Q4 2021 Earnings Call

Company Participants

- John Floren , President, Chief Executive Officer
- Sarah Herriott , Director of Investor Relations

Other Participants

- Ben Isaacson
- Cherilyn Radbourne
- Chris Shaw
- Hassan Ahmed
- Jacob Bout
- Joel Jackson
- John Roberts
- Laurence Alexander
- Matthew Blair
- Nelson Ng
- Steve Hansen

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Methanex Corporation Q4 2021 Earnings Call.

I would now like to turn the conference call over to Mrs.Sarah Herriott. Please go ahead Mrs.Herriott.

Sarah Herriott {BIO 21418601 <GO>}

Good morning, everyone. Welcome to our fourth quarter 2021 results conference call. Our 2021 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 outcomes 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 2021 MD&A and to our 2020 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, adjusted EBITDA, cash flow or income made in today's remarks reflect our 63.1% economic interest in the Atlas facility and a 50% economic interests 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. These items are non-GAAP measures that do not have any standardized meaning prescribed by GAAP, and therefore unlikely to be comparable to similar measures presented by other companies. We report these non-GAAP measures in this way to make them a better measure of underlying operating performance, and we encourage analysts covering the company to report their estimates in this manner.

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

John N. Floren {BIO 7546684 <GO>}

Thanks, Sarah. Good morning and all the best in 2022. We hope that everyone is continuing to stay safe and healthy. Today, we will review our outstanding fourth quarter and full-year 2021 results, provide an overview of the methanol markets, discuss our operational results and share our near-term outlook. We will then open the call up for questions.

Turning to our financial results. In the fourth quarter of 2021 we recorded our highest quarterly adjusted EBITDA in the company's history of $340 million and a record adjusted net income of $185 million or $2.43 per share. Our exceptional fourth quarter results are primarily due to higher realized prices and higher produced sales volume, highlighting the significant leverage to methanol prices.

For the full-year of 2021, our financial results were significantly stronger compared to 2020, due to higher realized methanol prices. We recorded our highest annual adjusted EBITDA of $1.1 billion and robust adjusted net income of $460 million or $6.03 per share. We are extremely pleased with our record financial results this past year following a very challenging 2020. I'm proud of how our global team operated given the ongoing uncertainty of COVID-19 pandemic. Our exceptional safety performance coupled with high plant reliability and strong prices enabled us to deliver outstanding financial results for our shareholders.

Now turning to the methanol market. We estimate the global methanol demand in 2021 increased by approximately 5% to 86 million tonnes compared to 2020. This increase was driven by strong recovery demand for traditional chemical applications from increased manufacturing activity. Energy-related demand also rebounded, but was slightly offset by lower demand from methanol-to-olefins or MTO production. We estimate the global methanol demand decreased by approximately 2% in the fourth quarter compared to the third quarter. Traditional demand growth in the fourth quarter was offset by lower demand for MTO producers due to planned outages and the continued impact from China's government-mandated industrial operating rate restrictions.

The methanol industry ran at a lower operating rate in 2021, due to various planned and unplanned outage. The run-up in energy prices in 2021 impacted feedstock cost and availability, which made it difficult for production to increase back to pre COVID levels. In the fourth quarter there were several planned outages, particularly in Iran due to natural gas restriction; and in China, where natural gas and coal were diverted to meet seasonal power demand.

Methanol prices fluctuated during the fourth quarter. Prices increased early in the quarter due to tight supply and rising energy prices before moderating later in the quarter. Our average realized price increased $55 per tonne in the fourth quarter to $445 per tonne compared to the third quarter of 2021. Entering the fourth quarter energy prices, particularly coal and natural gas prices, increased significantly, which move the cost curve higher. In December and into the first quarter of 2022, we have seen coal prices moderate to around RMB900 per tonne as a rough result of intervention in coal production in China by the Chinese government. The result has been that the industry cost curve was continues to be set in China decreased to approximately $350 per tonne at a coal price of RMB900 per tonne.

Although still robust our temporary posted prices were lower in Asia Pacific, and flat in North America and China at $480, $619 and $430 per tonne respectively. Our European contact price is set quarterly and we increased our first quarter 2022 prices by EUR15 per tonne to EUR599 per tonne. Our fourth quarter discount rate was higher compared to our guidance for 2021. As a result of type of market conditions during the fourth quarter, we saw meaningful price premiums compared to China pricing in all markets. For Asia Pacific where prices were $50 to $100 higher than China, we have traditionally used one posted price for the entire region, which includes China, and this resulted in a significantly higher discount for the product we sold in China. In 2022, we have introduced a separate hosted pricing for China or the CPCT [ph]. I do not expect similar volatility in our future discount rate, a result of these large pricing differentials between China and other Asia-Pacific markets.

We mentioned on our Q3 quarterly call that we provide updated guidance on our discount rate to posted methanol prices. In 2022, we expect to see higher discount rates of approximately 20% on average compared to our prior 17% guidance, as we're experiencing a more competitive environment. We do not expect a higher discount to impact our overall realize price for methanol, as we set our price -- as we make our pricing decisions are made with a view on supply and demand fundamentals and the global cost curve at any given point in time.

Overall, the methanol market remained strong. We continue to see strong traditional derivative demand and we expect higher operating rates from the MTO sector in Q1. Today, the MTO industry is operating at approximately 80% rate. We continue to be optimistic about new methanol demand. In 2021, a number of announcements were made by container ship operators for orders of dual-fuel vessels. We estimate in the next three to four years that there'll be over 35 duel-fuel vessels on the water -- sorry, 55 duel-fuel vessels on the water, including 19 of our own ships. And the annual demand from these dual-fuel vessels will be approximately 1 million tonnes per year, assuming they run on methanol a 100% of the time.

Now, turning to our operational results. Our production levels were significantly higher in the fourth quarter compared to the third quarter, due to higher gas availability in Chile and New Zealand and record production at our Geismar facilities. In New Zealand, our production levels are higher in the fourth quarter following the completion of the short term commercial arrangement we made to idle one plant and to make natural gas available to support the New Zealand electricity market. Since then, we've operated both Motunui plants. We estimate that our 2022 production in New Zealand to be approximately 1.5 million tonnes from the two Motunui plants.

In Geismar, both our plants ran at full operating rates during the fourth quarter, resulting in record quarterly production for those plants. With the completion of the second low cost debottlenecking project at G2, the Geismar facilities annual operating capacity has increased by 10% to 2.2 million tonnes.

In Trinidad, our Atlas production in the fourth quarter continues to be strong with similar to the third quarter. We continue to have discussions around opportunities for longer-term gas supply for our assets.

In Chile, production levels were higher in the fourth quarter, as we restarted Chile IV in October. We expect to operate both plants during the Southern hemisphere summer months to the end of April 2022. We estimate that the production in Chile for 2022 up approximately 1 million tonnes. In Egypt, production levels were slightly lower in the fourth quarter due to operating constraints. And in Medicine Hat, production for the fourth quarter was similar to the third quarter.

Our 2022 production is forecasted in the approximately 7 million equity tonnes, although actual production may vary by quarter based on gas availability, planned maintenance outages, extended unplanned outages and unanticipated events.

Now, turning to our balance sheet. We ended the fourth quarter in a strong financial position with $932 million in cash and $900 million of undrawn backup liquidity, which meets our goal of having cash on hand for the remaining G3 capital costs spend. We previously announced a strategic shift in partnership with Mitsui O.S.K. Limited or MOL, with the proceeds of approximately $145 million. We have received all regulatory approvals for the transaction and expected to close during the first quarter of 2022.

Turning to our capital allocation priorities. Our capital allocation priorities remain the same. We will use the cash we generate to maintain our business, pursue value accretive growth opportunities, and continue our strong track record of returning excess cash to shareholders. Construction on our highly advantage G3 project is progressing to plan and is well-positioned to be completed on time and on budget by the end of 2023 or early 2024. All major equipment items are now on site, which reduces the risk of supply chain issues or inflation. Our capital cost estimate for the project is $1.25 billion to $1.35 billion and we have spent approximately $508 million to the end of 2021. We expect approximately $750 million to $850 million of remaining capital costs before capitalized interest. We continue to anticipate spent approximately $100 million per quarter, understanding that the timing of expenditures may fluctuate period-to-period. In the fourth quarter, we spent less than $100 million due to the timing of expenditures related to the project. With our strong liquidity position and cash flow generation, we are well-positioned to fund the Geismar 3 project from cash on hand.

In addition to completing our G3 project, we planned to focus on increasing our production by securing additional economic natural gas for our existing assets. Excess cash will continue to be return to shareholders with a preference for using flexible share buybacks. In the fourth quarter, we returned $68 million to shareholders through our share repurchase program and regular dividend.

Now, turning to the outlook for the first quarter. Based on our current posted prices for the first two months of the first quarter and notably higher forecasted sales of produced product versus the fourth quarter of 2021, we expect the first quarter 2022 EBITDA to be similar to the fourth quarter of 2021. Methanol market fundamentals remain strong and we are confident in our ability to generate meaningful cash flow at current methanol prices. In 2022, we remain focused on managing safely through the global pandemic, continue to progress our advantage G3 project safely and on budget, operating our plant safely and reliably, delivering secure and reliable supply to our customers, and enhancing our strong financial position and financial flexibility. We are well-positioned to continue delivering significant value to shareholders over the medium to long-term.

We would now be happy to answer any questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) The first question is from Jacob Bout with CIBC. Please go ahead.

Q - Jacob Bout {BIO 4826791 <GO>}

Good morning.

A - John N. Floren {BIO 7546684 <GO>}

Good morning.

Q - Jacob Bout {BIO 4826791 <GO>}

John, I wanted to ask, maybe just start off just taking a bit more on what's going on in China. So what was the percentage of sales that you shipped to China, and was the mix higher in fourth quarter specifically? And how do you see this mix playing out for the next couple of years?

A - John N. Floren {BIO 7546684 <GO>}

Yeah. No big difference Jacob to previous quarters.

Q - Jacob Bout {BIO 4826791 <GO>}

And what would that numerically be? How much you selling --

A - John N. Floren {BIO 7546684 <GO>}

I have to get to that number I don't have it right in front of me. So I don't want to court you wrong number, but it's around (Technical Difficulty) but I'll get you the exact number?

Q - Jacob Bout {BIO 4826791 <GO>}

Okay. And then, as far as your guidance for the discount rate, kind of cut out there a bit, so you're saying the discount rate will be 20% higher or will be 20% in 2022?

A - John N. Floren {BIO 7546684 <GO>}

Yeah. We're forecasting our discount rate to be 20% in 2022, not 20% higher, but 20%, upon posted prices on average.

Q - Jacob Bout {BIO 4826791 <GO>}

Okay. All right, I'll leave it there. Thank you, John.

A - John N. Floren {BIO 7546684 <GO>}

Thanks.

Operator

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

Q - Hassan Ahmed {BIO 7430123 <GO>}

Good morning, John.

A - John N. Floren {BIO 7546684 <GO>}

Good morning, Hassan.

Q - Hassan Ahmed {BIO 7430123 <GO>}

John, question around Europe. Obviously, we all know and are seeing what's happening with the natural gas pricing situation over there. Egregiously high levels, obviously tension continues between Russia and Ukraine. So it seems that no relief is in sight in terms of gas prices. So what are you guys hearing in terms of capacity over there? How do you think that plays out at least as far as 2022 goes?

A - John N. Floren {BIO 7546684 <GO>}

Yeah. So obviously there's capacity offline in Europe because of the higher energy complex that they've been experiencing these tensions between NATO and Russia are certainly not helping the situation. There's lots of back and forth what happens to the pipeline, I really not in a position to make a call on that. I hopefully things cool down, and we don't have any outbreak of any hostilities, but we'll see. As far as what we're seeing pricing, sorry, volumes are coming from really the (inaudible) and mainly North America to backfill the product that we're not seeing being produced in Europe. It's hard to know when the gas price will be in a place to allow methanol production to restart, and I guess it's a factor of methanol price as well, but I think our current view is earliest in the summer of this year.

Q - Hassan Ahmed {BIO 7430123 <GO>}

Understood and a question now on supply-demand fundamentals, as they pertain to 2022. I mean, obviously Q4 was a bit of a noisy quarter in terms of demand, you guys talked about sequentially demand being down 2%, but obviously there were supply chain constraint issues obviously the European issue that we were talking about earlier, but now as you look at 2022 higher crude oil prices with a bias to the upside, I would imagine inventory levels relatively low, supply chain constraints slowly sort of getting sorted out.

So, in terms of 2022 demand growth, should we expect demand growth to be well above normal levels and how would that compare to what you're seeing in terms of supply growth for 2022?

A - John N. Floren {BIO 7546684 <GO>}

Yeah. Well, there is not any supply growth Hassan in 20 -- in the year, I mean, there may be some additional product coming out of rand depending on how they operate, how much gas they get, the technical issues that they've been dealing with sanctions, so a lot of gray area there. So we're not expecting any significantly increased supply during the year. Having said that, we just talked about Europe that could come back on, but we're looking to have pretty well what we saw in the fourth quarter continue into the first quarter, we're seeing ongoing unplanned outages again with some of the larger plants that have recently come up. So I think supplies going to continue to be a challenge in 2022, especially in a high energy environment.

I think, like I mentioned MTO rebounded in the quarter. We expect traditional demand to continue to grow at GDP rates, so whatever numbers you're using there. And then depending on the pandemic and it looks like early signs things are getting so much back to normal in some parts of the world. We expect the fuels demand to bounce back and that's still the laggards. The fuels demand is still whether it be MTBE or biodiesel or others has been a bit of a laggard during, because people just aren't driving as much because of some of the shutdowns and the pandemic restriction. So overall, we see without a severe demand, shock event that we're not anticipating a pretty robust supply-demand balance actually should lead to pretty decent pricing for methanol during 2022.

Q - Hassan Ahmed {BIO 7430123 <GO>}

Extremely helpful, John. Thank you so much.

A - John N. Floren {BIO 7546684 <GO>}

Thank you.

Operator

Thank you. The next question is from Ben Isaacson with Scotiabank. Please go ahead.

Q - Ben Isaacson {BIO 6619206 <GO>}

Thank you, and good morning, John.

A - John N. Floren {BIO 7546684 <GO>}

Hey, Ben.

Q - Ben Isaacson {BIO 6619206 <GO>}

Can you just touch on the dual control energy policy in China? I understand that as it relates to methanol plant, we had seen operating rates going lower. I wasn't clear if that was for the Olympics or for the Lunar New Year. Do you see that continuing throughout 2022 and could that lead to capacity shutdowns?

A - John N. Floren {BIO 7546684 <GO>}

Well, we're seeing this ongoing with not only with methanol, but with other industrial production mainly in the East part of China, as shutting down because of pollution and because we're using the energy for other applications, heating and electricity and more production coming in inner Mongolia. That trend has been going on. We expect that to continue. When coal prices got to RMB2,000 in the fourth quarter, obviously it didn't make economically sense to make methanol even at $450 pricing. So we saw production shut down at that time. And as you know and traditionally the winter natural gas is used more for heating than for making chemicals, like methanol.

So I'd say right now production rates in China are higher than we saw in the fourth quarter, with when we saw severe pressure because of high coal prices, and high natural gas prices and we would expect them to be somewhat higher in the summer months as gas is available for making methanol from natural gas, and not used as much for heating so, we would expect the methanol production in China to be a little higher in the summer months, than what we saw in Q4.

Q - Ben Isaacson {BIO 6619206 <GO>}

Thank you. That's great. And then just for my follow-up, last quarter on the call, you said that you were looking to accelerate the buyback and you mentioned you have 5% out there now and you thought another 3% or 4% was possible in 2022. Do you still hold that view now that methanol prices have moderated or is that your view?

A - John N. Floren {BIO 7546684 <GO>}

Yeah. Moderated from an extremely high levels. So if we could take these with current methanol prices for the next 20 years, we'd all be very happy. But I think we can move significantly down in pricing from where we are and still complete the buyback by the end of April, as our curve. So we did accelerated, if you look at the filings around the third week in December, we increased quite substantial the amount we're buying, and that's because of the strongest fourth quarter we had, and more anticipated strong first quarter.

So we have enough cash on the balance sheet now to complete G3, we'll get the MOL proceeds, so to me, excess cash, which we're generating a ton of now, we'll go back to shareholders through regular dividend and our preferences share buybacks. And we can, as we complete the current debt probably by around the AGM time end of April, we have the ability to put a second gen up to 10% of the public loan. So that would be our plan with everything that we known today.

Q - Ben Isaacson {BIO 6619206 <GO>}

Great. Thanks so much.

Operator

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

Q - Nelson Ng {BIO 16615616 <GO>}

Hey. Thanks. Good morning, John.

A - John N. Floren {BIO 7546684 <GO>}

Hi.

Q - Nelson Ng {BIO 16615616 <GO>}

Just for -- hi. For Q4, can you just talk a bit about the inventory build? It was a production increase so large that you weren't able to sell everything, or was it shipping constraints, timing. And should we presume that the inventory -- there would be an inventory reversal in Q1?

A - John N. Floren {BIO 7546684 <GO>}

Yeah. I think my remarks kind of hinted at that. We have -- if you look at four of the last five quarters, we have had what we call produced inventory build. So the amount of produced inventory in our inventory is about 1.2 million, 1.3 million times has increased over the last five quarters and that's not abnormal, like, you can go back over the last five, ten years of quarter-to-quarter, it doesn't actually ever matched the amount of inventory that we produced is sold because of the way our pipe hole layers work and the accounting rules.

So, yes, you would expect the reversal at some point of more produced inventory being sold and what we produced. So in Q1, we're anticipating to have another really strong quarter of production and we expect to sell more produced molecules that we did in Q4, which is leading to a similar EBITDA at a lower price deck. So that's how we are forecasting, it may not work out exactly like that, but generally that's what we're expecting in Q1.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay. That's good color. And then just follow-up on Europe, so in terms of the I guess what's happening in Ukraine, like what are your methanol customers doing in Europe? Are they stockpiling, are they like -- are they essentially paying higher prices to stockpile to kind of mitigate their risk of any issues in terms of supply?

A - John N. Floren {BIO 7546684 <GO>}

No, actually we're seeing pretty low inventory levels in Europe, if you watch the spot markets in the last week they've kind of spiked here and why is that. We understand one of our competitors have a delay in one of their ships coming to Rotterdam. So they're all buying in the spot. And there's steel blending happening in Africa now, so there's an accompanied out there, buying a spot methanol molecules and then they're blending it with other gas components or blending it in Africa. We're not exactly sure, but they're buying methanol for blending in Africa because of the high energy complex. Those two events of price -- spot prices have increased quite significantly in the last week in Europe, which tells me, inventories are pretty low. And as I've always said, the liquidity in both the North American and European markets is very low. And when you get a spike in demand, like we've seen in the last week to ten days, the price reacts quite quickly. So I don't think any of our customers been stockpiling methanol at these prices.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay, thanks. I'll get back in the queue.

Operator

Thank you. The next question is from Laurence Alexander with Jefferies. Please go ahead.

Q - Laurence Alexander {BIO 21637617 <GO>}

Good morning. Can you -- if we roll up the fuel blending demand in Africa and China, the industrial boiler trends in China, the marine demand, and then also any kind of ripple effects you are seeing from some of the ways decarbonization initiatives or rippling through to methanol demand. If you look at the next three, five years, do you see the growth algorithm for methanol being noticeably different from the historical either faster or slower. Can you just talk a little bit about how you see that? What the trend growth for methanol is going to be depending on whatever the GDP levels are?

A - John N. Floren {BIO 7546684 <GO>}

Yeah. Couple of variables, couple of factors, obviously GDP you mentioned that will drive the traditional chemical. A higher energy complex traditionally has mean more developed -- more demand for methanol and whether it's clean burning fuels or other fuels like we're seeing in Africa. But depending on your outlook for oil and other energy parts, the energy complex or higher complex that we're seeing today will drive additional demand than what we've traditionally seen in the last few years in a lower oil environment, obviously the ships are brand-new, we're running our ships on methanol and a lot of people are now ordering ships. I mentioned up to 55 ships, if they all ran on methanol 100% of the time, they'd be million tonnes just there in the next three to four years.

We're continuing to see adoption in China or methanol to replace coal and boilers, and (inaudible). Methanol is a cooking fuel, (inaudible) continues to have these two large trials with 25,000 taxies, M100 engines, and the more that the world looks to decarbonize methanol is part of that solution, whether it be from natural gas, I'll remind you, our G3 facility will be 50% less CO2 admitting than a traditional methanol plant. And we all know we can produce green methanol, we've done it in Iceland, we've done it using renewable natural gas in our Geismar facility and we can do more of that. So I think there is a future for methanol as part of the solution to go to lower carbon economy globally, but right now, the economics are such that it's hard to get any traction from the consumer side, but I think that will change over time.

And yes, so I think, higher energy environment in a low -- moving to low carbon demand for those applications will only continue to increase. I think the wild card is always going to be at least the medium term the MTO and the MTO operating rates, it's 50 million tons of demand today and large demand one of these plans can use 1.8 million tons. So, a couple of them decide to shut down for whatever reason. It does have an immediate impact on the supply-demand balance. So our view is they'll run, they're running at 80% today, they ran through the pandemic except for the fourth quarter when methanol prices got really high in China at in the 85% to 90% and beyond the Bohai plant that's coming up in the middle part of this year another 1.8 million tons of demand, we don't expect any more MTO today now, if you have a view of a higher oil prices and higher naphtha prices in the future that could change, but that's certainly not in our planning Laurence.

Q - Laurence Alexander {BIO 21637617 <GO>}

And then are you seeing the decarbonization push starting to have an impact on approvals of methanol in new projects? Are there either designs or the regions that will be out of favor, if decarbonization pushes becomes a more serious in widespread policy?

A - John N. Floren {BIO 7546684 <GO>}

Yes, not today, but I think there's two developments there that could impact that obviously an increased carbon tax environment. Canada has talked about going to $150 to $180 a ton, well that obviously would impact potential investments for carbon-based emitting plants like methanol from natural gas. I'll remind you coal-based methanol produces 5 to 7 times the amount of carbon as a natural gas based plant. And I think the other thing that's being talked about are duties at borders for imported products that are being produced from high emitting carbon production.

So I think those talks are early days, I don't expect something to be developed in the next little while, but I think it's going to make it harder for companies may be to build plants that emit carbon or CO2 because of potential taxes as well as access to capital. There's a number of firms that have said, they're not going to lend money or do business at high merits of CO2. So I think we're early days here, but certainly the trends are there and I think it's not easier to build an methanol plant from natural gas or coal today than it was three or four years ago, and it was an easy three or four years ago.

Q - Laurence Alexander {BIO 21637617 <GO>}

Okay. Thank you.

Operator

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

Q - Matthew Blair {BIO 16648009 <GO>}

Hey, good morning, John.

A - John N. Floren {BIO 7546684 <GO>}

Hey, Matt.

Q - Matthew Blair {BIO 16648009 <GO>}

On the plant expansion at Geismar, could you talk about where your marketing these volumes or these staying in their domestic market or are there any export to Asia? And how does the incremental margin on this 10% compared to the legacy Geismar production?

A - John N. Floren {BIO 7546684 <GO>}

Yeah. It should stay about the same. I mean, depending on the price of gas, we saw a spot prices for gas spike up here and now down. So we're taking $3 to $4 gas will be the range in that area for the midterm. So if that's true then about the same cost structure for the additional debottlenecking, as we have in our existing plan. And again we optimize all the time where we go with our methanol, but any increments we're sending -- looking to target Asia, but in this environment where we've seen our competitors have production issues, we've seen the European situation with production shut down because of high-cost feedstock and product being diverted from North America. So there's more opportunity for us to keep it closer to home. So that's only good for us.

Q - Matthew Blair {BIO 16648009 <GO>}

Sounds good. And then any insights of what's going on in ramp an ultimate pick market, even for you, but there's been a lot of reports on natural gas sort of just helping methanol plants to run at either 50% year-based or even fully shutdown. So are you -- do you have extra insights you can provide there and that's something that's affecting global methanol spot?

A - John N. Floren {BIO 7546684 <GO>}

Yeah. So we've seen this before, again, this is not new and it's only getting a gut rated as the sanctions continue to go on longer and longer. So whether it be equipment or availability of technical expertise, or catalyst, or gas or -- it's not in our view under a severe sanctions environment that we're -- that around is facing going to get any better, until the sanctions are resolved then they can get free access to capital to build out their gas infrastructure and get catalyst and people and then equipment et cetera. So we don't expect it to improve until we see a change on the sanctions and I have no specific information on what's going to happen there either.

So we continue to see exporting some product and in the past in the winter time we have seen the phenomena where plants have not operated as strongly because of gas diversion and it appears that's what's going on again this year.

Q - Matthew Blair {BIO 16648009 <GO>}

Great. Thank you.

Operator

Thank you. The next question is from Joel Jackson with BMO capital markets. Please go ahead.

Q - Joel Jackson {BIO 16250849 <GO>}

Hi, good morning, John. John, just on discount rate, if you go back over many, many years, the discount rate goes up and down, but typically Methanex is realizing realized price. That's a very narrow and consistent premium over spot prices and it can change a difference, pretty consistent. So I think is that what we should think about that, it's going to be exactly like that and maybe as your contracts change you have the higher discount rates may be in some of them. But how you said posted prices might also change. You may end up grossing up posted prices with deeper discount. Is that makes sense what I'm saying?

A - John N. Floren {BIO 7546684 <GO>}

Yes. Absolutely. I mean the realized price is what really counts, that's what drives our earnings. So realized price in methanol and how much we produce, those are the two major things that drive our earnings and we had an outstanding quarter in the fourth quarter we're going to have another one in Q1. So there's a lot of noise around discounts and hopefully the guidance I provided today will allow analyst to use the number that hopefully we don't see the big-mid like we saw in Q4, it's a bit frustrating to have a record quarter and solid EBITDA and a have a missed like that. So I think when we set prices, we don't look at the disc -- while we lower the discount as far as opposed to price, but it's the net price that we think about and net price depending on whether it's a balanced market or a tight market, you set that price, have the marginal cost producer run to keep the world balanced, and that obviously changes regularly depending on feed stock price and freight.

So that's how we set prices, we talk to our customers what they're seeing? And inventory levels come into it and, lots of things and factors. So it's not really the discount that should be the attention. It should be how much are we realizing each and every quarter for our methanol and it's $440 ton or $420 a ton, which is kind of where we are today. We generated ton of cash and we'll send that cash back to shareholders through share buybacks and that -- and complete Q3. So those are the things we're focused on and hopefully, this discount issue will go away until we have to think about revising it up or down in the future. But if you think of our guidance on this, it doesn't change more than every number of years. So I think we're comfortable where we are today. And we do have a change, I think with the change to the Chinese both surprise will also take some in the noise. I mean it's a good news story when the rest of Asia trades up to a $100 higher than China, traditionally, it's been 20 million to 30 million. So for us, it's a good news story.

So I think -- and making another posted price just for China, I think spot prices have the biggest influence of any region in the world, because it's a fairly large spot market will help take some of the noise out of our discount as well.

Q - Joel Jackson {BIO 16250849 <GO>}

Hey, thank you for that. And if I think about production for 2022, so are you expect -- two-part here? Are you expecting a normal number of turnaround in '22? Maybe you can compare it to have in '21. And then, are you expecting every production facility to have higher production in '22 than '21?

A - John N. Floren {BIO 7546684 <GO>}

Yeah. So I've given the guidance of 7 million tons of equity tons of approximately. I've guided 2 to 3 turnarounds per year, obviously based on my guidance for Q1 production you should expect a turnaround in Q1, which is fantastic because we're generating a very high realized price for methanol. So all the produced products will be sold at very good pricing. And we tend to time our turnarounds with weather in certain places or gas availability. So no change to that guidance, Joel. And we're going to have another strong year for production based on our current forecast.

Q - Joel Jackson {BIO 16250849 <GO>}

Thank you.

Operator

Thank you. (Operator Instructions) The next question is from Steve Hansen with Raymond James. Please go ahead.

Q - Steve Hansen {BIO 4672758 <GO>}

Yeah. Hey guys. John, on the discount rate issue, you've delved into it in some degree here, but I'm just going to try and be a little bit more pointed on the North American market specifically, because I think I understand how the new China contract will help. I'm just trying to understand the pricing decisions a little bit more. If I'm looking at your latest posting here, it was a flat roll. You still appear to be posting at a very large premium versus the stock market somewhere in the range of 35% to 40% above the spot. So should we view that as a strength of the company and your ability to try and extract better economics out of the current tightness in the market? To me it strikes me as a bit of an advantage you have, but I'm just trying to understand how and why that posting would be at such lofty levels relative to even the 20% discount rate you've referred to I know they're not directly related, but they do certainly have a correlation.

A - John N. Floren {BIO 7546684 <GO>}

Well, I think it's a good point Steve, the discount rates are not equal throughout the world, right. So there's competitive factors. We've seen a lot of production come on in Atlantic Basin in the last years and obviously people want to keep their molecules as close to home as possible. So to think that it's 20% all over the world would be the wrong assumption, it's higher in the Atlantic Basin than in Asia, as an example. But when we look at individual regions pricing decisions the supply demand balance, the tightness of the market, input from customers about what they're seeing, what their demands going to be like. They all coming into play, and I'd say, again just to emphasize the spot markets in Europe and North America are extremely thin like they almost trade very, very few molecules maybe a 1,000, 3,000 tons a week more in Europe. Recently as I mentioned because of those factors, North America is very thinly traded. So it really doesn't have much in the spot price in those regions don't have much of an influence on our pricing decisions. Where it has an influence, it's in China. China is still a very large spark spot market and the spot market there does have an influence on what we decide to post for China.

So nothing much has changed, it's just that the regional differentials used to be based on freight from China and for reasons of tight supply and displacements on the supply side from countries that have sanctions or now are not producing methanol that's why I know which is really good for our business but bad for our discount. So we've tried to clarify that today and hopefully as we report our Q1 results, so you'll see that through our results.

Q - Steve Hansen {BIO 4672758 <GO>}

Okay. Great. Helpful. And just one follow-up. I know you've already been pretty clear on your capital allocation policies here going forward and preference with the buyback. I'm just wondering that on the margin whether or not you feel there's going to be a need, whether it's this year or sometime down in the future to start thinking about investing in some of the lower carbon alternatives I suppose in methanol. I don't like the word's blue and green necessarily, but there's been a number of projects announced on sort of the green methanol front in recent years. There's obviously a broader push towards lower carbon molecules. You've got a small investment in Iceland that we all know about. I'm just thinking about, over the next five years, do you feel like there will be a need for Methanex's start going down going down that road and investing in some of the transition, or else maybe called lower carbon ammonia or lower carbon methanol over time.

A - John N. Floren {BIO 7546684 <GO>}

Yeah, there's lots of announcements by a lot of people, but no money being spent and no expertise, an idea that idea and you can announce whatever you want, but not a lot of things happening. As far as what we, I mean, I think what we have in Geismar is really a good first step. I mean, we can make renewable, sorry, renewable methanol using renewable natural gas, obviously we paid 40 bucks MMBTU for that gas. So the price you needs over 1,000 bucks methanol, but we can increase that quite easily. So, we also have a team that's looking at all of these different green technologies and when you cut through the noise are all basically the same, taking some resource a hydrogen, some concentrated CO2 and making methanol, which is exactly what we've done in Iceland. And that's a small plant as you know 4,000 tonnes, we can't even sell that at premium prices.

So I think it well developed, I don't know how fast? I think we're ready to invest if it makes sense. But the order of magnitude of these investments versus a Geismar is a much smaller, you're talking 25,000 tonnes plans, 50,000 tonnes plan, and so you're talking, a fraction of what we're spending in Geismar. So if it makes sense, there's a market, we can sign up customers that are willing to pay, a price that were allows us to get our normal return of 13%, you should expect us to invest somewhat in the technology, but in the short term, I think Geismar making from renewable natural gas makes the most sense and companies like Mayors have been very public and saying that they want to run their ships using so-called green methanol, I mentioned the prices that green methanol is around $1,000 a ton. So we're prepared to supply we will see if we can get something commercial that make sense for both parties, but we certainly don't have anything like that today.

Q - Steve Hansen {BIO 4672758 <GO>}

Okay, great. That's good rational answer. I like it. Thanks.

A - Bob Fehlman {BIO 4746854 <GO>}

And just, Hansen, your question on capital allocation, nothing has changed. We don't anticipate spending any significant capital over the medium term beyond our completion of our Geismar 3 project and that we're going to focus on getting more gas for our adults facilities in Trinidad and New Zealand and get Chile back for full rates. That will be our major focus and we can get a lot more production in those areas with a fraction of the capital of a new built.

And we're going to return all excess cash to shareholders through our preferences at NCIB share buyback, but the regular dividend, something we'll continue to look at. We've looked at it historically and in the future, we'll look at it around our AGM time, which is the end of April, and I think they're, we shouldn't be signal. I'm not saying that we're going to get it, get it back to where it was pre-pandemic, but I think there's room to look at it as well as we come close to the AGM this year.

Operator

Thank you. The next question is from Cherilyn Radbourne, with TD Securities. Please go ahead.

Q - Cherilyn Radbourne {BIO 4836137 <GO>}

Thanks very much and good morning.

A - John N. Floren {BIO 7546684 <GO>}

Good morning.

Q - Cherilyn Radbourne {BIO 4836137 <GO>}

With respect to guide March 3, I appreciate that all the major equipment designs fight, which gives the company good protection from supply chain issues or inflation, but I'm curious how you would say that those issues are impacting, the replacement cost of capacity? Which I believe used to be in the range of $1,100, a tonnes plus four projects in the Gulf?

A - John N. Floren {BIO 7546684 <GO>}

Yeah. So the last two projects have been completed, which is a Koch methanol plant and then net gasoline plant were around $2 billion plus for 1.7 million tons. So, in order with what the price that you've said. The three main components of building a plan, our equipment, which is made up of steel and metals et cetera, engineering and then labor. So the equipment side of it is probably 20% to 25%. So, whatever inflation you want to use for that portion of the overall capital cost. That's what it'll increase by and certainly work today not seeing a lot of activity in the Gulf Coast for new projects. And I think that's helpful when we're building G3, because labor availability is quite good and productivity is quite good, we've got 800 to 900 people on site and moving forward quite nicely, but if there is a ramp up in activity I think that shops and people making equipment but would increase their prices and if they're experiencing higher raw material costs that we've all seen them there gets going to be passed on to the people that are buying the equipment. So it's about 20% to 25% of a new build is based on equipment now engineering really haven't seen a lot of inflation in engineering but that doesn't we won't in the future.

Q - Cherilyn Radbourne {BIO 4836137 <GO>}

Okay, that's helpful. And then how is that all has supply chain congestion at ports impacted Methanex or the industry's ability to supply customers on time and has a shortage of shipping capacity than helpful to Methanex in attracting backhaul traffic to help to offset the higher cost and bunker fuel.

A - John N. Floren {BIO 7546684 <GO>}

Yeah. So, this is our key competitive advantage, secure reliable supply to customers, that's why we get to deal with the very best customers in the world. I mean, the investments we've made in our own shipping and terminals over the last 25 years, we paid dividends during the pandemic environment. We experience zero shipping issues. All of our customers got their product when they wanted it and the quantities they wanted, the quality wanted it. The only area that we could even think of was in the Shanghai area, because of the pandemic, the amount of pilots that were available was less than historical, which may be led to a week delay on some of our vessels. But when the order of magnitude we experienced delays like that on a regular basis in different parts of the world.

So, the investments we made were certainly made for reasons of secure, reliable supply and in the environment we experience really paid off in states. As well our backlog continues to be a good part of what we do? And helps with our overall freight costs, and we're making new arrangements all the time with different parties and about a third of what we carry today on our ships is not methanol. So I think that there's room to grow that in the right environment, but I think that's an outstanding achievement by our Waterfront Shipping team to grow it into keep our costs much better than our competitors, we don't, I understand our competitors that are doing that kind of backhaul with any on a regular basis. So it gives us another key competitive advantage.

Q - Cherilyn Radbourne {BIO 4836137 <GO>}

Thank you for the time.

A - John N. Floren {BIO 7546684 <GO>}

Thanks.

Operator

Thank you. The next question is from John Roberts with UBS. Please go ahead.

Q - John Roberts {BIO 1498783 <GO>}

Thank you. Sounds like you have a line of sight to the first million tonnes of demand from the marine market. Is it linear after that, because it's limited by rate of ships being replaced and number of ports that have methanol storage and so forth. What do you think it accelerates after that first million? And do you think ammonia at some point becomes competitive here and maybe impacts the growth rate of methanol for marine?

A - John N. Floren {BIO 7546684 <GO>}

Yeah. So it has accelerated. I mean, we've had our own ships and now we're utilizes orders for 55. So that's accelerating significantly during 2021 and we would expect as people look at the relative advantages of different fuels to replace existing fields. I mean, the big advantage of methanol is its dual fuel capability with the same engine. There are other things are being looked at including LNG and ammonia. But everything I've read, everything that our experts have read, methanol has a clear advantage over some of the other fields, doesn't mean those other fields won't get adopted as well, because I don't think it's just going to be one product that dominates, but based on the choices that large companies that know a lot about shipping like mayor's car making they view methanol as a preferable fuel, everything else being equal. So, I don't know, John, how the adoption is going to go, but I think it we've seen it accelerating '21 and we expected to continue to accelerate as companies orders any ships.

Q - John Roberts {BIO 1498783 <GO>}

Thank you.

Operator

Thank you. The last question is from Chris Shaw with Monness Crespi, Hardt. Please go ahead.

Q - Chris Shaw {BIO 7447426 <GO>}

Eric Martin John. How you doing?

A - John N. Floren {BIO 7546684 <GO>}

Hey, Chris. Good.

Q - Chris Shaw {BIO 7447426 <GO>}

I think you alluded to the answers of my questions these portion, but just still understanding the discount. So, if everything was sort of we sort of equal, nothing gets changed and you would introduce the Chinese contract price, we would have expected the guidance on the discount rate to of the decrease, right? Is that the right way to think of it?

A - John N. Floren {BIO 7546684 <GO>}

No, what? I -- I think of you listen to my remarks, we saw significant increase competitive activity in these line of base and which led to a widening of discounts. So, when we put all the pieces together, based on our forecasts, we accept back in 2022, to have about a 20% discount.

Q - Chris Shaw {BIO 7447426 <GO>}

Correct. But just mechanically introducing a Chinese, contract price should have cut the discount, if nothing else changed, is that right?

A - John N. Floren {BIO 7546684 <GO>}

Yeah, silly nothing else changed, but, we negotiate our contracts at the end of the year. And now we have our all of our contracts negotiated in place, and we total up all the numbers by very smart people. It looks like it's going to be about a 20% discount, and that adds the guidance you should follow.

Q - Chris Shaw {BIO 7447426 <GO>}

All right, that's what I'm trying to figure out. And then to your point just before about the increased competition. Explain kind of like, it seems a little discordant with the idea that, it's a tight supply and demand market, pricing is really strong, but you seeing this really strong competitive market. What am I -- what's the disconnect there?

A - John N. Floren {BIO 7546684 <GO>}

Well, it's regional right, Chris. So, we've got a lot of new production come up in the Atlantic Basin, mainly in the United States. And those suppliers want to sell as much as they can in the United States and closer markets. And obviously, the incumbents like us are not going to just walk away from markets we've had for a long time, so you get a little bit of rivalry and that's settled out now. And we -- the competitors know where their selling their product in the United States and elsewhere, and that's what's going on. So, we've seen this before when new plants start up, but the discount is not -- again not the focus, the focus should be on the realized price of methanol in this quarter and last quarter, these are outstanding realized prices anywhere close over $400 a ton, we're really happy.

Q - Chris Shaw {BIO 7447426 <GO>}

Yes. Great. Thanks so much, and congrats on the quarter.

A - John N. Floren {BIO 7546684 <GO>}

Thanks Chris. Okay. Well, we're pleased to share our record financial results with you today. We have continued to demonstrate the strength of our business models for the ongoing pandemic and our competitive advantage of delivering secure and reliable supply to our customers. We believe that the long-term outlook for methanol is excellent. Methanol is a key chemical building blocks of the used to produce a variety of everyday consumer and industrial items. It is also used in a growing number of clean-burning and economic alternative energy applications. We generate meaningful cash flow across a wide range of methanol prices are capital allocation priorities remain the same. We use the cash regenerate to maintain our business, pursue value accretive growth opportunities and kidneys to continue our strong track record of returning excess cash to shareholders. We will continue to execute on our strategy to deliver significant value to our shareholders over the medium to long term.

Thank you for joining us today, and we'll speak with you in April and thank you for the interest in our company.

Operator

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