open.

Unidentified speaker

Question – Unidentified speaker: Great. Thanks. First question is just a follow-up to Steve's question about production and sales mix. So, I guess, based on your commentary, should we assume that after G3 is up and running and fully producing, the sales mix within the regions, like Asia, China, US and Europe, should we assume that the sales mix will be relatively stable? Or will more products go into China?

Answer – Unidentified speaker: I think assuming a relatively stable sales mix, this is what we would guide to, it's similar to what we've guided in the past. Yeah.

Unidentified speaker

Question – Unidentified speaker: Okay. Thanks. And the next question, it sounds like, based on your commentary, the China reopening ramp-up is taking place slower than expected. Do you have any, kind of, early signs, in terms of how things are progressing after – I guess, after the Lunar New Year? And, like, are you seeing any recent ramp-up? Or are things still, kind of, slow going in China?

Answer – Unidentified speaker: Well, on the MTO side, certainly we're seeing ramp-up there. I think that's based off of some improved economics, as well as increased methanol availability.

Just a reminder that a lot of Iranian supplied is – does get supplied into MTO. And we believe that that gets supplied at a discount to international prices as well. So, that makes it more attractive and helps the affordability for MTO – the MTO industry.

On the other energy applications, I think we're seeing some signs of strength in the MTB vehicle fuels and cooking and thermal applications. And that's just based on general movement and more economic activity in the country. We haven't seen on the traditional chems – chemical side yet the demand pull from those segments. And so, that's something we're watching closely.

And as – we do see signs of manufacturing numbers seem to be – indicate growth. Export numbers seem to be showing up better. Sometimes, this does take its way – time to get back to methanol because we're kind of in the starting point of the value chain. And so, sometimes that's a bit of inventories and things that have to be worked through. But we're watching it closely to see when the timing – when we start to see demand there. But as of today, haven't seen the traditional chemical applications growth that we would anticipate with a 5% GDP growth, for example.

Unidentified speaker

Question – Unidentified speaker: Okay. Thanks, Rob. Thanks for all the color, Rich. I'll leave it there.

Answer – Unidentified speaker: Yeah. Thanks.

Operator

Your next question is from the line of Jacob Bout with CIBC. Your line is open.

Analyst: Jacob Bout

Question – Jacob Bout: Good morning.

Answer – Unidentified speaker: Hey, Jacob.

Question – Jacob Bout: Yeah. I have a question here just on your thoughts around M&A. I know historically the focus has been, you know, either greenfield or brownfield. But how do you think about M&A in the current market?

the focus has been in either greenfield or brownfield. But how do you think about M&A and the current market even with the, say, some of your competitors looking at, you know, strategic reviews or that type of thing? Is that something that's on your radar, or how are you pushing it?

Answer – Unidentified speaker: Yeah. I'd say we always keep it – want to keep it on our radar. Obviously, when we look at – when we look out, we certainly see, you know, the industry growing. And, you know, notwithstanding, there is some slowdown today. But we look further out, we see demand growing with not a lot of capacity additions. And obviously, M&A doesn't achieve the growth. But when we think about M&A, it's not something we want to be closed off to.

If there's opportunities out there that makes sense, then we will look at it. It is a lot – it is harder sometimes to depending on the location of those assets what kind of synergies do you pick up? We've got G3 coming online, which is we're very excited about. It's an Atlantic-based asset. And so, you know, we'd have to think carefully about what kind of synergies are created by any M&A activity and ensuring the values, right, that we get out of it, so. But certainly not closed off to it and remain open to discussions on it.

Unidentified speaker

Question – Unidentified speaker: Yeah. And then my second question is just how you're approaching gas hedging right now. I mean, gas prices were down significantly over the past quarter or so. How are you approaching it? And how much do you lock in?

Answer – Unidentified speaker: So, right, today we're 85% hedged for 2023. Our target is to be in the outer years kind of first one to three years is to be around 70% hedged across our North America portfolio. And we're about –

we're all the way there for 2024 and 2025 with G3 operating. When we look beyond that, kind of, 2025 timeframe, we're less hedged. So, we're, obviously actively watching what happens at the, kind of, medium or longer end of the curve.

The pricing, notwithstanding the current pricing, the pricing at that long run hasn't come down to where the levels that we'd like to see. And so, we – we're still being patient to bring more hedges in there. But we're watching it closely, we've heard that, obviously, there's some, in today's environment, well, there's a lot of anticipation of LNG capacity additions being added and more demand in that longer timeframe. We've heard – some of that is under pressure with increased capital costs, as well as regulatory – potential regulatory changes. So, we're watching that, and to see if that moves the back-end of the curve down and creates an opportunity for more hedging.

Unidentified speaker

Question – Unidentified speaker: Okay. Great. Thank you.

Operator

Your next question is from the line of Josh Spector with UBS. Your line is open.

Analyst: Joshua Spector

Question – Joshua Spector: Yeah. Hi. Thanks for taking my question. I actually wanted to follow-up on the gas side of things. So, my understanding, you're pretty heavily hedged here. But with lower US gas cost and your FIFO reporting, your first quarter numbers, I mean, I assume that's not fully reflecting the $2 to $3 gas. So, how much of a benefit would you expect to see, as you go into next quarter? Or would we see minimal because of the hedges?

Answer – Unidentified speaker: Not – we're 85% hedged, and, yeah, that spot – the spot moving is certainly helping our 15% unhedged position. There might have been a little

trailing impact from last year in our first quarter, but I'm not – I wouldn't expect a big impact into the second quarter because that move – there wasn't a lot of that inventory that would have impacted Q1. So I wouldn't be factoring that in terms of a big earnings tailwind for Q2.

Unidentified speaker

Question – Unidentified speaker: Also and just to be clear...

Answer – Unidentified speaker: Some small...

Unidentified speaker

Question – Unidentified speaker: Okay. Just on the hedging, we're talking about US gas explicitly, not your whole portfolio, correct?

Answer – Unidentified speaker: That's correct, yeah.

Unidentified speaker

Question – Unidentified speaker: Okay. And just I want to ask on the agreement announced in in Egypt on that infrastructure development pipeline. Does that change anything for you? Is there any additional capacity creep needed to see that at some time? Or did that change the mix or pricing of that product? Just curious, any thoughts around that?

Answer – Unidentified speaker: Thanks. No, no. This is a formaldehyde build out right next door. So, you know, this has been a plant that's been in the plans for quite some time. We're really pleased that we signed a supply agreement that's relatively modest, you know, volume in terms of methanol supply per year and the kind of 40,000 tonnes of methanol supply, which will be pipeline supplied right next door. But that's – the best the best business we could do with our customers is just pipeline right next door.

So we're very happy to be supporting that project. It doesn't give then that level of sales, that doesn't move the needle really in terms of any – anything to think about in our sales mix or anything like that. But we're very happy to be supporting that project and supporting any customers downstream demand built out.

Unidentified speaker

Question – Unidentified speaker: Got it. Appreciate the thoughts. Thanks.

Operator

There are no further questions at this time. I will now turn the call back over to Mr. Rich Sumner.

Thank you for your questions andinterest in our company. Looking forward, we're well positioned with our current asset portfolio and a strong balance sheet. Our G3 project is fully funded, progressing safely, on time, and on budget. And we expect to be in production in the fourth quarter of this year. We hope you will join us in July when we update you on our second quarter results.

Operator

This concludes today's conference call. You may now disconnect.