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Methanex Corp. (MEOH)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Methanex Corporation Q4 2019 Earnings Call. I would now like to turn the conference call over to Ms. Kim Campbell. Please go ahead, Ms. Campbell.

Kim Campbell

Manager-Investor Relations, Methanex Corp.

Thank you. Good morning, everyone. Welcome to our fourth quarter 2019 results conference call. Our 2019 fourth quarter news release, management's discussion and analysis, and financial statements can be accessed from the Reports tab of the Investor Relations page on our website at methanex.com.

I would like to remind our listeners that our comments and answers to your questions today may contain forward-looking information. This information, by its nature, is subject to risks and uncertainties that may cause the stated outcome to differ materially from the actual outcome. Certain material factors or assumptions were applied in drawing the conclusions, or making the forecasts or projections which are included in the forward-looking information. Please refer to our fourth quarter 2019 MD&A and to our 2018 Annual Report for more information.

I would also like to caution our listeners that any projections provided today regarding Methanex's future financial performance are effective as of today's date. It is our policy not to comment on, or update this guidance between quarters. For clarification, any references to revenue, EBITDA, cash flow, or income made in today's remarks reflect our 63.1% economic interest in the Atlas facility and our 50% economic interest in the Egypt facility.

In addition, we report our adjusted EBITDA and adjusted net income to exclude the mark-to-market impact on share-based compensation and the impact of certain items associated with specific-identified events. We report these non-GAAP measures in this way to make them a better measure of underlying operating performance and we encourage analysts covering the company to report their estimates in this manner.

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

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Thanks, Kim. Good morning, everybody. As a result of the low cost investments we've made in our company over the past number of years to substantially increase our production capability, Methanex was able to produce a record 7.6 million tonnes of methanol in 2019. We also had a record quarter for methanol sales in Q4. However, our excellent operational performance was overshadowed by a lower average realized price in 2019 compared to 2018.

We recorded adjusted EBITDA of $566 million and adjusted net income of $71 million or $0.93 per share for 2019. In the fourth quarter, we recorded higher adjusted EBITDA of $136 million and adjusted net income of $10 million or $0.13 per share compared to the third quarter despite a lower methanol price environment. These results compared to adjusted EBITDA of $90 million and adjusted net loss of $21 million or $0.21 per share that we recorded in the third quarter.

The higher adjusted EBITDA we delivered in the fourth quarter was based on higher sales volumes of Methanex-produced methanol supported by our record production results and improved costs, which were partially offset by lower average realized price and a 68,000-tonne inventory build of produced product.

Our flexible cost structure where over 60% of our natural gas contracts are linked to methanol revenue allows our assets to be competitive across the price cycle. Our average realized price for the fourth quarter was $256 per tonne and reflects a decline of $16 per tonne from the $272 per tonne that we recorded in the third quarter.

In addition, our fourth quarter adjusted EBITDA results included an insurance recovery associated with our Egypt outage from April to August 2019 of $25 million, pending final settlement which we forecast to be slightly higher than the $25 million. This amount reflects our 50% share in Egypt facility. This insurance recovery partially offsets repair cost that we recorded in the second and third quarters of 2019, and lost margins on methanol sales to customers as a result of the outage.

Overall, methanol demand grew by 3% in 2019. Traditional methanol demand was flat year-over-year as a result of slower global economic growth, particularly in the automotive and construction markets, various planned and unplanned downstream outages, and the nationwide safety and environment inspections in China. Demand for energy-related applications was robust and grew 7% supported by the startup of two new methanol-to-olefin, MTO, plants.

Methanol industry supply was impacted by above-average historical operating rates for most of the year. We've seen meaningful Iranian volume enter China and sold at a discount to methanol originating from other geographical locations leading to additional price volatility in that market.

Late in the fourth quarter of 2019, and into the first quarter of 2020, there have been several unplanned outages in the Middle East including Iran, Southeast Asia and in the US. In addition, the diversion of natural gas away from methanol production to residential heating in China has led to tighter market conditions and higher methanol pricing in February.

We estimate that the industry cost curve which continues [ph] to be set (00:05:45) in China is currently around $260 per tonne and current prices in China are above this range. We recently posted our February North American price which increased by $54 to $396 per tonne, and our Asia Pacific price which increased by $60 to $335 per tonne. Our European contract price is set quarterly and our first quarter posted price is €275 per tonne.

While methanol industry and price dynamics are hard to forecast in the short-term, we remain positive on the longer term supply demand fundamentals for the methanol industry. We estimate that the current methanol demand is approximately 84 million tonnes and forecasted demand growth is approximately 3% to 4% over the next few years based on a steady growth across traditional and energy-related applications. This pace of growth will require one to two world-scale plants to start up every year to keep up with the forecasted demand.

There are a limited number of new capacity additions that are under construction and expected to start up in the medium term. Historically, we've seen meaningful delays in the completion of new projects and we believe industry supply could be challenged to keep pace with demand growth.

Now turning to our operations. We focus on what we can control which includes running our plants safely and reliably. We're very pleased with our record production results for the quarter and for the year. Our safety performance was excellent and the best we've achieved in many years. In New Zealand, we produced 513,000 tonnes during the fourth quarter compared to 469,000 tonnes in the third quarter. Production was higher in the fourth quarter as we received higher gas deliveries.

We took our smaller Waitara Valley plant offline in December to complete unplanned maintenance activities. We expect the repairs will be completed in the middle of the first quarter of 2020. And based on our current contracted gas position, we have revised our 2020 production guidance to New Zealand to approximately 1.9 million tonnes. As a result, the Waitara Valley outage has minimal impact on our overall forecast for methanol production in New Zealand in 2020.

In Geismar, we produced 480,000 tonnes during the fourth quarter compared to 514,000 tonnes in the third quarter. Production was lower in the fourth quarter as we experienced a few short unplanned outages at our Geismar 2 facility. In Trinidad, we produced 456,000 equity tonnes in the fourth quarter compared to 474,000 equity tonnes in the third quarter. Our production was lower in the fourth quarter as we experienced a few short unplanned outages.

During the quarter, we announced we had reached an interim agreement with the National Gas Company of Trinidad and Tobago, NGC, for the supply of natural gas to our Titan methanol facility. We extended the term of the interim agreement to April 1, 2020 from January 31, 2020 to enable Methanex to continue operations at our Titan methanol facility while continuing negotiations with NGC for a longer term, natural gas supply agreement. We continue to guide to approximately 85% operating rates for our Trinidad operation in 2020 provided we're able to contract additional gas for our Titan facility.

In Chile, we produced 373,000 tonnes during the fourth quarter compared to 146,000 tonnes in the third quarter. This excellent production performance resulted in our highest quarterly production in Chile since the second quarter of 2007. This is a significant milestone for our Chile operation. We are pleased to announce earlier in the quarter that we reached an agreement for natural gas supply from Chile that will underpin approximately 25% of a two-plant operation through the end of 2025.

We expect that our current gas agreements will allow for a full two-plant operation in Chile during the Southern Hemisphere summer months and up to a maximum of 75% of a two-plant operation annually until the end of 2020. We're optimistic that we can secure enough natural gas to underpin a full two-plant operation year-round over the coming years.

Regarding the ongoing protests in Chile, our people are safe and that's our number one priority. Our operations have not been impacted to-date. We continue to closely monitor the situation to ensure that our people are safe and our operations continue to run smoothly.

In Egypt, we produced 151,000 equity tonnes during the fourth quarter compared to 85,000 equity tonnes in the third quarter. We restarted the Egypt facility in August following a four-month unplanned outage. We are pleased that our Egypt facility has returned to high operating rates. Our Medicine Hat plant continues to operate well at full operating rates.

Now, turning to capital allocation, our approach to capital allocation remains unchanged. We believe that we're well-positioned to meet our financial commitments, execute on our growth projects in Louisiana and deliver on our commitment to returning excess cash to shareholders through dividends and share repurchases.

In terms of our financial commitments, our expected maintenance capital expenditures for 2020 are estimated to be approximately $150 million. Our expected maintenance capital may be higher or lower in a particular year depending on a specific maintenance activity required to ensure each of our 11 plants can run safely and reliably. We continue to make progress on the debottleneck opportunities in Geismar 1 and Geismar 2 facilities to increase production by approximately 10% or 200,000 tonnes per year for a few tens of millions of dollars.

We are completing the construction of a pipeline to bring CO2 to the site and the necessary work at the Geismar 2 plant. We expect that the incremental production capacity from our Geismar 1 facility will come online at the end of Q1 2020. And the incremental production from our Geismar 2 facility will come online sometime in 2021.

We started construction of Geismar 3 in August 2019, [ph] an advantage (00:12:17) 1.8 million tonne methanol plant located adjacent to our existing Geismar 1 and Geismar 2 facilities. This project will strengthen our global leadership position and significantly enhance our asset portfolio with additional low cost production. We are in the early days of construction and our progress to-date is in line with our previously communicated schedule and budget. We are forecasting startup of G3 in mid-2022 with an estimated capital cost of $1.3 billion to $1.4 billion.

We are confident that this project will deliver outstanding returns based on its substantial capital and operating cost advantages. We are well-positioned to complete this project as planned as we have a rigorous and well-defined execution plan and experienced team in place and a robust and flexible financing plan.

As we've communicated many times in the past, our strong preference is to have a partner for the G3 project and we continue to aggressively pursue that option. We've recently engaged an investment bank to assist us to reach a broader range of strategic or other potential partners. We have built our company to be able to navigate the bottom of the cycle. We continue to focus on maintaining a strong balance sheet and having financial flexibility, a low cost structure which we have in place today.

We ended the quarter with $417 million of cash on the balance sheet. We have a strong liquidity position with an $800 million construction loan facility for the Geismar 3 project that remains undrawn and a $300 million undrawn revolving credit facility to provide further financial flexibility in case we encounter unforeseen business stress.

During the quarter, we returned $27 million to shareholders through our regular dividend. During 2019, we repurchased 1.1 million shares of the approximately 3.9 million shares approved under the current normal course issuer bid. We did not repurchase shares in the fourth quarter.

Now turning to our outlook for the first quarter of 2020, we expect that our cost structure will slightly increase in the near-term as a result of higher shipping costs, primarily due to the impact of the International Maritime Organization's 2020 regulations on sulphur emissions, leading us to use higher cost fuel to power our ships that cannot run on methanol.

Based on posted prices so far this quarter, we forecast average realized prices in Q1 2020 to be higher than Q4 2019. Our forecasted production in the first quarter is similar to the fourth quarter. We forecast adjusted EBITDA in the first quarter to be similar to the fourth quarter of 2019.

Regarding the coronavirus outbreak, our people are safe and that's our top priority. Our leadership team in China is closely monitoring the situation to ensure that our people are safe and that our operations run smoothly. We assume that the extended business closures announced by the Chinese government of approximately 10 days beyond the Lunar New Year holidays will have an impact on methanol demand. However, it's too early to forecast how this rapidly evolving situation will impact the global methanol industry in 2020.

I would now be happy to answer any questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, Mr. Floren. [Operator Instructions] The first question is from Mike Leithead from Barclays. Please go ahead.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Thanks. Good morning, John.

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

A

Good morning, Mike.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

I guess first on methanol pricing, you guys appear to have gotten a nice uptick in February pricing. So, can you maybe just talk about the demand environment you've seen so far this year? And just on the supply side, you mentioned in the prepared release last night a few new industry projects you expect to ramp. So, I guess how upbeat are you on further pricing momentum over the next couple quarters here?

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

A

Yeah. It really goes to the two issues you mentioned, supply and demand. Prior to the current run-up, there were four MTO plants in China that had announced maintenance during the first quarter. So, that's going to happen and obviously will have a negative impact on demand in the short term. The other derivatives are performing okay, so there's nothing really to worry about there.

I'd say the coronavirus is a big unknown. We always expect China around Lunar New Year to take some downtime and that does impact demand, but that's a year-over-year issue. How long this goes for? It's a guess. So, the demand for Q1 I think based on some unknowns might be okay, might be down a little bit, it's really hard to say.

Supply is really what's driven the price increase. We had a really good production results from the industry for most of 2019. And as we headed into 2020, we saw a number of unplanned outages and the big unknown is Iran and the gas being diverted in that country. So, that certainly will impact the supply side in Q1. So, like I mentioned in my remarks, we expect pricing to be a little higher in Q1 but it's really difficult to predict how much higher.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Got it. That's helpful color. And then, just to follow up on Geismar 3, if I'm interpreting correctly, you're prepared commentary about engaging with a bank, it sounds like you're expanding the scope of potential options beyond just looking at a strategic partner. Is that the correct read there? And I guess, can you maybe just flesh out what other options you would consider here such as I guess maybe a financial partner for the project?

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

A

Yeah. We're considering all options. We're still talking to the strategic people we have been talking to. So, those discussions are ongoing. We just decided from a resource base – resource point of view, as we widen our scope that we're going to need a bit more resource. So, it made sense to hire an investment bank to help us screen more potential partners.

And yeah, we'll broaden our scope here from just [ph] strategics (00:18:35) to other potential partners. They could be financial, they could be other companies interested in investing that maybe don't have the same strategic principles as current ones we're talking to. But we thought, from a resource point of view, we needed to have a bit of additional help as we broaden our scope here.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

That's helpful. Thank you.

Operator: Thank you. The next 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

Hey, Joel.

Joel Jackson
Analyst, BMO Capital Markets (Canada)

Q

Just on your Q1 kind of soft guidance there as you talk about EBITDA being similar sequentially, you talked about production being similar, but pricing being up. Maybe you could try to talk about some of the cost impacts that must be driving EBITDA down to be similar [ph] because you think (00:19:22) the price pickup would be helpful? Thanks.

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

A

Yeah. I said pricing will be up slightly, right? And I said production will be similar. We had the Egypt recovery in the quarter as well. We are going to experience higher cost on fuel for freight. So, that's the significant difference in the cost structure. So that – ultra-low sulfur diesel is quite a bit more expensive than heavy fuel oils, so that's driving our cost structure up on the freight side. So, [ph] that's a guide around the same (00:19:55) and it really depends on what March pricing ends up. I'll remind you Q1 for Europe is lower than Q4. So, we're honed into that price for the whole quarter, so when you compare our Q4 to Q1, we experienced lower pricing in Europe.

So, on balance, we expect pricing to be a little higher and depends on what happens on the supply side as I've already mentioned and it's really difficult to predict what happens in Iran. And the MTO, I mentioned, is going to have four plants that were in planned turnarounds prior to this [ph] fly-up (00:20:29) in pricing. So, we expect those to go ahead. And then the coronavirus, it's a bit of an unknown. So, based on all the balances and puts and takes, we expect it to be about the same.

Joel Jackson
Analyst, BMO Capital Markets (Canada)

Q

That's helpful. And then following up, I mean you just outlined a lot of caution, a lot of puts and takes, a lot of unknowns like you said. You talked before about for a share buyback to continue or – to start again, you want to have, I think, a $300 million cash buffer. You want to have methanol prices at, at least $300 realized. As we get into the second quarter if these price level holds, you should be there. Could you be in position to do share buybacks even though you're starting to get into the large spend at G3, if you're over [ph] $300 million (00:21:12) or would some of these unknowns weigh on you? Thanks.

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

A

Yeah, whether we're building G3 or not, in this current price environment we wouldn't be buying back any shares. So, I think that's an important point to make. What I've guided to in the past at a [ph] $300-plus (00:21:26) environment, there's room to complete the project on our own, have a meaningful, sustainable growing dividend and to do a better share repurchases. Now, how much above [ph] $300 (00:21:37) will impact that share repurchases.

We have a ways to go to get to that $300 million target. So, we've seen one month here of uptick in pricing. So, the guidance remains the same. I mean we'll want to keep $300 million on the balance sheet as we complete G3 and if we have access cash beyond that and we see pricing being sustainable above the $300 million, we'll consider opening up another share repurchase or NCIB. But I think that's in the future and let's see how pricing and supply-demand work out here in the next months before we get the cart before the horse here.

Joel Jackson
Analyst, BMO Capital Markets (Canada)

Q

Thank you.

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

Steven Hansen
Analyst, Raymond James Ltd.

Q

Yeah. Hey, John. Just wondering if you could give us some context or color around the key sticking points you might be facing on the gas contracts at this juncture. And just give us a flavor for whether you continue to roll these temporary agreements going forward or at what point you have to draw the line in the sand with the government just trying to get some better color around the probability of [ph] say running all year (00:22:47). Thanks.

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

A

Yeah. We're working hard to get this done. We want to run the plant. The government wants us to run the plant. We're trying to find a solution that's a win-win for the upstream, the government and ourselves and that's what we'll continue to do. I'm not going to negotiate in public. Our teams are working hard. But there does come a point where you make a decision.

Are these negotiations going to get you to a place where it makes sense for all parties or does it not? We're not there yet and we're happy to extend the interim agreement. We know what our cost structure is in Q1. So, I always said I would not enter into running a plant without knowing my cost structure. I do know what my cost structure is and it's acceptable under current methanol prices. So, we'll continue to negotiate in good faith. I would say all parties [ph] want to deal (00:23:35) and that's always a good thing and we're optimistic we can get it done. And we'll continue to negotiate with the government and the NGC.

Steven Hansen
Analyst, Raymond James Ltd.

Q

Okay. That's helpful and just a follow up, if I may, on the financial partner, you've alluded [indiscernible] (00:23:53) broader, if you will, to some financial parties. Should we weave into that to mean that these strategic discussions or the discussions with the strategic parties have not gone as well as you'd hoped or is it just that you're being more comprehensive in a broader search? I'm just trying to understand why [ph] strategics (00:24:10) are not still the priority?

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

A

No. They are the priority. That would be a misunderstanding, what I said. I think that as you're getting into more discussions, we only – we have limited resources internally to have multiple discussions. We've made the decision to widen the scope of who we're going to look for to be a potential partner in G3. Our preference and our strong preference is to have a partner for 30%.

So, we looked at all of that. We said it made sense to hire some additional resource. So, we agreed with a banker to help us with the screening process, with the negotiations. And as you open it up to more than two to three parties, we need a lot quite a bit more resource. So, that's what we've done.

We're still talking to the same parties. We're making progress. We have made progress during the last 90 days. But we want to broaden our reach and talk to a number of different parties and it's just a matter of getting some additional resource.

Steven Hansen
Analyst, Raymond James Ltd.

Q

And do you think you can get that done in the first half of this year or the back half of this year? What's the timeline?

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

A

Well, we're working hard and we'd like to – the next step would [indiscernible] (00:25:20) agreement with a potential partner and we'll see what the timing – where we get to. But it's a top priority. We've got more resource on it now and we'll continue to broaden our view and see what makes sense.

Steven Hansen
Analyst, Raymond James Ltd.

Q

Okay. Very good. Thanks for the time.

Operator: Thank you. [Operator Instructions] 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

Hi, Hassan.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

John, a quick question around Asian polyethylene margins. They've been extremely negative over the course of the last couple of months. And 2020 globally is supposed to be a pretty big sort of ramp-up year in terms of polyethylene supply. So, I'm just sort of wondering how one should think about sort of the MTO side of things in a pretty sort of strong supply growth environment for polyethylene particularly in Asia.

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

A

Yeah. I think we see currently the MTO guys are bit more affordable than naphtha. So, we have seen ethylene, propylene prices pretty – at the low end of the historical cycle. We understand there's more supply going on. What

I can comment on is the behavior of the MTO players and all of the MTO players up to now run at very high rates unless they're doing maintenance or had a technical issue.

So, we continue to watch it very closely. It does impact methanol pricing and the affordability. We look at that as well. So, this is a key issue for us that we're going to continue to watch. And right now, we see high operating rates in MTO. Where prices go on olefins? Anybody's guess. But we know that we're at the low end of the cycle now and probably a little bit better economics on the MTO than the naphtha producers. But what happens to the price of naphtha? Who knows.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC Q

Understood. Understood. Now, as a follow-up, decent pricing momentum over the last month or two. But as I understand there have been fairly sort of large industry outages. I mean, some outages out in Malaysia. I've heard, a natural gas supply disruption related outages in Iran as well. Were they largely contributing factors to some of this recent pricing momentum that we've seen? And what are you guys hearing in terms of the Malaysian and Iranian capacity coming back online?

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

Yes. So, I mentioned that we saw really high operating rates in the industry for most of 2019 and as we got into 2020, the end of 2019. So basically a month, we've seen some unplanned outages, the ones you've mentioned in the Iranian gas situation. It's impossible for us to predict what's going to happen in Iran with gas and what other unplanned outages there might be. So, we're seeing production reduce in January. Does that carry through to February? Probably. How much longer? It's difficult to predict.

I'd say inventories have been lowered quite a bit as well. If you look at the coastal China inventories, they've come down substantially. But as I mentioned earlier, on the other side we've got some MTO planned outages for maintenance. So, the demand will be impacted a little bit in February-March. So, again it's really hard to predict right now with all these variables the net-net impact on pricing.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC Q

Understood. Understood. Thanks so much, John.

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

Thanks.

Operator: Thank you. The next question is from John Roberts from UBS. Please go ahead. Mr. Roberts, if you have a question, your line is now open. Hearing no response, we'll move to the next question. The next question is from Eric Petrie from Citi. Please go ahead.

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

Hi. Good morning, John.

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

A

Good morning.

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

Q

So, Henry Hub prices have crossed below the $2 per MMBTU levels. So, how do you see that impacting the cost curve as well as future development projects in North America?

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

A

Yeah. It doesn't impact the cost curve at all. Cost curves at China today, that's where most of the high cost production. There's a bit in Europe, but it's really set in China, and that's based on natural gas and coal in China, but there's quite a bit of material – now, the cost curve I mentioned is $260 a tonne, give or take, and there's quite a bit of production at that level. So really, you'd have to see tens of millions or more capacity being built in the United States with a price of $2 before you see the cost curve really impacted.

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

Q

Okay, helpful. And then longer term, do you see any risks to MTO utilization due to the single-use plastics bans announced in China?

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

A

Yeah. Again, it's early days in what's that going to impact demand and maybe impact the future growth of supply. I think the stuff that we see running today and the MTO is a fraction of the overall olefins market. Even though it's a huge impact on the demand of methanol, it's a blip in the overall supply of olefin. So, our view is that these plants will continue to run. And if there is a downturn in demand in olefins, which has grown quite nicely over the last 10 years because of single-use plastics, then we would expect future supply to be less robust than maybe what's planned today.

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

Q

Thank you.

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

Nelson Ng
Analyst, RBC Capital Markets

Q

Hi. Great. Thanks. So, just in China, I'm just thinking in terms of methanol demand, have you seen any like early indications of any potential drop-off in demand or supply due to the coronavirus and how long do you think it'll take before you notice any of these impacts?

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

A

Yeah. Like I said, we're in Chinese Lunar New Year anyway, so every year we see a downturn this time of year when the whole country basically goes away for a week. So, that has an impact each and every year. And they stock up a little bit ahead of that, and then they start producing afterwards. I said in my remarks, we think that's been extended in some part of – or a great part of the country by 10 days. So, give me a couple weeks and we'll see what the impact is.

I'd say, how much longer does it get delayed, is it another – if it's just 10 days I think the impact will be quite minimal. But if you remember SARS, there was quite an impact on global GDP for that period. So, I think it was, if I recall, around 1%. So, 1% of global GDP is not insignificant when for 55% of the traditional derivatives and then we've got the MTO and other energy in China. So, I think it's how long, and I'm not in a position to predict at all how long this – the expansion of the virus continues and the impact on the Chinese government's decisions to run the industry in the country.

Nelson Ng
Analyst, RBC Capital Markets

Q

Okay. And then my follow-up question relates to Geismar 1. You mentioned that the debottlenecking and the improvement in production would be complete in the first quarter. I was just wondering, do you have to take downtime to tie in the pipeline. And I guess, should we expect a turnaround while you're taking downtime?

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

A

No if you recall when we did the first G1 turnaround which the plant's been running for five years now, believe it or not, produced 5 million tonnes of product, we did the necessary work at that time to be able to tie in the CO2. So, what needs to be completed now is the actual pipeline of the CO2 into the plant. There will be no downtime associated with tying in the CO2 to the plant.

We're looking as timing at the end of Q1, so we don't expect any real volumes in Q1. And as we tie in [ph] does it blip light (00:33:53) into (00:33:55) Q2? A bit possibly. Current view is the end of Q1, but probably we're talking 100,000 tonnes here, that's 25,000 tonnes a quarter. So, probably a minimal impact based on how product flows through our FIFO layers in Q2. So, I think just directionally, we're getting it done and it's another 100,000 tonnes of low cost capacity. That's the way we look at it and for really small amounts of capital.

Nelson Ng
Analyst, RBC Capital Markets

Q

Okay. Thanks, John. I'll get back in the queue.

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

A

Yeah.

Operator: Thank you. The next question is from Jonas Oxgaard from Bernstein. Please go ahead. Mr. Oxgaard from Bernstein, your line is now open.

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

Q

Sorry about that. Good morning.

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

A

Good morning.

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

Q

So, we've seen some reports that your competitors have had some operational issues in the fall. Could you give us some update on the US operational performance and how you expect 2020 to play out from a supply standpoint especially since I believe that [ph] methanol one (00:35:05) is still scheduled to come online at some point in the year.

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

A

I don't sit around the desks of our competitors so I can't really give you any insight into how their plants are performing. I'd say the production issues that we saw in the US were in the fourth quarter, outside the US, in Iran and Malaysia really as at the end of the year last year, so, it has really impacted January. So, we've seen some issues in the US. How they're going to run in 2020, I don't have any special insight [ph] Jonas (00:35:36).

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

Q

Okay.

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

A

Thank you.

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

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

Q

Hey, John. Good morning.

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

A

Hey.

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

Q

There was some news earlier this month that China was suspending its 10% ethanol blending mandates for 2020 and just want to get your reaction. I mean, do you view this as a pretty positive announcement for Methanex and do you see this taking a pretty big risk off the table?

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

A

Well, I think when it was announced they were going forward with it, I got a lot of questions about it, and our view was they have to build quite a bit of ethanol capacity to use all that corn. And I guess the decision ultimately became that didn't make sense.

And now, they've said they're not going to do it. So, I don't think it's negative but it's probably – I've said for a number of quarters now and maybe a couple of years that really the methanol use in China will be high level blends, and that's where they've always been focused, Methanol 100 engines that Geely are manufacturing, the taxi fleets in a couple of cities that are now up to 20,000 taxis running on Methanol 100, consuming 400,000 to 500,000 tonnes of methanol per year, and those are trials. Those are trials. So, those aren't even full-blown programs.

So, our focus and we think the focus of the Chinese government is on high level blends for methanol. It may open up room for ethanol imports from the United States. As the free trade deal gets done in phase two, then I think that could open up room for ethanol exports from China or from the United States into China for low level ethanol blends as we've seen in the United States.

So, I think there's room for both. We've always said that. And the growth and the focus for methanol will be in the high level blends. It doesn't mean as they're not going to use low level blends of ethanol that we might see a bit of an uptick, but I wouldn't really think it's going to move the needle too much on the demand side in China.

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

Makes sense. And then I heard the maintenance CapEx number $150 million for this year. Did you provide an estimate on the G3 spending? And I guess if not, do you think, I don't know maybe $400 million in 2020 would be pretty reasonable here?

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

Yeah. That's the guidance we've provided before, it's about $400 million for 2020.

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

Sounds good. Thank you.

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

Thank you.

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

Cherilyn Radbourne Q
Analyst, TD Securities, Inc.

Thanks very much, and good morning.

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

Good morning.

Cherilyn Radbourne
Analyst, TD Securities, Inc.

Q

One of the industry publications recently reported that the US has imposed sanctions on several Iran-linked pet chem firms including, I guess at least one that was an exporter of methanol to China. Can you offer any insight there on what you think the implications may be for the flow of Iranian methanol into China going forward?

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

A

It depends if the Chinese respect the sanctions, I think. We've seen the same information you've seen and that company does get involved in quite a bit of the exports and imports into China. We've seen the same sanction information. How do they behave and how does China behave? Again, I don't have any special insight into that.

But it is interesting that the sanctions continue to grow especially around Iran. And I think it's more and more difficult for them to sell product, to get shipping, to get spare parts, to run not only their methanol plants, but many of their industries. So, I think the tension is continuing to be ramped up. And where it ends, again I really don't know how it's going to end but I think the sanctions, if I'm Iran, are not positive.

Cherilyn Radbourne
Analyst, TD Securities, Inc.

Q

And what about the flow of Iranian methanol into India? Is that still free flowing or might some issues crop up there as well?

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

A

We haven't seen anything similarly announced in India. I think India is a different – obviously, a different market than China. There's a lot more players, traders, smaller players and it's been a real important market for Iran. So, I haven't seen – and India as well is pretty public about using more methanol in its energy space especially in its automobile fleet, truck fleet. So, I think they're viewing methanol as a strategic raw material going forward. So, how that pans out into sanctions or sanctions and whether they follow the sanctions and the relations with the US, etcetera, again that's not something I have any special information on.

Cherilyn Radbourne
Analyst, TD Securities, Inc.

Q

Okay. And if I could sneak in a last very quick one. When you say that you expect Q1 EBITDA to be similar to Q4, I assume that's versus the $136 million?

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

A

That's correct.

Cherilyn Radbourne
Analyst, TD Securities, Inc.

Q

That's all for me. Thank you.

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

Thank you.

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

Steven Hansen
Analyst, Raymond James Ltd.
Q

Hey, John. This might be better offline but I just wanted to follow up again on the Trinidad gas discussion. Can you give us any context around again what the issue might be? Presumably, they're looking for a higher price or some sort of [ph] certainty (00:41:00). But is the concept of floating scale formula still on the table? Or is it the base price [ph] that's at to-date (00:41:07)? Just trying to get a sense for what the outcome might be here as we think about modeling going forward.

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

Well, I think we're going to pay a higher price for gas in Trinidad. We want to pay a price that we can still earn EBITDA and invest in the plant. So, it's usually around price when you have these negotiations. And that sliding scale related to methanol, we're continuing to be in place and we just want to make a deal that we can make sure that we can survive in the low end of the cycle and do well at the high end of the cycle. So, I think you should model it higher, but we're not going to sign a deal that doesn't make sense where we can't earn profits from that plant. We'd rather shut it down than to run it for no profit.

Steven Hansen
Analyst, Raymond James Ltd.
Q

That's very helpful. Thanks. Appreciate it.

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

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

Well, thank you. Commodity cycles are anticipated part of our business. We have witnessed many cycles in the past and assume we will see more in the future. We remain focused on what we can control by further strengthening our global leadership position in the methanol industry through low cost growth opportunities and by operating our plants safely and reliably.

This enables us to consistently deliver quality reliable methanol supply, maintain our competitive advantage and our preferred supplier status to customers around the world. Our balanced approach to capital allocation remains unchanged. We believe we are well-positioned to meet our financial commitments, execute on our growth projects in Louisiana and deliver on our commitments to return excess cash to shareholders through dividends and share repurchases.

Thank you for the interest in our company.

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