

31-Jan-2019

# Methanex Corp. (MEOH)

Q4 2018 Earnings Call

## CORPORATE PARTICIPANTS

Kim Campbell

*Manager-Investor Relations, Methanex Corp.*

John Floren

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

Ian P. Cameron

*Chief Financial Officer & Senior Vice President, Finance, Methanex Corp.*

---

## OTHER PARTICIPANTS

Michael Leithead

*Analyst, Barclays Capital, Inc.*

Jacob Bout

*Analyst, CIBC World Markets, Inc.*

Hassan I. Ahmed

*Analyst, Alembic Global Advisors LLC*

Joel Jackson

*Analyst, BMO Capital Markets (Canada)*

John Roberts

*Analyst, UBS Securities LLC*

Daniel Jester

*Analyst, Citigroup Global Markets, Inc.*

Nelson Ng

*Analyst, RBC Dominion Securities, Inc.*

Jonas I. Oxgaard

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

Matthew Blair

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

Cherilyn Radbourne

*Analyst, TD Securities, Inc.*

---

## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, thank you for standing by. Welcome to the Methanex Corporation Q4 2018 Earnings Call.

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

Kim Campbell

*Manager-Investor Relations, Methanex Corp.*

Thank you. Good morning, everyone. Welcome to our fourth quarter 2018 results conference call. Our 2018 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 the answers to your questions today may contain forward-looking information. This information by its nature is subject to risks and uncertainties that may cause the stated outcome to differ materially from the actual outcome. Certain material factors or assumptions were applied in drawing the conclusions or making the forecasts or projections, which are included in the forward-looking information. Please refer to our fourth quarter 2018 MD&A and to our 2017 annual report for more information.

I would also like to caution our listeners that any predictions provided today regarding Methanex'

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

In addition, we report our adjusted EBITDA and adjusted net income to exclude the mark-to-market impact on share based compensation and the impact of certain items associated with specific identified event. 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' President and CEO, Mr. John Floren for his comments and the question-and-answer period.

---

## John Floren

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

Thanks, Kim. Good morning, everybody. 2018 was an excellent year and we are pleased to have achieved record production and sales volume and the highest adjusted EBITDA in the company's history, surpassing the records we set in 2017.

For 2018, we achieved adjusted EBITDA of \$1.1 billion and adjusted net income of \$556 million or \$6.87 per share. The investments we have made in our company over the past few years to increase our production capability have substantially improved our earnings power and ability to generate free cash flow at a wide range of methanol prices.

When we have a volatile quarter like we did in the fourth quarter, a few different factors can impact our earnings on a quarter-over-quarter basis, but are less impactful over the long-term. Our results in the fourth quarter were impacted by a decrease in our average realized price, lower sales of Methanex-produced methanol and higher cost compared to the third quarter of 2018.

In the fourth quarter, we recorded adjusted EBITDA of \$197 million and adjusted net income of \$90 million or \$1.15 per share. Our average realized price in the fourth quarter declined due to lower posted prices in North America and Asia for December, and higher than normal discount of approximately 17% compared to approximately 15% in the third quarter. When methanol prices decline quickly, our realized discount tends to increase and the reverse is true in a rising methanol price environment. Our guidance of 15% for our discount rate in a stable price environment remains unchanged.

Also, we make substantially all of our margin from sales of Methanex-produced product. Total sales of Methanex-produced product of 1.6 million tonnes were lower than the third quarter and 286,000 tonnes lower than the fourth quarter production, due to the timing of production impacted by outages and inventory falls that impacted our mix of produced versus purchased sales, and a planned inventory build in line with the growth of our business. The lower volume of produced methanol sales in the fourth quarter compared to the third quarter resulted in a decrease in adjusted EBITDA of approximately \$30 million.

Finally, our cost in Q4 were higher than in Q3. In the fourth quarter, we incurred higher unabsorbed cost primarily related to the restart and ramp up of our Chile IV facility and turnaround activities on our Waitara Valley plant in New Zealand. Logistics costs were higher in the fourth quarter compared to the third quarter due to trade flows

and higher bunker fuel prices. We also recorded higher selling and administrative expenses that included cost for our cloud-based system implementation that we are required to expense.

As well in a declining methanol price environment, our margins tend to be lower than in a stable price environment due to inventory timing differences as a result of the timing of methanol production and purchases versus sales. Generally, the opposite applies when methanol prices are increasing. We saw a significant volatility in the methanol pricing in Q4 as prices increased early in the fourth quarter before declining later in the quarter and into 2019 due to concerns around global economic growth, unresolved trade tension and the steep decline in oil prices.

We are pleased to see some stability in the methanol pricing in recent weeks consistent with higher oil prices. Our average realized price in the fourth quarter decreased to \$401 per tonne compared to \$413 per tonne in the third quarter. We recently announced our February pricing in North America at \$432 per tonne and in Asia at \$345 per tonne. Our first quarter pricing in Europe is €360 per tonne. We estimate the current cost curve to be in the range of \$280 to \$300 per tonne, and the current spot prices in China are within this range.

Overall, methanol demand grew by 3.5% in 2018. Traditional demand increased by 3% from 2017 to 2018. Energy-related demand increased by 4% year-over-year despite reduced demand in the fourth quarter due to the decline in oil prices that impacted affordability of methanol into energy-related applications.

Methanol-to-olefins, or MTO, operating rates were lower in 2018 compared to 2017 as several MTO facilities underwent maintenance activities. We continue to observe steady operating rates for most MTO facilities. We are monitoring the progress of new MTO units that are currently under construction and targeted to come online in the near to medium term. We expect two MTO plants to be completed over the coming months with a combined capacity to consume 3.6 million tonnes of methanol annually at full operating rates.

Methanol industry supply improved in the fourth quarter of 2018, compared to the third quarter. Although we saw natural gas-based methanol production in China impacted due to natural gas supply restrictions.

Now, turning to our operations. In New Zealand, we produced 389,000 tonnes during the fourth quarter compared to 478,000 tonnes in Q3. Production was lower in the fourth quarter as we completed a scheduled turnaround at our Waitara Valley site and experienced continued gas constraints from natural gas suppliers completing planned and unplanned maintenance activities. We expect continuing natural gas supply restrictions in New Zealand will impact production in the first quarter of 2019 and potentially at other times in 2019 due to planned field maintenance.

In Chile, we have produced 206,000 tonnes during the fourth quarter compared to the 112,000 tonnes in Q3, which reflects higher gas deliveries from Chile and Argentina and the ramp up of our Chile IV plant. We've experienced some ongoing technical issues during the recommissioning of our Chile IV plant. We are optimistic that we will resolve these technical issues in the coming weeks and increase operating rates at our Chile IV facility.

We expect that our current gas agreements will allow for a two-plant operation in Chile during the southern hemisphere summer months with lower operating rates during the winter months when gas deliveries are lower, resulting in an average operating rates of up to 75% of a two-plant operation in the near term.

In Trinidad, we produced 448,000 equity tonnes in the fourth quarter of 2018 compared to 353,000 equity tonnes produced in Q3. We continue to experience gas restrictions in Trinidad and expect to receive approximately 85%

of our contracted gas supply for the foreseeable future. In Egypt, we continue to receive 100% of our gas and the plant continues to operate very reliably.

Now, turning to our financial results, we ended the quarter with \$256 million in cash on the balance sheet. Methanex share of the cash, including our proportional share of Atlas and Egypt cash, was \$233 million.

Our balanced approach to capital allocation remains unchanged. We believe we are well positioned to meet our financial commitments, pursue our value adding growth opportunities and return excess cash to shareholders through dividend and share repurchases. Our plant maintenance capital for 2019 is estimated to be approximately \$125 million. We continue to progress multiple advantage opportunities to grow our production capacity and further improve our earnings power and cash generation capabilities over the coming years.

We anticipate spending \$25 million to complete the first phase of the Chile I refurbishment in mid-2019 during the southern hemisphere winter months when we receive lower gas deliveries. Based on our ability to secure sufficient long-term natural gas, we will complete the second phase of the refurbishment over the coming years.

Our team is continuing to make progress on de-bottlenecking opportunities at our Geismar facilities to increase production by approximately 10% for a few tens of millions of dollars of capital. The plan would be to carry out these debottlenecking projects during planned turnarounds over the next few years.

Finally, we're continuing the [ph] front-end engineering and design (00:10:39), or FEED, phase of the potential Geismar 3 production facility and to confirm capital cost estimates and de-risk the project. We continue to believe that the Geismar 3 project is significantly advantaged relative to other products being contemplated or under construction in the U.S. Gulf. The location of the G3 facility adjacent to our existing Geismar plants and the technology we would use for the production process reduces both capital and operating costs relative to a standalone project.

We expect to spend approximately \$45 million in the first half of 2019 on this project to enable us to consider a final investment decision by mid-year. While it is our preference to have an appropriate strategic partner, we believe that it will be more and more challenging to accomplish in the current geopolitical environment.

We repurchased 1.2 million shares for \$79 million during the quarter under our share repurchase program and completed the normal course issuer bid for 6.6 million shares in 2018. In total, we returned \$550 million to shareholders through our regular quarterly dividend and share repurchase program in 2018.

Looking ahead to our first quarter results, as of January 1, 2019, a significant change to lease accounting standards known as IFRS 16 will have a material impact on the company's financial statements, increasing assets and liabilities while changing the classification of lease costs on the income statement.

Based on our current asset portfolio, this change is anticipated to increase annual adjusted EBITDA by approximately \$100 million, with an offsetting increase to depreciation and finance costs resulting in no material change to net income. More information on the impact is included in our fourth quarter MD&A for your reference. However, I would highlight that IFRS 16 does not change the cash flows or underlying economics of the business.

We expect average realized methanol prices in Q1 2019 will be lower than Q4 2018 and production levels to be similar to the fourth quarter. As a reminder, in a declining price environment, our margins tend to be lower than in a stable price environment due to inventory timing differences when we are selling produced and purchased product with a higher cost of sales. Generally, the opposite applies when methanol prices are increasing. As a

result, we anticipate that adjusted EBITDA will be lower in Q1 compared to Q4 excluding any impact from the IFRS 16 lease accounting change.

I would now be happy to respond to any questions.

---

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Thank you for your patience. Our first question is from Mike Leithead with Barclays. Please go ahead.

---

Michael Leithead

*Analyst, Barclays Capital, Inc.*

Q

Hi, John. Good morning.

---

John Floren

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

A

Good morning.

---

Michael Leithead

*Analyst, Barclays Capital, Inc.*

Q

I guess, first, can you just maybe give us a little bit more color on what was driving the inventory build this quarter, and how much of that was simply timing-related? And, I guess, how should we think about that normalizing as we work through the first half of the year?

---

John Floren

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

A

Yeah. We've guided to about 1 million tonnes in inventory over the past few years. I'll remind you, we are increasing our sales in line with our production growth and we sell about 11.5 million tonnes globally now. So, I think we're going to carry a little bit more inventory on a forward basis to service our customers. Even if it's 1.1 million or 1.2 million tonnes, that's really – it's about 10 turns a year and that's pretty significant when you consider about a third of the inventories that are planned and the third [ph] is on the water (00:14:46) at any given time. So, it's almost equivalent to 30 turns a year. And I don't know many chemical businesses that do that.

So, we plan to increase the inventory a little bit. And I think as we've increased it, we're kind of happy where it is right now. It may fluctuate some tens of thousands of tonnes depending on how product flows in any given quarter. We've seen this before. We saw quite a dramatic drop in pricing in December. And when you see this phenomenon like all commodities, consumers tend to delay purchases thinking the next day or the next week or the next month, prices are going to be a little bit cheaper.

So, we saw some sales impact in December as a result of the steep decline in pricing. That probably impacted our inventories a little bit as well. But, really, I think it's more as a result of our intent – sorry, intentional build because of our sales being higher, and we plan to continue to grow our sales.

---

Michael Leithead

*Analyst, Barclays Capital, Inc.*

Q

Got it. That's helpful. And then bigger picture, there's been a number of naphtha and even ethane-based ethylene projects I believe announced in China over the past six months. I was hoping maybe you could talk a bit about what you think the longer term MTO outlook is and whether we should expect MTO growth to remain viable longer term in that region.

John Floren

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

A

I guess it really depends on what your outlook for oil and naphtha pricing is. We always said it wasn't going to be an MTO versus naphtha. We said it's all of the above. Our outlook for oil is still in the \$60 to \$70 a barrel range. We saw that pricing in 2018 came off pretty quickly as a result of some issues that politically, geopolitical in nature regarding Iran, et cetera. And we would expect to continue to see volatility in oil going forward.

But that \$60 to \$70 to us is still a good range. And at that price if the relative naphtha ratios in the past hold in the future, then we would expect some more MTO to be constructed. There's still a number of plants being completed. That second wave, I think is going to be a bit delayed because of the uncertainty around naphtha and oil prices. So, we would expect to continue outside of places like the U.S. and the Middle East where they have ethane to see both MTO and naphtha-based olefins plants being constructed.

Michael Leithead

*Analyst, Barclays Capital, Inc.*

Q

Great. Thank you.

John Floren

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

A

Thank you.

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

Jacob Bout

*Analyst, CIBC World Markets, Inc.*

Q

Hi, John.

John Floren

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

A

Hey, Jacob.

Jacob Bout

*Analyst, CIBC World Markets, Inc.*

Q

I had some questions on the higher cost in the quarter. So, specifically on the logistics and the admin expenses, is this kind of a new run-rate higher? And then, if we strip out the impact of methanol prices and let's say if methanol prices were flat quarter-on-quarter, the lower margin, how much of that in your mind was a reflection of more purchased product versus increased logistics and incremental expenses?

John Floren

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

A

Yeah. Nothing's really underlining a change to our cost structure. We've seen these quarter-over-quarter differences in the past. I'll remind you that we had our Waitara Valley turnaround in the quarter so we probably moved a little bit more product from the Atlantic Basin to the Pacific Basin than normal. Bunker prices were higher and that's a good chunk of our freight costs as well.

So, really nothing quarter-over-quarter has changed. We did sell a little bit more produced – sorry, purchased products than produced and we've seen that phenomenon before. But I would say not to the extent of 286,000 tonnes. I think the highest we've seen in the past is 110,000 tonnes. So that was quite a significant change and I think as we continue to grow our production [indiscernible] (00:18:40) have more volatility in the future. But we really don't know until we wind up the quarter how things are going to look.

But again long-term, nothing has really changed in our cost structure. Nothing has really changed in our logistics cost. In fact, on a cost per tonne basis, you should expect logistics cost to stay the same even though we're seeing inflation. So nothing has really changed in the underlying cost structure.

---

Jacob Bout

*Analyst, CIBC World Markets, Inc.*

Q

Okay. And then my second question here just on G3, where you at with the partner? If you don't have a partner, why is [ph] there no one to trust (00:19:17)? Is it the terms or what should we be thinking about, and how are you thinking about funding G3 if you do decide to go ahead with it?

---

John Floren

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

A

Yeah, so, there was a lot of interest in – partner for G3. We always said we wanted to have a strategic partner that brought something more than cash because we like the project. The initial numbers on the engineering progress were quite attractive. We're confirming those numbers as we speak.

When I say the current geopolitical environment has led some of the people we were talking to pause, we're not pausing. So, we're going forward with the project. We want to have the feed completed by mid-year and then make an investment decision. Not having a partner is just another factor in the investment decision, so we'll have to put that into the decision making tree as far as a bit more risky not having a partner but we still believe the economics are tremendous and this is a unique opportunity to add capacity to our supply chain and this product is being modeled to go to Asia.

So, we have some work in front of us to confirm the numbers and to get comfortable with the risks and we'll be going to our board at mid-year to make a recommendation on whether to proceed with the final investment decision or not. But we have quite a bit of work ahead of us and we're still optimistic that this project will be a homerun for our shareholders and our company.

---

Jacob Bout

*Analyst, CIBC World Markets, Inc.*

Q

Thank you.

---

**Operator:** Thank you. Our next question is from Hassan Robin (sic) [Hassan Ahmed] (00:20:54) with Alembic Global. Please go ahead.

---



Hassan I. Ahmed

*Analyst, Alembic Global Advisors LLC*

Good morning, John.

Q

John Floren

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

Good morning.

A

Hassan I. Ahmed

*Analyst, Alembic Global Advisors LLC*

[ph] Quite worried (00:21:00), wonder where that surname came from, but Hassan Robin, going forward I guess. Anyway, quick question around China, John, one of the things that boosted utilization rates for be it methanol and a variety of other products, was this all sort of environmental curtailment side of things. Now, obviously the Chinese economy seems a little more shaky. So the question is that, have you guys seen some of that shuttered or curtailed capacity coming back into the market now?

Q

John Floren

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

Well, last year at this time there was quite a bit of industrial production curtailed that was based on coal because of the pollution. I'd say this year we haven't seen quite as much because the temperatures haven't been quite as cold. So I mean you have colder temperatures, there's more coal being generated for heating and electricity. I haven't seen the same cold temperatures so we haven't seen the same on a short term basis the restrictions that we saw last year. But directionally nothing's changed. Directionally, the Chinese have been very clear that they want to clean up the environment and especially the air quality on the East Coast and particulate matter is a big part of that.

A

And directionally, we would expect more and more industry to move out of the East Coast to different parts of China and shut down existing capacity. So nothing really has changed, I would say this is more of a short term phenomenon where we haven't seen quite as much restrictions in this quarter but we are into January. So you know pretty – couple of more months of winter to go. So we'll continue to monitor it.

Hassan I. Ahmed

*Analyst, Alembic Global Advisors LLC*

Understood. Now, sticking to Asia, a question around conventional methanol demand, ascetic margins came under pressure through the course of Q4 particularly in Asia. And at least one large producer recently talked about shutting some capacity in Asia. And so shutting it in Asia and adding some capacity here in the U.S. So the question is I mean, would that have a material impact for you guys or the global methanol demand picture? Or are you continuing to see decent demand from conventional sort of end markets like legacy ascetic and formaldehyde and the like?

Q

John Floren

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

Yeah. We've always said conventional demand will grow at GDP [ph] actually (00:23:27). We saw 3% growth in 2018 versus 2017. That's pretty solid demand in our view. We're a global company. We'll service people wherever they want to build plants. And if our customers want to build more capacity in the U.S. as we bring on more capacity in the U.S., that's a perfect marriage. We'll avoid shipping shiploads of methanol from Geismar to Asia.

A

So, we welcome all of our customers to be building lots of new capacity in the United States. It's a great place to do business and we have a lot of land at our site, so if anybody wants to think about locating on our site where they can get methanol by pipeline, please speak to our marketing people.

Hassan I. Ahmed

*Analyst, Alembic Global Advisors LLC*

Q

Fantastic. Thanks so much, John.

**Operator:** Thank you. Our next question is from Joel Jackson with BMO Capital Markets. Please go ahead.

Joel Jackson

*Analyst, BMO Capital Markets (Canada)*

Q

Hi. Good morning, John.

John Floren

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

A

Good morning, Joel.

Joel Jackson

*Analyst, BMO Capital Markets (Canada)*

Q

John, I think we've seen that the North American to the Atlantic Basin premium or at least North American methanol prices are trading at their highest premiums to China or Asia in the last four years. I think that's showing from your February contract price settlements as well. Do you have any thoughts on that? Is this the right premium we're going to see for 2019? Or what do you think?

John Floren

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

A

Well I don't predict the future, especially on pricing in premiums. But we've always said that we expect the premium to hold in the Atlantic Basin versus the Pacific Basin under the current supply demand and production models. And that's what we're seeing. So, Iran is a bit of a wildcard because of sanctions and where they can move their product into Europe or not into Europe. When do those sanctions change, it's really not for me to predict that either.

So, we're comfortable with where the premium in the Atlantic Basin is today. And I think we've always said that you'd have to see quite a bit more production coming on in the Atlantic Basin than we have today with really no growth in the demand for methanol in the Atlantic. And we certainly don't see that in the near term. So, we would expect to continue to have a premium. How much is anybody's guess. But, we've always said, on average it should be the logistics differential from the Middle East to Europe and that's kind of where we're at today.

Joel Jackson

*Analyst, BMO Capital Markets (Canada)*

Q

Okay. Maybe a little more color on New Zealand. Is your base case now that you should have more products – like I imagine you'll have more production in New Zealand than you did in 2018. But maybe give a little more color on sort of what are the ranges?

John Floren

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

A

Yes. So if you look at New Zealand, we did a lot of maintenance activities in 2018. We had a complex turnaround. We did a big turnaround at one of the Motunui plants and we just turned around Waitara Valley. So, as far as turnarounds and maintenance, we've spent a lot of money and those plants are now able to run at very high rates.

Unfortunately, we're seeing some gas issues related to maintenance planned and unplanned in the upstream. So, we're basically out there trying to [ph] renegotiate (00:26:27) for additional gas to run our plants at a high rate. So, we haven't secured the high CO2 gas yet. So, our run-rate should – you still should be thinking at 2.2 million tonnes. But, as I said in my verbal comments, we are – have been told to expect some planned and unplanned maintenance on the upstream mainly in the pipeline area.

So, we don't know today exactly how much we're going to be impacted but we expect to be impacted in Q1, but we're also trying to buy additional gas from others. So, it's really too early for me to give you a specific number, but we would expect today to run those plant – or get more production out of New Zealand in 2019 than we did in 2018.

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

John Roberts

*Analyst, UBS Securities LLC*

Q

Thank you. As you mentioned, the number of chemical supply chains downstream [ph] have (00:27:30) destocked late last year and into early this year. With oil prices moving back up, how quickly would you expect to see some restocking go on that might cause an inflection in the methanol demand?

John Floren

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

A

Yeah, we've seen some restocking happening in front of Chinese New Year in China. Again, most of our customers don't keep a lot of inventory. So there's not a lot of destocking and restocking to go on. Inventories are a little higher on the coast in China but when you look at the demand, it's really – you're talking days not months. So our current anticipation is that the two MTO plants that [ph] were been (00:28:08) down for most or all of the fourth quarter in 2018 will start to come back up in this quarter and that'll certainly help with the demand side of the equation. We expect another two new MTO plants that have been completed – under construction and completed and commissioning that consume 3.6 million tonnes at full rates to start up in the next quarter as well. So we see a healthy demand environment for traditional [ph] demand (00:28:37) as well as MTO and other energy related derivatives.

John Roberts

*Analyst, UBS Securities LLC*

Q

Great. And then before the next earnings call, we'll anniversary the start of your normal course issuer bid. Is a new NCIB on the agenda for the board this quarter?

John Floren

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

A

Well we're talking to our board today actually, a board meeting right after this meeting. So we talk to our audit committee, we talk to our board about how do we allocate capital for the company. We've been very consistent

with what we've been doing. So we have three uses for cash, grow the company which we've done. We spent over \$2 billion growing – doubling our production. We've got some nice opportunities ahead of us with Chile I refurbishment, debottlenecking in Geismar, and the G3 project which we think are all really homeruns. So we'll take some capital to work on those projects.

Our dividend is second pillar of our capital allocation. We want a meaningful, sustainable, growing dividend. We've grown it every year with exception of the financial crisis and one other time. And as we buy back shares, we think there's room to increase the dividend as we've increased our productive capacity as well. So, we'll look at that around the AGM in April, that's typically when we look at the dividend. So, we think there's room to grow the dividend and we'll talk to our board about that in April.

And then share buybacks, that's the third way we allocate capital and we've brought the share count down significantly since the incorporation of the company. We still think especially in today's environment a stock price environment, that's a good use of our excess cash to buy back shares. And we'll talk to the board about what our outlook is, and make a recommendation to them about the next NCIB. That's our preferred method of buying back shares is through an NCIB because it's flexible and you can increase it or decrease it depending on what's going on in the methanol market. So, those discussions are ongoing and really it's premature to be signaling anything because we can't issue an NCIB till mid-March anyway. So, we'll continue to look at the markets, look at how the methanol price is evolving, how is the G3 project looking and make a call in the early March meeting. So, that's our current plan.

---

**John Roberts**

*Analyst, UBS Securities LLC*

Q

Thank you.

---

**Operator:** Thank you. Our next question is from Daniel Jester with Citi. Please go ahead.

---

**Daniel Jester**

*Analyst, Citigroup Global Markets, Inc.*

Q

Yeah. Hi, good morning, everyone.

---

**John Floren**

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

A

Good morning.

---

**Daniel Jester**

*Analyst, Citigroup Global Markets, Inc.*

Q

So I just wanted to talk or ask about your production plan. Last year, you ran at about 84% of your operating capacity. Now that you restarted Chile IV, you're going to have over 9 million tonnes of operating capacity. So, if you run it at a similar level year-over-year, you can get in the ball park of maybe 8 million tonnes of potential Methanex produced methanol sales. I'm just wondering is that a reasonable trajectory given all the factors that you've talked about today or is there something else that could limit how much more Methanex produced methanol you could sell this year.

---

**John Floren**

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

A

Well, I'll remind you we have 11 plants running today which means two to three turnarounds per year. So that would impact our ability to run at 9.4 million tonnes. But we want to run all of our plants at full rates. That's our goal from turnaround to turnaround, 100% operating rates from turnaround to turnaround. So going around the world, I've already mentioned New Zealand where you know our full capacity is 2.4 million tonnes with the high CO2 gas, 2.2 million tonnes without it. And we're going to experience some restrictions in Q1, so it'll probably be a little less there.

We mentioned Trinidad at 85%. We don't see any change to that guidance. And then I've already guided to you on Chile, 75% of a two-plant operation. Having said that, we're still experiencing some technical issues with Chile IV start-up. So you can run the math, that's our goal and it'll depend on how successful we are at running our plants at 100%. You know, our reliability improved quite substantially in 2018, we are in the 95% and change. We haven't seen that for quite some time here at Methanex. Our goal is still 97% and our ultimate goal is to run our plants 100% between turnarounds.

So still some work to do. Still some low-hanging fruit there that I know our operations team are really focused on getting at and [ph] then we'll (00:33:09) continue to try and improve the reliability of our plants.

Daniel Jester

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. Thanks. That very helpful. And then maybe a question on Iran, there's some new capacity that started there a few months ago and there's other projects. Can you just give us an update on what you're hearing on that [ph] supply thing to (00:33:26) market? Thank you.

John Floren

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

A

Yeah. Very difficult to get any detail, data out of Iran in the current sanctions environment. The [indiscernible] (00:33:34) came on in the fourth quarter delivered some product. We saw it in Asia, which contributed to some of the price volatility that we witnessed in December. It's been down for some weeks now and we hear different things about when it might come back up. I really don't know. We heard recently that the [ph] Zagros (00:33:51) plant went down. One of the [ph] Zagros (00:33:53) plants went down to 1.8 million tonnes. How long, I don't know.

And then these plants that have been under construction now for 10 years that the industry experts were forecasting to come up I think early last year, and here we are and they're still down. So, those industry experts are a lot smarter than I am about when these plants are going to come up and we still haven't seen them. So, I've heard that now 2020, but I really don't have any really detailed information.

All I would say is in the current environment, it's hard to get financing in parts and shipping and all those things are a bit more difficult with sanctions. But I don't really have any significant insight other than what you might read elsewhere.

Daniel Jester

*Analyst, Citigroup Global Markets, Inc.*

Q

Great. Thank you, John.

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

Nelson Ng

*Analyst, RBC Dominion Securities, Inc.*

Q

Great. Thanks. So, in the MD&A, it mentioned this like maintenance CapEx of around \$125 million plus another \$45 million for G3. Are there any investments earmarked towards like the construction of new ships or investment in ships in 2019?

John Floren

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

A

Yeah, we've ordered a few ships, so there'll be some new ships coming into the fleet.

Nelson Ng

*Analyst, RBC Dominion Securities, Inc.*

Q

Do you have a rough estimate as to what the capital investment would be for a new ship?

John Floren

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

A

Yeah, no cash – no impact on cash flows.

Nelson Ng

*Analyst, RBC Dominion Securities, Inc.*

Q

Okay. Oh, because there are leases or is that why?

John Floren

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

A

I'll let Ian answer [indiscernible] (00:35:29).

Ian P. Cameron

*Chief Financial Officer & Senior Vice President, Finance, Methanex Corp.*

A

Yeah. We have a couple of ships under construction but the financing is in place and we have some cash on the balance sheet related to that financing that's in – it's sort of in trust dedicated to that, to the construction of those ships. So there'll be no impact on cash flow. It doesn't show up that this cash is restricted cash. It is disclosed in other assets, it's not in cash.

Nelson Ng

*Analyst, RBC Dominion Securities, Inc.*

Q

Okay. Got it. The other question I have relates to just the blending of methanol into gasoline. Could you just comment about ethanol versus methanol blending in China? And I think there has been some headlines in terms of potentially increases in ethanol blending in China. Could you just comment on how that would impact methanol?

John Floren

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

A

Yes, it's kind of old news. Nothing's really happened. The story about the corn and converting corn into ethanol and blending in with gasoline. We've said that in methanol there's more than 2 million tonnes being blended today. The future has always been a high level blend and that's where we've been focused and that's where the

industry has been focused. So, Geely is announcing again a lot more Methanol 100 cars in a couple of provinces in China.

So, we see the future in the high level blends. And what they end up doing with the corn and ethanol is a bunch of analysis, not much action. So, we'll continue to monitor it and we continue to see methanol being a solution because it's a clean burning product especially when you use it 100% and Geely have developed engines and cars that run in 100%. So, more and more, you're going to see these cars and taxis launched in China and that's where we're focused.

---

Nelson Ng

*Analyst, RBC Dominion Securities, Inc.*

Q

Great. Thanks. I'll get back in the queue.

---

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

---

Jonas I. Oxgaard

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

Q

Oh, thank you. Hi, guys.

---

John Floren

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

A

Good morning.

---

Jonas I. Oxgaard

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

Q

Good morning. So John, I have to hand it to you. You did say quite some time ago that you were happy with the premium between U.S. and Asia and here we are. My question though is we've seen the exports out of the U.S. to Asia go up dramatically since the Natgasoline plant came on line. How much of that additional volume is yours or are you deliberately bleeding out North American volume into Asia? And if so, how [ph] much (00:38:05)?

---

John Floren

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

A

Well, we said that part of the Geismar 2 product we always said half we were targeting for Asia. So we take a look at our supply chain on a regular basis and we're always optimizing. How much specifically? I don't have the number. We probably wouldn't share it if I had it. So we are marketing other people's products as well and we continue to see other people moving more and more product to Asia with the new Natgasoline plant both partners. So that's what we expected to happen. The future is hard to predict as I said but that's what we see happening.

In the fourth quarter specifically though, I'll remind you our Waitara Valley plant was in turnaround. So we did move more product than normal from the Atlantic Basin to the Pacific Basin to service our customers.

---

Jonas I. Oxgaard

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

Q

Okay. Thank you. Completely different attack, one of your – I don't even want to call it competitors, but at least one of the other companies in this space, they've embarked on a strategy to serve Chinese methanol producers

to do the – [ph] run gasification (00:39:15) for them. And while, I can see them having the business model already sort of in their ballpark, it seems to me that you guys would be equally suited for this kind of business opportunity. Is that something you looked into or working on?

John Floren

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

A

I'm not sure what you're referring to. Could you give me a bit more detail?

Jonas I. Oxgaard

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

Q

Air Products are contracting with the Chinese companies who are running coal to methanol and [ph] coal to chemicals (00:39:44) to operate a gasifier for them much like Air Products are operating the hydrogen generation for refineries today. Since, it's an outsourcing business, and the idea here is that a coal company doesn't necessarily know how to run a methanol unit and thus, they can outsource it to someone who can do it better. Now, as far as I know, there's only one standalone methanol producer in the world who can clearly run methanol plants. It seems like that could fit with your business model.

John Floren

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

A

Yeah. I think you're right. But we're into the business of making \$150 a tonne not a toll margin of 10% or 12%. So, if you look at our return on capital employed, it's much higher than you get in a tolling margin. So, if we ever got desperate for opportunities to grow the company, maybe we'd look at it, but this has been going on for some time. And we're really focused on producing methanol, selling methanol, and capturing the value between on the [ph] whole coal team (00:40:42). That's our current strategy. I wouldn't expect it to change in the foreseeable future.

Jonas I. Oxgaard

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

Q

Okay. Thank you.

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

Matthew Blair

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

Q

Hey, good morning John.

John Floren

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

A

Good morning.

Matthew Blair

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

Q

With the higher bunker fuel prices, are you seeing any uptick in interest for methanol as a shipping fuel?

John Floren

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

A



Yes. Not really related to bunker, I'd say it's related to ultra-low sulfur diesel. And I read the same stuff you do. You get people saying the refineries are ready. They're going to have all kinds of ultra-low sulfur diesel to service the industry. And you got other people saying, there's going to be a shortage and prices are going to spike. Well, again, I can't predict the future. What we like about what we've done with our ships is they're flexible. We can run ultra-low sulfur diesel. We can run methanol depending on relative economics. So, we continue to run our ships that can on methanol 100% of the time as much as possible on methanol to show that the technology works.

We've always said this is probably a next decade opportunity for methanol demand because most shippers are just going to switch to ultra-low sulfur diesel and see what happens. I'd say as the economics play out in the marketplace, we would expect as people ordering new ships, some to order these flexible fuel ships that are – can run on methanol or ultra-low sulfur diesel which gives people flexibility. We see quite a bit more interest in methanol onboard ships. We're running trials with the Chinese on fishing vessels. We've seen India now announce some ships to run on methanol.

So, in a real low oil price environment, I think the traction is a little bit harder than in a \$70, \$80 oil environment. But we've never ever in our numbers for demand put significant amount for onboard ships in our outlook for the next few years. We probably see it as a mid-next decade issue. But nothing out there that we've done on our own ships shows us that it can't work, it doesn't work and the emissions have been very attractive. So, we think it's a viable option for shippers to consider going forward.

---

**Matthew Blair**

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

Q

Sounds good. And then, turning back to the energy demand component and I guess specifically blending methanol into gasoline in China. China vehicle sales were down double digits in Q4. Some concern about the economy going forward and also just concern of over underlying China gasoline demand growth. Could you just talk about your expectations for this energy demand component of methanol in 2019?

---

**John Floren**

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

A

Yeah. The growth that we have as I mentioned earlier is in the M100, so, you would have seen Geely – that's available online if you just Google in Geely and Methanol 100. You can see their plans for continuing to roll out Methanol 100 cars. But that's a low level blending, it hasn't really changed that much over the past few years. So, all the focus has been on the high level blends mainly the M100.

So, [ph] we would continue (00:43:51), as those cars get sold and used either as taxis or personal automobile, to see methanol continue to increase in demand in that application. It's not going to be millions and millions of tonnes year-over-year but we would expect over time as we've seen more and more traction especially in the high level blends.

---

**Matthew Blair**

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

Q

Thank you.

---

**Operator:** Thank you. [Operator Instructions] Our next question is from Ms. Cheryl Radbourne with TD Securities. Please go ahead.

---

Cherilyn Radbourne

*Analyst, TD Securities, Inc.*

Q

Thanks very much and good morning.

John Floren

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

A

Good morning.

Cherilyn Radbourne

*Analyst, TD Securities, Inc.*

Q

Just wondering if you could give us an update on your efforts to secure additional gas in Latin America and improve the visibility beyond 2020.

John Floren

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

A

Yeah, so, we're getting obviously more gas today than we need because we haven't been able to run our site at full rates. So, I think our visibility is through 2020 but when we talk to suppliers, there's obviously quite a bit of gas available in the Southern Cone. And we can take the gas and as the Neuquén Basin in Argentina gets more and more developed, we think that Argentina at one point, is it a year, is it two, is it three will become self-sufficient in natural gas again. And I think that leads us to believe in the suppliers of gas to us that there'll be more and more for exports throughout not just in the southern part of Chile but throughout Chile and other countries. So that's where the country is headed. We pay in U.S. dollars and they would like to have more and more U.S. dollars in Argentina. But having said that, it is Argentina and things have changed before and can change in the future. But right now, we're pretty optimistic that we can get economic gas through the medium term to run our site down there at very high operating rates.

Cherilyn Radbourne

*Analyst, TD Securities, Inc.*

Q

Okay. Great. Separately, thank you for the guidance on IFRS 16. I just wonder if Ian could give us a bit of a feel for the split between depreciation and interest expense in terms of the OpEx that will now show up in those lines.

John Floren

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

A

Well, you don't trust me to do that?

Ian P. Cameron

*Chief Financial Officer & Senior Vice President, Finance, Methanex Corp.*

A

I think John could do a pretty good job but I'll do it. So as John mentioned already, as a result of this change, we think that based on our current lease portfolio, that EBITDA will increase by about \$100 million. And that will be offset almost exactly, it'll be a little bit around the edges, it'll be different, but by interest expense of about \$15 million and \$15 million to \$20 million and then the difference would be depreciation of around \$80 million.

Cherilyn Radbourne

*Analyst, TD Securities, Inc.*

Q

Perfect. That's very helpful. Thank you.

John Floren

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

A

Thank you.

**Operator:** Thank you. There are no further questions registered at this time. I would like to turn the meeting back over to Mr. Floren.

John Floren

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

Thank you very much. 2018 was a strong year as we generated the highest adjusted EBITDA in the company's history. I'm very pleased to see the investments we've made in our business to increase production capacity have resulted in a step change in the earnings profile and ability to generate cash flow at a wide range of methanol prices. Our balanced approach to capital allocation remains unchanged. Our priorities are to meet our financial commitments, pursue our value adding growth opportunities and return excess cash to shareholders through dividends and share repurchases. Thank you for the interest in our company.

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

Disclaimer

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

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

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2019 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.