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Methanex Corp. (MEOH)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Methanex Corporation Q3 2021 Earnings Call.

I would now like to turn the conference call over to Ms. Kim Campbell. Please go ahead, Ms. Campbell.

Kim Campbell
Director-Investor Relations, Methanex Corp.

Thank you. Good morning, everyone. Welcome to our third quarter 2021 results conference call. Our 2021 third quarter news release, management discussion and analysis and financial statements can be accessed from the Reports tab of the Investor Relations page on our website at 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 third 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 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. These items are non-GAAP measures that do not have any standardized meaning prescribed by GAAP and are 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 Floren

President, Chief Executive Officer & Director, Methanex Corp.

Thanks Kim and good morning, everyone. This morning a few members of our executive leadership team are joining me, including Ian Cameron, our SVP, Finance and CFO; Vanessa James, who previously led our Marketing and Logistics organization and now leads our Corporate Development Function including the execution of our Geismar 3 Project as well as our sustainability function; and Rich Sumner, who was recently appointed to lead our Marketing and Logistics organization after working for many years with the company in various finance and marketing roles around the world. Mike Herz, who led our Corporate Development function and our Geismar 3 project, recently retired from the company after 26 years of exceptional and dedicated service.

Today we will review our strong third quarter 2021 financial results, discuss our latest views on the methanol market, talk about our operational results and share our robust outlook as we enter the fourth quarter, then we will open up the call for your questions.

Turning to our financial results, we recorded adjusted EBITDA results of $264 million in the third quarter and adjusted net income of $99 million or $1.29 per share. Our adjusted EBITDA results reflect the continuing strong methanol price environment, partially offset by lower sales of Methanex-produced methanol. In the third quarter, we increased our average realized price to $390 per tonne, a $14 increase compared to the second quarter. Our results illustrate the significant leverage that our earnings have to methanol prices.

In addition, amid a rapidly rising energy price environment, our results highlight our low cost structure and the value of our natural gas arrangements, as approximately 65% of our near-term North American feedstock requirements are managed through fixed price contracts and the majority of our natural gas agreement across the rest of the world are linked to methanol prices.

Now, turning to the methanol market, in the third quarter, methanol market conditions remained tight, with ongoing industry supply challenges. Traditional methanol demand was flat as various factors, including supply chain disruptions, extreme weather events and global energy shortages impacted industrial production levels and constrained demand growth.

Demand for methanol-to-olefins, or MTO, producers was lower in the third quarter due to planned maintenance activities and China's government-mandated industrial operating rate restrictions intended to limit energy consumption and energy intensity. Demand from other energy-related applications was steady.

Methanol industry supply continues to be impacted by various factors. In North America, Hurricane Ida and technical issues affected methanol industry production. In Europe, sharply rising natural gas prices and planned and unplanned outages constrained methanol industry production. In China, limited coal supply and government-mandated industrial operating rates restrictions, as noted earlier, to manage total energy consumption and energy intensity curtailed methanol production.

Over recent weeks, global energy shortages and increasing coal, oil and natural gas prices are impacting methanol supply and methanol demand, leading to a sharp increase in methanol prices and a significant steepening of the industry cost curve. We estimate a sharp rise in the industry cost curve with an average range over the past several weeks of approximately $450 to $500 per tonne. We have seen significant volatility in coal markets and more recently we've seen downward pressure in the coal futures market as a result of announced government intervention in the coal market in China, giving historically high pricing levels.

We recently posted our November prices, which increased by $83 to $692 per tonne in North America and increased by $90 to $600 per tonne for Asia Pacific. We set our European contract price quarterly and our fourth quarter posted price is €490 or approximately $575 per tonne. Starting in January 2022, we are introducing a new posted price for the China market. We will continue to post the Asia Pacific price for customers in the region excluding China. We're making this change to better reflect the different market fundamentals in China compared with other countries in the region. Our outlook for methanol industry is positive and we believe that new industry supply will be needed to meet growing methanol demand over the next five years.

Now, turning to our operational results, our third quarter 2021 production of 1.5 million tonnes was slightly lower than the second quarter. Our production in New Zealand was lower in the third quarter compared to the second quarter primarily due to the short-term commercial arrangement to make natural gas available to support a tight New Zealand electricity market from early June to late August. Since then, we've operated both of our Motunui plants. We estimate production in New Zealand for 2021 of 1.3 million tonnes. The upstream gas sector is completing several field development projects that could improve gas availability over the coming years.

In Geismar during the third quarter, we shut down our Geismar 1 and Geismar 2 plants as a precautionary measure to ensure that the safety of our team members during Hurricane Ida. Fortunately, the hurricane only caused very minor damage, and we restarted production after approximately two weeks. The production impact of this outage was approximately 100,000 tonnes, which offset higher production resulting from the completion of our Geismar 2 debottlenecking project earlier in this year.

In Chile, our production in the third quarter was similar to the second quarter. We typically experience lower gas deliveries in the Southern hemisphere winter months, impacting our second and third quarters. We recently restarted production at our Chile IV plant, which was idle for the last 18 months and expect to operate both plants during the Southern hemisphere summer months to the end of April 2022. We estimate production in Chile for 2021 of 800,000 tonnes. Our Atlas plant in Trinidad, as well as our Egypt and Medicine Hat plants operated well during the quarter.

Now, turning to our balance sheet, we ended the third quarter in a strong financial position with over $900 million in cash and $900 million of undrawn back-up liquidity. We previously announced a strategic shipping partnership with Mitsui O.S.K. Limited, or MOL, with the proceeds of $145 million. We recently finalized definitive agreements for this partnership and closing is expected in the coming months, subject to regulatory approval and after all the customary conditions are met.

Turning to our capital allocation priorities, we generate meaningful cash flow across a wide range of methanol prices. Our capital allocation priorities remain the same. We use the cash we generate to maintain our business, pursue value accretive growth opportunities and continuing our strong track record of returning excess cash to shareholders.

We recently restarted construction of our Geismar 3 project, a unique project with significant capital and operating cost advantages that will strengthen our asset portfolio and substantially improve our future cash generation capability. Our capital cost estimate for the project is $1.25 billion to $1.35 billion. We've committed approximately $455 million to the project as at the end of Q3 2021, and we expect approximately $800 million to $900 million of remaining capital costs to be capitalized before capitalized interest or approximately $100 million per quarter from October 2021 onward.

We are confident in our ability to complete this project on time and on budget. And we have substantially reduced the project execution risk profile. Our remaining budget includes allowances and contingencies for both cost escalation and the remaining risks on the project. We're targeting commercial operations at the end of 2023 or early 2024.

With our strong liquidity position and cash flow generation, we are well positioned to fund the Geismar 3 project from cash and build on our long-term track record of returning excess cash to shareholders. We recently announced that we reset our quarterly dividend to $0.125 per share and commenced the 5% share repurchase program.

At this time, Geismar 3 is the only significant capital – growth capital in our plans over the next few years. We expect that G3 will substantially increase our cash generation capability and support a significant increase in our future shareholder distribution potential.

Now, turning to our outlook for the fourth quarter, global energy shortages and escalating coal, oil and natural gas prices are leading to a sharp increase in methanol prices. We expect realized methanol prices in the fourth quarter of 2021 will be significantly higher than the third quarter based on our current posted prices.

We forecast that our fourth quarter production will be higher than the third quarter as we restarted our Chile IV plant in early October. We restarted our Motunui plant in New Zealand in late August and we expect to run our Geismar plants at full rates without an unplanned two week shut down due to Hurricane Ida, as well as realizing the benefits of the completion of the debottlenecking project. As a result, we anticipate our adjusted EBITDA results in the fourth quarter to be considerably higher than the third quarter.

We would now be happy to answer any questions.

QUESTION AND ANSWER SECTION

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

Joel Jackson
Analyst, BMO Capital Markets Corp. (Canada)

Q

Hi. Good morning, John. I have a couple of questions. I'll ask one by one if that's okay. I think we're in a very complex part of the methanol cycle right now, maybe you would agree. When we look at some of the academic or theoretical numbers out there, like you would seem like maybe methanol is pushing up against its theoretical maximum price, right? So it seems like the equivalent energy value is similar now for methanol and for gasoline in China which I think some could argue is potentially the maximum unless oil and gasoline prices rise further. I know you don't predict the future, but all the things going on, gas, coal, cost curves rising, methanol going up, gasoline prices catching up, I mean, how do you look at that right now in terms of the methanol price environment, where we go from here?

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

A

Yeah. Well, supply have driven the current issues and the price rises we've seen in a number of productions, as I mentioned in my remarks, have come up around the world, which is leading to less supply and more demand. And you're right to point out when that happens, prices will rise to the marginal – demand is impacted to get the world back in balance. So, what is that price today? It's probably changing every day based on all the factors you mentioned: coal, natural gas, et cetera.

So, again, we're a bit surprised on how quickly prices have risen here in the second half, but nobody was planning on the type energy environment and high prices that we're seeing there. So, again, you're right to say the future is hard to predict, but I think we're enjoying the benefits of a higher energy environment and some supply challenges that we don't expect to solve it themselves in the near term.

Joel Jackson
Analyst, BMO Capital Markets Corp. (Canada)

Q

That's really helpful. And then I want to ask on the buyback, could you be able to comment on how much stock you're able to buy back so far in October based on September public data [indiscernible] (00:14:36) 17 shares a day, which would put your 5% buyback kind of down about a year. Is that the idea to try to keep that buyback evenly and maybe if you [indiscernible] (00:14:44) want to comment on that, can you please comment on how much you bought back in October so far?

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

A

Yeah, I really can't comment on that, Joel. But just in general, what we've said is we want to have the cash on the balance sheet to complete Q3, which we do now, and another $200 million to $300 million. And then everything above that would be distributed to shareholders. So, Q4 is looking really solid and we're going to generate quite a bit of cash. And I think by the end of the quarter, we'll reach those targets. And we can then look to accelerate the buyback or – and other options, but right now we have at around 5% out there and we think another 3% to 4%

possible in the 12 month calendar period. So that's our primary focus now is to complete Q3 and then return all excess cash above $1.1 billion, $1.2 billion to shareholders.

Joel Jackson
Analyst, BMO Capital Markets Corp. (Canada)

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

Great. Thanks. John, I want to follow-up on your comment regarding the supply crunch and your view that it's not going to get resolved any time soon, right? In China, are you seeing any easing given I think they had some energy consumption restrictions in China, but have you seen them easing? And I guess there's the recent steps they're taking to improve or increase coal supply. So, does that help the supply side at all from your perspective?

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

A

Well, I guess it depends on your timeframe, Nelson. Right now we're still seeing the dual controls as they're called in China, which is impacting supply quite significantly and demand. We're coming into the winter months and natural gas still is a fairly large raw material for production of methanol in China. And we all know what the LNG prices have been like. And yeah, the government has stepped in and made some policy decisions around coal, but we have no idea how long it's going to take for the coal to rebalance in China. And we're coming into their winter where they consume more coal. So, we don't expect it to be a light switch and things to return to the way they were before the crisis on coal and other energy. But directionally, it'll probably always get back to balance at some point, but it's probably going to take some time in our estimation.

Nelson Ng
Analyst, RBC Capital Markets

Q

Okay, thanks. And then my next question relates to logistics, I know this is a different shipping market, but obviously the container shipping side has seen a lot of issues and part of that is due to tight labor markets. Have you seen any, I guess, delays from a logistics perspective on your end?

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

A

No, this is one of our key competitive advantages that we all – we speak about quite frequently. We have our own ships that we can move around the world to wherever we want, and we have terminal relationships, we have our own terminals. So nothing's really changed in the last quarter. I think I mentioned on the last call that we were seeing some slight delays because of the shortage of pilots in China, but that's adding like a week to two weeks for discharge, longer time and it really doesn't impact our ability to service our customers. Fortunately, we're not experiencing the same supply chain issues that most of our customers are and even customers of our customers are.

Nelson Ng
Analyst, RBC Capital Markets

Q

Okay. And then just one last question on G3, I know you flag that you've factored in a number of contingencies, but out of the remaining like $800 million or $900 million of CapEx remaining, do you have a rough breakdown in terms of the – in terms of how it breaks down into like materials, labor and equipment? I'm just wondering how large the labor component is.

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

A

Yeah, I think I've guided to that projects before, and really there's three big components of the project, and labor is the biggest one. Like I've said before, most of the equipment is purchased. We still have some non-strategic equipment to get on site, but it's really labor. So the two big components are labor rates, which we've got into are about the same as when we did G2, and that's still the case today, and then productivity. And we'll know more about what we expect in productivity as we ramp up the site. So I think we have about 500, 600 workers on the site today, and I think at peak will be over 1,000. So, we have a large owners team, much larger than we had for G1 and G2 and really trying to manage the scheduling or the productivity issue working with our – KBR who's the engineering contractor on the job.

Nelson Ng
Analyst, RBC Capital Markets

Q

Okay, thanks. That's good color. I'll leave it there.

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

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

Good morning.

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

A

Good morning.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

First question is on methanol demand disruption, I know you said in the MD&A that there was a 1% decline in global methanol demand in this third quarter. Are you seeing signs of demand destruction now? I know there's some industry reports talk about MTO being at historic low rates. And how are things shaping up in the fourth quarter versus third quarter?

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

A

Yeah. We are seeing demand impacted by the controls I've mentioned in China, so where there's limits on how – in certain provinces how industry can operate, so that is impacting demand for methanol. We also knew there was quite a bit of planned maintenance in MTO in the third quarter, which has happened. Pricing is pretty volatile in that sector. So, when we were up at the 550-ish range, that certainly would have been economically challenge for some of the MTO players, not all. And then the rest of the world, like I mentioned, we've seen these high energy prices in Europe, for example. So, some customers are cutting back production because the energy costs are so high. And we had some disruptions in the Gulf because of the hurricane. So, I don't expect gas prices to ease in Europe in the winter, but we're not counting on another hurricane in the Gulf, so we should see demand improvement there. We do worry about inflation as well. If you have a high inflationary environment, maybe consumer demand wins, probably not this quarter, but that's another thing we're watching. So, we're not anticipating a demand drop in Q4, but we're watching it closely.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

Okay. And then my second question is just on gas cost. I know you touched a bit on this at the beginning of the call, but can you remind us how much of your gas right now is tied to spot versus linked methanol pricing and how much of your gas is hedged [indiscernible] (00:22:18)?

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

A

In North America, we have 65% of our gas hedged or fixed price. The rest of the world is really linked to methanol. So as methanol prices move, our gas costs move. And so about 35% of our gas in North America is related to spot pricing.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

And then how far forward are you hedged [indiscernible] (00:22:42)...

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

A

Different lengths. We've learned in hedges quite some years, so there's a number of different hedges and in Medicine Hat, we've fixed price for another 10 years. And so it's different lengths of time depending on which hedge or which fixed price deal it is.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

I'll leave it there. Thank you, John.

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

A

Thanks.

Operator: Thank you. The next question is from [ph] Edlain Rodriguez (00:23:09) from Jefferies. Please go ahead.

Q

Thank you. Good morning, guys. John, quick question. I mean, with methanol prices up significantly, I mean, are you seeing or do you believe you might see like a – that the supply response could change in terms of gas pulling forward the supply coming in?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

A

Well, we would have expected anybody that could run last quarter should have run hard and we – we certainly tend to see a lot of new supply or idle supply come on. We're not anticipating any other supply coming on in the quarter. The cost curve, as I mentioned, is still in that $450 to $500 range today for the last weeks or so. So I think there's still a really high cost curve that's underpinning methanol pricing. So, we don't expect additional supply to come on in the next few quarters.

Q

Okay. And also related to methanol prices being up so much, like any concerns that the rate of adoption for new applications, like an industry or marine, like that could be slowed down because of prices getting up so high?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

A

Well, we're – when we're looking at new adoption, there really be – the adoption is really being driven by environmental issues by clean burning fuels. So they were competing with other potential clean burning fuels and those prices have also gone up quite substantially. So we don't believe that there will be any impact on adoption of methanol as a clean burning fuel as a result of current prices.

Q

Okay. Thank you, guys.

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

A

Thank you.

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

Michael Leithead

Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Good morning, guys, and congrats on the quarter.

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

A

Thank you.

Michael Leithead

Analyst, Barclays Capital, Inc.

Q

First question related to demand, I think excluding MTO, you talked about energy-related demand being flattish in the quarter. I guess given the material move higher we've seen in all carbon prices globally, you expect to see a pick-up in some of these energy markets the next few quarters, or is there just something about the relative pricing of methanol that's limiting some uptick right now?

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

No. I think those applications are really mainly for driving, like biodiesel, MTBE, methanol M100. And the world is not back to normal yet, people aren't driving the way they used to. So that has impacted some of the other energy demand. As things normalize and the world gets back to normal and if people get back to their normal driving habits, we would expect those applications to an increase for demand.

Michael Leithead
Analyst, Barclays Capital, Inc.
Q

Got it. That makes sense. And then secondly, just on the buyback, I want to make sure I heard you right in your answer to an earlier question. It sounds like given where the cash flow generation currently sits, you'll sort of get where you want to be by year end in terms of pre-funding G3, and then maybe you can get a bit more aggressive on the buyback. It sounds like you'd like to hit that 5% authorization and then if I heard you correctly, maybe a few more percent within the next 12 months, is that how you're thinking about it?

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

Yeah. So, I'll be very clear. So, we want to have around the cash on the balance sheet to complete G3, so that's $800 million to $900 million left, about $100 million a quarter. We want to have $200 million to $300 million cash on the balance sheet to run the company. Everything above that, we will return to shareholders. And right now, it's through share buyback. So that hasn't changed. And so the more cash we generate, the more we're going to return to shareholders and the quicker we can do it.

Michael Leithead
Analyst, Barclays Capital, Inc.
Q

Makes sense. Thank you, John.

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

Thank you.

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

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Good morning, John.

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

Good morning.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

I've got a question on inventories. Obviously, it's been a very strange year with Winter Storm Uri, then obviously Hurricane Ida. I mean, historically, in a rising pricing environment, typically you see restocking. But with all of these events that have transpired, I would imagine inventories which were lean only got leaner. So, what are you guys seeing in terms of global inventories, how low are they and how long do you think a restocking exercise would take, when would we get to normal inventory levels and how would you see that factoring into demand growth as you look into 2022?

John Floren A

President, Chief Executive Officer & Director, Methanex Corp.

Yeah. I'll ask Rich Sumner, our Head of Marketing, to take a crack at that.

Rich Sumner A

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

Thanks, John. Yeah, we definitely see low inventories across the supply chain. And when we look to China, we also know that over time China's – the growth in market demand in China has put constraints on storage capacity on – especially on the coastal markets and we see low inventories in China coastal markets. And a lot of the supply/demand balances that John talked about that we don't think is going to be cured in the short term. It's going to add further strength to price and it will take some time before we can rebuild inventories in the industry. So, that factor's definitely supporting current pricing dynamics.

John Floren A

President, Chief Executive Officer & Director, Methanex Corp.

Yeah. I mentioned earlier some as well. Europe with high gas prices, some of our customers have curtailed production as well, and that'll have to be rebuilt. It really comes back to demand. So, we believe there's pent-up demand out there still. And as we get back to normal, the supply chains will at some point correct themselves and people will be able to get what they want when they want it. So, how long that takes? It's a bit of a guess, but we do believe there's pent-up demand for sure.

Hassan I. Ahmed Q

Analyst, Alembic Global Advisors LLC

Very helpful, John. And as a follow-up, a question around sort of medium to long-term supply growth, it's very interesting last week on Celanese's earnings call, and as I'm sure you know, Celanese has a pretty sizable position in China. So, one of the risks that the CEO sort of flagged was around their raw materials. And raw materials sourcing and supply. And particularly, Lori, the CEO, mentioned methanol and how supply growth in methanol will not be as robust as it – in the next decade as it was in the previous decade. And rather interestingly, she talked about how commissioning is a major issue in China now, how historically the capital cost advantage that they used to enjoy isn't really there anymore and a variety of other issues. So, the point really being that she sounded quite negative, I guess, on supply growth prospects for methanol in particular in China. I mean, obviously, you guys have announced G3, the timing of which in light of these comments seems quite interesting. So what are you guys seeing in terms of [indiscernible] (00:30:37) global supply growth, but particularly with a focus on China?

John Floren A

President, Chief Executive Officer & Director, Methanex Corp.

Yeah, we've been saying the same things for some time, I'm glad somebody is listening. I think we've said in China that directionally they're not going to grow their methanol production and where they'll grow it is in Inner Mongolia, it's not on the coast where a lot of the consumption is, so they're going to need imports and more imports. Energy is an issue. You can just see how quickly that's turned into an issue in China. And directionally, they're going to use their energy for heating and electricity and they're moving up the value chain as well in all industries, not just in methanol, cement, steel, et cetera. I mean, they're moving away from those industries and more up the value chain. So those trends have been going on for some time.

And then outside China, where can you build a methanol plant today? And you have to have a price of $400 for 20 years in mind to get a double-digit return at $3 to $4 gas. So I think everybody's faced the same issues, and that looks hard to do today. And then how do you get it financed in that kind of environment? So I think that hasn't changed. And we had a period here recently of $2.50 pricing for some time and banks and lenders remember that. So, I think unless you have a strong balance sheet like we do and cash generation capability, financing these $1.3 billion to $1.5 billion projects are really difficult.

As far as us, I mean, we're – yeah, G3 is going to be perfect as far as timing, as far as cost structure, as far as emissions and CO2 emissions, et cetera, it's going to be the best in the world. So, we're quite happy about it, but for our other growth, our focus is on getting our second plant in Trinidad restarted and our third plant in New Zealand restarted. That's the cheapest way we can grow our production and that's what we're going to focus on.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC Q

Very helpful, John. Thank you so much.

Operator: Thank you. 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

Do you expect methanol demand to return to more historical rates of 3% to 4% next year, excluding China dual control and hurricane weather events?

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

Yeah, it depends on your forecast for GDP, assuming MTO operates at around 70% to 80% and we get 3% GDP growth, yes, we would expect that kind of growth. In a high inflationary market that it's hard to know if GDP will probably be compressed. So, that to me, those are the two things we watch is GDP and MTO rates.

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

Okay. And then will your production – methanol produced tonnes grow in lockstep with that, or do you think you'll do better with the recent G1, G2 expansions or how should we think about growth in production with your turnaround next year versus this year?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

A

Yeah. So it depends on gas availability in Chile. That'll be what drives our production. Right now, we're running at high rates in Chile and we'll see how it looks there next winter or next summer. But assuming it's similar to this year, I think we don't – we don't telegraph turnaround. So, I always say two to three per year and that's still the guidance. But our debottlenecking is done in Geismar and provided no hurricane events, we will do better there this next year than this year and hopefully in New Zealand we won't have to sell on our gas – electricity market next year, but who knows. Obviously, we don't want the country not to have heating and electricity. So, assuming that doesn't happen, we'll be better in New Zealand as well. So I anticipate I'd be very surprised if our production next year is not higher than this year.

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

Q

Okay. 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. Good morning, John. Given how methanol prices are – are there any prospects for a short-term opportunistic restart at Titan in Trinidad?

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

A

Yeah. Short term is not possible. We don't have the people. If you recall, we have to spend some capital, so we don't have the opportunity to start it up in an opportunistic way. And even if we did, it probably doesn't make sense, the amount of money you spend to start it up and not knowing how long high prices are going to last. So, we're still focused with the government on a five year contract that allows us to be profitable through the cycle and that's still where we're focused.

Matthew Blair

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

Q

Got it. And then I think under your original modeling functions, you got all the incremental productions in G3 going to Asia. Is that still a good assumption? And I just ask given the pace of the demand recovery and also because it seems like given the size of G3, it's going to be lower on the cost curve than some of your North American peers? So, just wanted to check on that.

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

A

Yeah, we're still modeling it that way, but obviously we're going to try to sell as many of those molecules closer to home because the economics are better. But I think from a modeling perspective and we're talking about returns, et cetera, it was intellectually the right thing to do to say the worst case scenario, we have to bring 1.8 million tonnes to Asia – or China and Asia. And so, we're still modeling it that way. But as things evolve here, if we can sell more in the Atlantic Basin, obviously the economics improve.

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

Q

Great. Thank you.

Operator: Thank you. The next question is from Adam Starr from Gulfside Asset Management. Please go ahead.

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC

Q

Hi, you mentioned that you're going to a separate price sheet for China at the beginning of the year. Based on past history, how will the Chinese price compare with the rest of Asia Pacific and how does your volume break down between those markets?

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

A

Yeah, we're selling about a quarter into China and about 20% into Asia Pacific any given year. In the recent history, I'd say, China has been setting the cost curve. So the pricing in China has been lower by the freight differentials to the other markets like Japan, Korea, Southeast Asia. It's about $20 to $25 today. And I think on the last call, I was grilled quite hard about the discount. I don't know it hasn't come up today, but part of the challenge there is we're trying to maximize our overall profitability by setting an Asia Pacific price that made sense for all the markets. And with China being on average $20 to $25 lower, it was impacting our discount. So, having the two separate prices hopefully will help with that issue and that's why we decided to go that way.

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC

Q

But it's really not going to affect what you make, it's just going to be a little more transparent to us.

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

A

That's correct. That's right.

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC

Q

Thank you very much. Also, higher gas prices making the Trinidadians more willing to discuss a longer-term contract?

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

A

Well, the way – at least the offer that we got, I mean, even at these prices, we'd be making very little EBITDA based on the price sharing mechanism that we saw. So I don't know what our competitors are paying, but that's what we were offered.

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC

Q

Okay. Because they're missing a pretty good boat right now, but--. And in Chile, do you have – is there still potential for higher gas supplies down the road, or is there drilling going on, is there new gas being developed [indiscernible] (00:38:40)?

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

A

Yeah, there is new gas on both sides of the border, Chile and Argentina. And I think I'd mentioned before, we need to do some maintenance work on our Chile I plant in the next few years as well to get to higher rates. But the gas availability is improving in the Southern Basin.

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC

Q

Okay. Thank you very much, and I appreciate the outlook.

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

A

Thank you.

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

Ben Isaacson
Analyst, Scotiabank

Q

Thank you very much, and good morning. Two back to basics questions for you, John. First one is on the cost curve. You mentioned marginal cost is somewhere in the $450, $500 range. Over the last few weeks, prices have been higher than that, which suggests we're in a demand driven market right now where pricing is based off of affordability and not on the cost curve. So my question is, now that we're seeing pressure by the Chinese government to push coal prices lower and at some point we will see European gas prices coming off in the spring. Will that not push methanol prices lower, or are we truly demand driven and affordability is trumping all else right now?

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

A

Yeah, I'd call it supply kind of interruptions are driving. There's not enough supply to meet demand, and we're probably saying the same thing. There have been – in Europe, you have to see gas prices fall quite substantially to – even at today's prices to allow restarts of the idle capacity there. And in China, we'll see how the coal market develops. And there's many things that go into what methanol producers pay for coal in China. It's not just the index that you may read on Bloomberg or wherever, there's a lot of different factors. So, you're right, I'd say the – we've been above whatever the cost curve has been most of this year. And until supply catches up to demand, that's probably going to be the case.

Ben Isaacson
Analyst, Scotiabank

Q

Thank you for that. My second question is, the relationship between oil and methanol is quite complex. There's direct relationships, there's indirect relationships, there's perceived ones, et cetera. And I'm just trying to understand, we're at $80 oil now, a $10 change in the price of oil, can you just remind us what does that mean for methanol and for Methanex, whether you think about demand or pricing, cost curves or affordability, whatever it may be?

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

A

Yeah, there's not really a link between oil and methanol. There's no real substitutable products in the demand where higher oil price or lower oil price will lead to less demand for methanol. But generally I mentioned a higher energy complex is good for methanol pricing because if cost curve moves up, because some supply has to come out and demand for methanol into energy applications, which are really being driven by environmental issues which continue to be to grow. So I think there's really no link in our minds between the price of oil and the price of methanol on any given day.

Ben Isaacson
Analyst, Scotiabank

Q

Thank you.

Operator: Thank you. Your next question is from [ph] Roland Rausch from Crown Extra Investments (00:42:03). Please go ahead.

Q

Hey, John. It's [ph] Roland (00:42:08), how are you ?

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

A

Good. How are you, [ph] Roland (00:42:09)?

Q

Yeah. Hey, sorry, I might be the third person here going after that share buyback disclosure, but can I just round a couple of probably common understanding points? So, number one, the roughly [ph] $160 million (00:42:26) cash-in I assume you still expect in Q4. So, if I pro forma that, you are roughly at the $1.1 billion you mentioned before. Is that correct?

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

A

Yeah, and plus we're going to get some hopefully the money from the MOL sale as well, [ph] Roland (00:42:45).

Q

Yeah. Okay, understood. And then I know you guys did a great job in – I guess it was July 16 where you laid out kind of the – I think it was $865 million, actually. I'm talking about G3 CapEx. Has any of that changed. I think it was $100 in Q4 and then I think the large part, $410 million in 2022 and then around $300 million, $350 million in 2023. And again, I don't want to pinpoint you because I know that it's a moving target, but is that roughly still what you guys expect as CapEx layout for G3?

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

A

Yeah. So, our guidance hasn't changed on the CapEx for G3. We have large contingency, as I've mentioned, in those budget numbers. As well, I mentioned in my opening remarks about $100 million a quarter, that's how you should model the spend on G3 until completion.

Q

Okay. So, basically – and again, I know you've answered it in five different ways already, but if that sale proceeds come in, are you there to redeploy any free cash flow back to share buybacks or is that too aggressive to model?

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

A

No, we are buying back shares every day today. So, [indiscernible] (00:44:17) as we got closer to our target flow, we can accelerate that buyback and think about a second one [indiscernible] (00:44:25) next 12 months.

Q

And just one more on this, I assume there are certain blackout periods on when you can buy back share, right?

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

A

No, they're blackout periods when we can change the rate of buybacks, but we can [indiscernible] (00:44:40) certain month like getting close to quarter end, well, we can't change the rate, but we can give an order to buy X amount of dollars per day throughout a blackout period.

Q

Okay. All right. That's all I had. Thanks and...

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

A

Thanks, [ph] Roland (00:44:53).

Q

...best of luck for the next quarters, yeah.

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

A

Thank you.

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

John Roberts
Analyst, UBS Securities LLC

Q

Good morning.

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

A

Good morning, John.

John Roberts
Analyst, UBS Securities LLC

Q

Yeah. How far out do you think the first sequestration project is for a world-scale methanol plant? Would that be more than five years out, do you think?

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

A

Capital, we're looking at it ourselves, especially in North America, for Medicine Hat and for Geismar. And the capital cost is quite substantial. So I think without some sort of government help, subsidy or involvement, it's probably longer than that is what I would say, John. But governments are pretty bullish on reducing carbon. And this is one way to do it. So, I know the Alberta government and the Louisiana government are both very interested in carbon capture and storage. So we have a team working on it. And if and when you get the FID on it, is probably couple of years to build it into the plant. So, five years? God, I would guess I'd – I'd be hopeful that within five years we'd have one in place.

John Roberts
Analyst, UBS Securities LLC

Q

Okay. And then there were some MTO in China that was being back-integrated into coal, has the coal situation in China set back those projects, or are they still proceeding on plan, do you think?

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

A

Yeah. Two have been completed and they're running. We haven't seen any impact. So how we manage that is we include those in our supply additions, where some of the publications, including the demand losses. So, it's a little bit of apples to oranges, sorry. So, those have happened. And we are expecting another MTO plant consuming 1.8 million tonnes of methanol to come on in the next six months. So, that will have an impact on demand as well. But we haven't seen any change in the backward-integration recently based on the coal prices.

John Roberts
Analyst, UBS Securities LLC

Q

Okay. Thank you.

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

A

Thanks, John.

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

Joel Jackson
Analyst, BMO Capital Markets Corp. (Canada)

Q

All right. Thanks for squeezing one more in for me. John, if I remember how some of your past contracts work with your price – or your methanol price sharing mechanisms, that have the kind of the limit like when methanol prices are very, very low at the back part of the cycle or methanol price are very, very high like in just now high in the cycle that some of the price sharing is different may not be as linear. Can you just comment on that, methanol prices now versus, say, $100 lower, did the contracts – does price mechanisms [ph] of pharmas look (00:47:57) a little bit differently?

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

A

You're right, they're all a little different. So, the guidance we gave is on average. And in general, I've used this for years. So at $200 methanol, we're paying about $2 for gas, at $300 about $3, and at $400 about $4. So, that's the guidance we gave. It's not exact, obviously, because each contract is different. And as we renegotiate, they're all changing depending on the price markers, et cetera, et cetera. But just in general, the higher we go for methanol, the more we're going to pay for gas.

Joel Jackson
Analyst, BMO Capital Markets Corp. (Canada)

Q

Thanks.

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

Okay. Well, thanks very much for all the questions. And we're very pleased to share our excellent financial results with you today. We generate meaningful cash flow across a wide range of methanol prices. Our capital allocation priorities remain the same. We 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. Thank you for joining us today. We'll speak with you again early in 2022 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 thank you for your participation.