

Q4 2023 Earnings Call

Company Participants

- Rich Sumner, President and Chief Executive Officer
- Sarah Herriott, Director of Investor Relations

Other Participants

- Ben Isaacson, Scotiabank
- Hassan Ahmed, Alembic Global Advisors
- Joel Jackson, BMO Capital Markets
- Joshua Spector, UBS Securities, LLC
- Laurence Alexander, Jefferies, LLC
- Matthew Blair, Tudor, Pickering, Holt & Co.
- Nelson Ng, RBC Capital Markets
- Steve Hansen, Raymond James, Ltd.

Presentation

Operator

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

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

Sarah Herriott {BIO 21418601 <GO>}

Thank you. Good morning, everyone. Welcome to our fourth quarter 2023 results conference call. Our 2023 fourth quarter news release, management's discussion and analysis, and financial statements can be accessed from the reports tab of the investor relations page on our website at methanex.com.

I would like to remind our listeners that our comments and answers to your questions today may contain forward-looking information. This information by its nature is subject to risks and uncertainties that may cause the stated outcome to differ materially from the actual outcome. Certain material factors or assumptions were applied in drawing the conclusions for making the forecast or projections,

which are included in the forward-looking information. Please refer to our fourth quarter 2023 MD&A and toward 2022 annual report for more information.

I would also like to caution our listeners that any projections provided today regarding Methanex's future financial performance are effective as of today's date. It is our policy not to comment on or update this guidance between quarters. For clarification, any references to revenue EBITDA, adjusted EBITDA, cashflow, adjusted income, or adjusted earnings per share made in today's remarks reflects our 63.1% economic interest in the Atlas facility, our 50% economic interest in the Egypt facility, and our 60% interest in Waterfront shipping. In addition, we report our adjusted EBITDA and adjusted net income to exclude the mark-to-market impact on share-based compensation and the impact of certain items associated with specific identified events.

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

Rich Sumner {BIO 22500227 <GO>}

Thank you, Sarah, and good morning, everyone. We appreciate you joining us today as we discuss our fourth quarter and full year 2023 results. I'm excited to report that the G3 plant is in the process of starting up, and we expect that commercial production is imminent. G3 significantly increases our cash flow generation capability and has one of the lowest emission intensity profiles in the industry. We're extremely proud of our global team for safely delivering this high-quality addition to our asset portfolio.

Turning to our results for the fourth quarter. Our average realized price of \$322 per ton and produced sales of approximately 1.7 million tons, generated adjusted EBITDA of \$148 million and adjusted net income of \$0.52 per share. Adjusted EBITDA was higher compared to the third quarter due to the higher average realized price and higher produced sales. Our global team has delivered a strong year of operating results with production of 6.6 million equity tons. For the full year 2023, we recorded adjusted EBITDA of \$622 million and adjusted net income of \$153 million or \$2.25 per share. We estimate that global methanol demand increased in 2023 to approximately 91 million tons.

Through the fourth quarter, market conditions strengthened with increased demand primarily in China outpacing an increase in supply leading to a drawdown on inventories and increasing methanol prices. Global methanol demand grew by over 3% compared to the third quarter with significantly improved operating rates in

methanol to olefins and growth in traditional demand in China. Outside of China, demand for traditional and energy applications remained relatively stable. We estimate MTO operating rates have increased from low 70% in Q3 to mid-80% in Q4, driven by the completion of planned downstream expansions and an improvement in affordability during the quarter.

On the supply side, production increased from coal-based producers in China, which was offset by planned and unplanned outages in the U.S., Southeast Asia, and the Middle East, as well as lower production from natural gas restrictions in Iran and China. Coal pricing in China was steady during the fourth quarter, ranging from around RMB 950 to RMB 1,000 per ton. We currently estimate the marginal cost of production to be between \$280 and \$300 per ton based on current coal pricing in China. Overall, continued high energy pricing, low global inventories, and tightening supply-demand balances led to higher pricing throughout the fourth quarter and into the first quarter. Our February posted prices in North America, Asia Pacific, and China were posted at \$570, \$390, and \$360 per ton -- per metric ton, respectively, and our first quarter European price was posted at EUR525 per ton, an increase from Q4 of EUR150. Based on our January and February posted prices, we estimate our global average realized price to be approximately \$335 to \$345 per metric ton for these two months.

Looking forward, we expect 2024 demand growth rates to be similar to 2023 based on current global economic forecasts. Supply additions in 2024 include our G3 plant, a plant in Malaysia, which is expected to startup in the second half of the year and some limited new capacity in China. We expect to see increased supply from these new capacity additions to be partially offset by the rationalization of existing supply. Production in Trinidad will be lower by approximately 1 million tons annually beginning in September 2024, when we shut down Atlas and restart Titan. And we continue to monitor our competitors' operating rates in Trinidad and other factors globally that could further impact supply such as the announced gas diversion from methanol to LNG in Equatorial Guinea.

Beyond 2024, we expect to see continued methanol demand growth and do not see any meaningful supply additions outside of China for the next few years. Looking at long-term demand drivers, ship orders for dual-fuel methanol vessels accelerated at a rapid rate in 2023. This was the first year that orders for dual-fuel methanol vessels outpaced LNG-powered ships, and the current order book for methanol vessels would result in over 250 ships being on the water by the end of 2028. The momentum for methanol as a marine fuel is clearly very strong, and we believe that methanol demand into marine applications will depend on a number of factors, including availability of low-carbon methanol, including green methanol, marine fuel regulations, and the cost competitiveness of methanol versus other fuels. Our low-carbon solutions team is in discussions with multiple shipping companies on how we can supply them with methanol as these ships start to come on the water in the 2025, 2028 period.

In the fourth quarter, we had higher production with no scheduled turnarounds and both Chile plants operating at full rates with gas from Argentina. The Egypt plant had

an unplanned outage in mid-October due to a mechanical failure in the synthesis gas compressor. The unit was sent to its manufacturer in Germany for repair and I'm happy to report that it's now back on site and we expect the plant to be able to startup in the first half of February. The G3 plant is in the process of starting up and we expect that commercial production is imminent. We expect the plant to ramp up to full rates over the month of February.

I want to thank the project team who work tirelessly to deliver this high quality project safely, and we expect the total capital costs to come within the budget of \$1.25 billion to \$1.3 billion.

In 2024, we have one planned turnaround scheduled. Our forecasted production for 2024 is approximately 8.1 million equity tons, although actual production may vary by quarter based on timing of turnarounds, gas availability, unplanned outages, and unanticipated events. In Chile, both plants are currently operating at full rates with gas deliveries from Argentina. We estimate production for 2024 will be between 1.1 million to 1.2 million tons, which is underpinned by year-round natural gas supply from Chile for about 30% to 35% of our requirements, with the remaining 60% to 65% from Argentina during the non-winter period, allowing us to operate both plants at full rates.

Natural gas development and related infrastructure investments in Argentina continues to progress, and we're working with our natural gas suppliers on extending the period of full gas availability to our plants.

In New Zealand, we're expecting lower gas and lower production in 2024 of 1 million to 1.1 million tons. 2024 natural gas supply is expected to be impacted by a combination of our suppliers' planned infrastructure maintenance outages as well as lower than expected output from existing wells. While upstream investment has been made by our gas suppliers in New Zealand over the past few years, recent production results have been lower than originally expected, which has contributed to the revised forecast for lower production in 2024. We ended the fourth quarter in a strong financial position with \$451 million of cash and \$300 million of undrawn backup liquidity. Our capital priorities are to pay the remaining G3 capital of approximately \$60 million to \$110 million in the first two quarters of 2024, and to repay rather than refinance the \$300 million bond due at the end of 2024.

Moving forward, we expect to generate strong free cash flow with limited maintenance capital and higher production capability with G3 operating. Looking ahead to the first quarter of 2024, we're expecting slightly higher adjusted EBITDA with a higher realized price and similar produced sales as we will be building produced inventory with the G3 startup and the Egypt restart. With G3 expected to ramp up the full rates over the month of February, we expect the second quarter of 2024 to be more representative of our run rate production and cash generation capability. Our priorities for 2024 are to deliver strong operational results from our assets and supply chain, maintain a strong balance sheet including the repayment of debt and return excess cash to shareholders. We would now be happy to answer questions.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) And your first question comes from the line of Joel Jackson with BMO Capital. Please go ahead.

Q - Joel Jackson {BIO 16250849 <GO>}

Hi. Good morning. When we think about the buyback now, you talked about what your capital allocation priorities are to get through the last, I don't know, \$80 million or \$90 million of spending in G3, put enough cash on the balance sheet to payback the bond later in the year. When do you think you're in a position to you have enough cash buffer on your balance sheet and you're ready to start buying back stock?

A - Rich Sumner {BIO 22500227 <GO>}

Yes. I think, Joel, we're obviously monitoring the market's methanol pricing certainly where it is today. Methanol pricing is -- we generate strong cash flows at today's methanol price. So, it will be a function of our outlook on -- firstly, it's building up the cash or at least having an outlook on the market by the time we make that decision to maybe open up a bid.

But I wouldn't say we're there yet. We're going to monitor the markets. We'd like to get G3 up and running and focus on getting that up to full rates. And if you look forward, you hold pricing where it's at today through Q2 with all of our assets running, we'll be building cash. And if we can get confidence that the market's holding in, then we'll see -- we don't have to wait until everything's built before we open up that flexibility. But we're not there yet, but we're going to pay attention really closely to how things build up over the next few quarters here.

Q - Joel Jackson {BIO 16250849 <GO>}

Okay. That's helpful. So, when G1 and G2 came on across '15 and early '16, there's another plant also in the U.S. that came on. I know there's a lot of pressure on methanol inventories in the States. I think prices went quite low. They bounced back across '16. You're about to put a bunch of new methanol volume on the market coming out of the States. U.S. is about to go long methanol to a greater amount now. What is the team doing to make sure that you're balancing the market? Are you going to run full rates in a month? How do you make sure you don't hurt the market?

A - Rich Sumner {BIO 22500227 <GO>}

So, I mean, Joe, where we've been from a sales perspective, we've really built up sales in advance of G3. So, when we start up the plant, what it'll be is it'll be a displacement of purchase product. And like I said, we're already -- we're anticipating

and building all -- everything into our plans that we're getting up to full rates by the end of February.

We plan our supply chain about two to three months out, so we've already pulled back on purchases. And market pricing has stayed stable, if not increasing. So, I would say a lot of G3 is in the market today without the plan operating. And part of this is the fact that the timing at which we're doing this is fortunate because the market is typically structurally short with -- in this timeframe. But I would say a big portion of G3 is already in the market because of our supply chain decision making that's already there.

Operator

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

Q - Steve Hansen {BIO 4672758 <GO>}

Yes. Thanks, guys. Rich, as you think about the gas opportunity in Argentina to bring on sort of those two plants at full rates, full time, what is the timeframe for those discussions with the Argentine gas suppliers and the time to contract, all the different things you need to do in advance to get the secure supply so that you can run those basically at full rates?

A - Rich Sumner {BIO 22500227 <GO>}

Thanks, Steve. I think when we look at Argentina, it's a real positive story for us right now. And I think you have to go back to where is development, how is -- what's the pace of development in that country. Really good progress through 2023 with the tie-ins that they made to the Vaca Muerta. Just how they're phasing that in, the first tie-in happened where it added about 11 million cubic meters a day of gas into the grid. The compression they're going to add to that pipeline is going to double that capacity. That's supposed to happen in the first half of this year. And then there's a twinning of that pipeline that's going to double all of that. So -- and that's about 1/3 of the gas supply demand in Argentina. That twinning is supposed to happen through 2025.

In addition to that, there's a project that's happening in the Southern Basin, which is Total and Wintershall and others. It's the El Fenix project that's in the South as well. And that's -- that gas is meant to come online at the end of 2024 into 2025. So, I see -- it's already positive. We're already seeing more gas availability in the non-winter months. And that's allowed us to operate both plants. What I see is, there's going to be a lot more positive development in the next few years. And what I would say is, our goal is to contract on a longer-term basis this full gas in the non-winter periods, and then over time we shorten those shoulder periods to the point where we can move towards full gas supply. I can't give you exact timeframes, but I think there's going to be a lot of positive things happening in the next few years, and certainly, we're going to be working very closely with our gas suppliers there.

Q - Steve Hansen {BIO 4672758 <GO>}

Okay. That's great. And then just on your reference to discussions with some of the ship owners around methanol supply arrangements, is there something you need to do to sort of carve out a new stream of methanol, whether it's RNG-based or some sort of carbon-based, low-carbon-based fuel stream, to provide that kind of fuel type for the methanol operators? Or are they just looking for the regular methanol as a starting point?

A - Rich Sumner {BIO 22500227 <GO>}

I would say there's a combination of discussions going on. There's regulations in Europe that are really driving the desire for low carbon or green methanol. And so, when -- our discussions with a lot of those shipping companies do focus more into investments in renewable, whether that be RNG or e-methanol -- bio-methanol or e-methanol. And so -- those discussions are ongoing. There's also discussions about conventional methanol happening as well outside of Europe and with other shipping companies.

But like I said, there is a number of different factors I think that the marine industry is working with, and that will influence their ultimate choice in fuels. And certainly, our low carbon solutions team is working right along with them on how we can provide solutions, be it investments in green or conventional methanol or both. So, I think we're going to have more to report here as we move through this transition to have these ships on the water, and it's going to evolve. So, hard to give you exact timeframes and volumes as it relates to methanol. Certainly, these are dual-fuel ships and there's options for traditional bunker fuels. We think that methanol is competitive to the alternative low-carbon solutions in the diesel space, but again, that's also going to evolve.

Operator

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

Q - Hassan Ahmed {BIO 7430123 <GO>}

Morning, Rich. You guys saw a good bump-up in pricing over the last couple of months, particularly in Europe. So, my question kind of is around the variances or divergences in pricing. There still seems to be a fairly large delta between call it, U.S./European pricing and Asian pricing. So, would love to hear your views around that delta.

A - Rich Sumner {BIO 22500227 <GO>}

Thanks, Hassan. It's -- I think when we look at the markets, we tend to start with China. China becomes -- is the cost-setter in the market. And today, we say the cost curve is around \$280 to \$300. And we see MTO affordability, which is a big buyer to the industry, kind of in the same range. And so, that -- we've seen that price holding uncovered relatively firm for quite some time.

And then, what we see is that depending on the, I'd call, the tightness in the market, we see pricing in other regions at a premium to China, which varies depending on supply and demand into those markets and availability of methanol. So, if you have unplanned outages in the U.S., then the premium in the U.S. market will go up for a period. But what we're seeing is things kind of settling in at around on average, we're in this \$30 to \$50 over China. And like I said for the first quarter here, we're at \$335 to \$345 per tonne on an average realized basis with China in that \$280 to \$300. So, we're very happy with the pricing that is happening in the market, which is reflective of tight market conditions.

Q - Hassan Ahmed {BIO 7430123 <GO>}

Fair enough. And just moving on to the natural gas side of things, particularly in the U.S. I mean, I know, between sort of last year and this year, we've obviously seen natural gas prices in the U.S. coming down a fair bit. Can you talk a bit about the differences in your hedging strategy between 2023 and '24? Because I know you guys had obviously hedged out a fair amount of U.S. natural gas last year. Where does that stand this year?

A - Rich Sumner {BIO 22500227 <GO>}

Yes. We're -- so, our strategy is kind of to have three to five-year rolling hedges, and we actually go beyond that but at much lower quantities. And we target in the near-term years to have about 70% of our position in North America hedged. And that's where we're at today with G3 operating at full rates.

So, we're effectively, you could say, we're participating -- we'll be participating in the spot market at around 30%. We set that level based on the minimum operating rates in our plant. And we target a delivered cash cost that we're comfortable with to operate at all points in the methanol price cycle. And so, we've been successful in putting in those hedges. We're happy with where we are. We're not seeking to -- in the short term to be hedging up beyond that level. And we continue to be active in the market, layering hedges in the outer years as the new year's roll in. So, hopefully that helps you with that question.

Operator

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

Q - Ben Isaacson {BIO 6619206 <GO>}

Thank you very much and good morning. First question is on New Zealand. Just looking back at my model, I see in 2016 you produced or sold 2.2 million tonnes from that region, and now eight years later we're down about 50% to 1% to 1.1%. What should we be modeling as a run rate for New Zealand going forward? Not in '24 but beyond '24. What's the realistic game plan there? And is there an opportunity to monetize an asset that's not being used right now?

A - Rich Sumner {BIO 22500227 <GO>}

So, thanks, Ben. For modeling purposes, we're giving guidance right now one year out. And a lot of this is based off of developments that are happening in the natural gas fields in the Taranaki Basin as well as other factors. I think what we've seen, if you -- when you look at the decline over that time period that you referenced, it's all about what's happening in the different fields in New Zealand. And we did see that there was a revision in reserve estimates at one of the major fields that brought -- that was quite some time ago that brought production down.

Today, I wouldn't -- we don't forecast to have Waitara Valley, the smaller plant, in our plants. We're really focused on the two Motunui plants and getting gas for those plants. I think when you think longer term for these assets is, you have to look at both above ground and below ground factors. And what I mean by that above ground, we play a huge role in New Zealand in the natural gas market. The country uses most of the power. It's renewable power, but natural gas is an important power source when there's intermittent gas -- intermittent power supply. And we -- it's a low-emission power source, otherwise you're dependent on imported coal. We represent 50% of the market and we're the baseload customer for the natural gas industry. So, I think that is an important factor.

And the second one is the government. There's just been a new government put in place in New Zealand, the center-right coalition. Their platform is much more favorable towards the gas industry in comparison to what we've seen for the last six years. And that is a clear direction that they've set coming into power. So, that's positive. And then obviously looking at below ground, some of the campaigns that have been run for the last year or so, they haven't delivered the results, which is what you kind of expect. Sometimes you're going to have results, sometimes you won't. These have not delivered results. In the wells that have been producing, we've seen declines happening a little quicker.

So, we're working with our gas suppliers really closely on the investments they're going to be making to improve the existing wells and also the impact that has on their future campaigns. It's difficult to give you what is that going to result in for a long-term run rate. What I can say is, our focus is on the two Motunui plants and keeping those -- trying to improve the production from those assets.

Q - Ben Isaacson {BIO 6619206 <GO>}

That's super helpful. And then, just one more, if I may. Forgive my bad math here, but you said that the world grew at an annualized rate of 3% in Q4, and ex-China the world was stable or maybe about roughly flat. So, does that -- and given that China's roughly half of global demand, does that mean that China really grew at 5%, 6% in Q4? And if you take MTO out, what did non-MTO China do? That's what I'm -- I think that's what investors are quite interested in because MTO will fluctuate all the time, but we really want to see demand improvements from underlying China. Thank you.

A - Rich Sumner {BIO 22500227 <GO>}

Ben, yes. So, we did see some demand improvement in traditional applications in China as well as MTO and overall growth rates were about 6% in China quarter-over-quarter. Traditional applications, obviously, it is something that we're watching really

closely as well. For the year in China, we saw about 5% to 10% growth rates in China across all applications.

So, that was MTO, other energy applications, and traditional chemical applications. And traditional chemical applications were supported industrial production in China, increased by over 5% for the year. Export demand was weak, but they were exporting a meaningful amount, especially in comparison to the previous year where they were in a COVID year. So, in a way, we did -- we were coming off of a lower base coming into 2023, but 5% to 10% growth rates across all those different applications when it represents 60% to 65% of year demand obviously is going to be meaningful for the industry.

Operator

Your next question, it's from the line of Josh Spector with UBS. Your line is open.

Q - Joshua Spector

Yes. Hi. Thanks for taking my questions. First, I just wanted to ask just within Europe and thinking about Red Sea and Middle East disruptions, has that had any impact on the region? I know for some other commodities, you're talking about potentially limiting supply into Europe being an upward price, perhaps catalyst. I know methanol floats tend to be in the other direction, but what are you seeing and what do you think plays out here near term there?

A - Rich Sumner {BIO 22500227 <GO>}

That's exactly right. It hasn't been a big impact for us nor for the methanol industry broadly. Our supply chain, we don't have any product flowing through the Suez and the Red Sea. We would if we were supplying Egypt to Asia, but Egypt is really an asset that supplies mostly our Mediterranean customers. So, we're not impacted.

And then, as a broad industry, the flows from the Middle East have really pulled back over time and are almost negligible. And that's on the basis that there's been a lot of new Atlantic production that's come online over the past many years. And so, it hasn't impacted the methanol pricing or really tightened up the market in Europe. I would say what we're continuing to monitor, which everyone will be monitoring is, potential escalation in the region and the Strait of Hormuz is where probably 15% to 20% of supply, because all Middle East supply flows through that region. And just given recent events with Iran, something we're watching very closely. But that would impact many, many different commodities. And so, we'll continue to monitor that. But so far, the impact has been pretty muted.

Q - Joshua Spector

Thanks. I appreciate that. And just a quick one on CapEx, if I could. Just as G3 winds down, I mean, you go more to maintenance levels, but you're talking about a little bit of growth when you think about marine fuel and some other applications. What's the range of CapEx you see over the next couple years and go forward?

A - Rich Sumner {BIO 22500227 <GO>}

When we look out, we don't see any real meaningful capital in the next few years when it comes to either intrinsic organic growth opportunities or low-carbon methanol investments. It will take time to develop. We're developing these opportunities but that will take time. So, we're not standing still, we're developing these. But in terms of capital spend, we don't see a lot of outflows or outlays being needed in the next few years. So, really, when we look at free cash flow generation, the focus again is the balance sheet and then excess cash to shareholders, which we've been pretty consistent with over the years.

Operator

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

Q - Nelson Ng {BIO 16615616 <GO>}

Great. Thanks, and good morning. My first question is, in terms of the outage in Egypt, like, obviously, you still need to supply Europe. Did you see materially higher transportation costs in Q4 and maybe in Q1? And if so, should we assume that things kind of normalize in Q2?

A - Rich Sumner {BIO 22500227 <GO>}

Yes. So, thanks, Nelson. It's -- yes, we did see higher logistics costs, and I would say part of that was because of Egypt. Additionally, we -- it does depend on your supply chain movements. With more Chile product in our asset base, we do see more flows from Chile to Asia, so a little lengthening of the supply chain there. And we move forward, our supply chain, it will be partially lengthened when you -- with G3. G3 product will be flowing to all different areas within our supply chain, but there will be likely be more flows into Asia as well. So, hard to say how you model all that, but we expect there could be some slight increases in our ocean freight just on based on shipping days and length in the shipping -- in the supply chain.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay. That's good to know. And then just one follow-up on New Zealand. You mentioned the lower supply. Like is that -- like from a maintenance outage at wells versus generally lower output, would you say that the generally lower trend of output, is that the larger factor in terms of your forecast for the large decrease in methanol production in New Zealand? Or is it specifically like a very big outage or long outage you're expecting for maintenance?

A - Rich Sumner {BIO 22500227 <GO>}

It's about half and half, I would say for that, like it's about half because of the outage and half because of lower gas profile.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay. And are those outages like every other year or once every several years? Like should we expect these outages to happen again in 2026?

A - Rich Sumner {BIO 22500227 <GO>}

Every few years. Yes, around every two or three years.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay. So, base cases we might see a modest increase in 2025 out of New Zealand if everything else remains unchanged.

A - Rich Sumner {BIO 22500227 <GO>}

We'll keep updating you on the progress, and we're going to work really closely alongside and be able to give you a better view on that as we get closer to next year.

Operator

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

Q - Matthew Blair {BIO 16648009 <GO>}

Hey. Good morning. Thanks for taking my questions. I had a couple of modeling questions for G3. First, are there any significant startup costs that we need to incorporate into Q1? And then second, this inventory build in Q1, is that going to be like just a permanent part of your working capital or will it be temporary? And if it's temporary, is that something that you think will reverse by the end of '24 or something further out?

A - Rich Sumner {BIO 22500227 <GO>}

Thanks for that. So, I can -- the first question was about capital. There will be no other kind of startup costs to be -- for us to be focused on. Everything in terms of starting up and commissioning the plant is included in our \$1.25 billion to \$1.3 billion. And that's all included in the numbers, the \$60 million to \$110 million, including what's in account and payable today. So, there's -- you shouldn't foresee anything beyond that.

As it relates to inventories, what I think we'll see this year is, overall inventory levels will likely stay something similar, potentially even down, like we could see inventories be down. We're not significantly increasing our sales, so there isn't a need to increase overall inventory levels. And I would expect to see these things moderate over time in terms of the produced inventory buildup that you're seeing today. So, I wouldn't be forecasting this to be permanent -- and what we will see is that overall inventories stay the same but there's sort of a flip between produced inventories and purchased inventories as we will be buying a lot less proportion of purchased and producing more.

Q - Matthew Blair {BIO 16648009 <GO>}

Okay. And then, so does that mean that for 2024 that your sales volumes should be pretty close, maybe a little bit less than the 8.1 million tonnes of production?

A - Rich Sumner {BIO 22500227 <GO>}

Yes, it will be pretty -- it should be pretty close. And it might be slightly lower because of the inventory build.

Q - Matthew Blair {BIO 16648009 <GO>}

Got it. And then my follow-up is just around RNG. Could you talk about what percent of your sales were based on an RNG feedstock in 2023, and how might that change in 2024 and beyond? And what kind of customers are interested in methanol from RNG? Is that mostly the shipping or anything changing on the customer front there? Thanks.

A - Rich Sumner {BIO 22500227 <GO>}

So, I think first and foremost, the overall level is quite small. We really -- today, we have one customer purchasing biomethanol, but there's lots of interest. So, there's lots of interest in low-carbon methanol and R&G based methanol.

I think the challenge is about cost and availability of R&G. And R&G has other competitive alternatives that have increased the cost quite significantly in the premiums you need to pay. And so, we've worked -- we are trying to work on arrangements where we can maybe get a more favorable price by locking in longer term and then selling into those markets, and those are the things we continued to pursue. And it's not just R&G in North America, we're looking at renewable natural gas in all of our jurisdictions to find out where we can source it economically and securely over time.

In terms of the customers and shipping, the shipping customers are interested in RNG, but also traditional chemical applications are also interested. In fact, the one contract we have is into the -- is into -- is a traditional chemical application. And what -- it's really customers that are seeking to have a green or bio kind of attached to their end product. So, we're seeing that in certain segments. It's consumer markets that is where we're seeing it, ultimately landing in consumer markets that would be able to demonstrate a feedstock that's more lower carbon or green. So, we're continuing to develop it. Lots of interest. Obviously, getting -- securing long-term affordable renewable natural gas is the key, and then working with customers on their willingness to pay.

Operator

(Operator Instructions) Your next question is from the line of Laurence Alexander with Jeffries. Your line is open.

Q - Laurence Alexander {BIO 21637617 <GO>}

Good morning. Could you give a bit more detail on what you're seeing in China in DME demand and the industrial boiler applications, the amount of pull-through?

A - Rich Sumner {BIO 22500227 <GO>}

Yes. I mean, I'll speak to China a little bit deeper here. Maybe across all the applications, in particular the ones you're focused on. So, in other energy applications, we saw a growth rates, again, 5% to 10%. That includes MTB, DME, other thermal applications, boilers and kilns, as well as fuel -- other fuel applications, such as cooking fuels. And so, we saw a lot -- very strong growth rates across all of those applications.

In terms of boilers and kilns, where we see boilers at today is that these are residential and industrial applications, but I would say that originally there was thought that it would replace big industrial boilers. We haven't seen that. Where we see it is in smaller applications, commercial and smaller industrial changeovers. So, the -- it's a decent growth rate, but it's not the -- some of the projections that were made early I think in this space were quite dramatic. But we are probably seeing 5% to 10%. Would have seen that this year in that segment.

Your question about DME, DME has been relatively flat, right, because that industry has kind of operated at a certain rate. It isn't growing or expanding and the existing industry sort of operates at around kind of an 80% rate. And so, we don't see DME growing at all. It's really the other applications like cooking fuels, boilers and kilns, M100 vehicles. Geely has a fleet of vehicles, but they're also developing heavy-duty trucks. And so, that's where we see more of the momentum is, less so in the, I would call it the older new application DME and more into these newer applications.

Q - Laurence Alexander {BIO 21637617 <GO>}

And if I may, just one follow up on that, and then one structural question. With respect to the kind of the frothier expectations, I remember when the first industrial boiler discussions happened, a lot of it was about kind of the need for clear policy at the federal level to sort of force or trigger kind of the adoption at the larger sites. Did that policy ever gel? Or is the absence of that sort of why you're seeing sort of the shift in demand to mostly being the small applications?

A - Rich Sumner {BIO 22500227 <GO>}

What happened there was that industrial sites, large industrial sites got connected to the gas grid, right? So, they needed to reduce down their power by coal, and we saw a lot of those -- as much as possible, those industrial sites got more connected to gas, and we're using that as an alternative versus methanol. And so, methanol is actually being developed more in spaces where connecting to gas isn't available, and it tends to be in smaller industry or residential commercial applications. So, your policy didn't change, but --

Operator

My apologies. Your next question is from the line of Steve Hansen with Raymond James. This is a follow-up. Your line's open.

Q - Steve Hansen {BIO 4672758 <GO>}

Yes. Thanks. Just a quick follow-up. I wanted to circle back on the supply picture, Rich. I think you referenced the Malaysian facility coming on G3, of course, but I don't think you referenced anything out of Iran this year. Just wondering if you've got sort of a view specifically on those facilities that have been sort of mused about for some time, and whether they're going to be contributing at all to an incremental supply this year. Thanks.

A - Rich Sumner {BIO 22500227 <GO>}

Thanks, Steve. Yes. So, for Iran, it's obviously getting information out of Iran and understanding what's going on there is often opaque. So, we rely mainly on what we hear in the market as well as what we see on trade flows. The news in the market that potentially the Arion plant started production sometime this year. We have seen some supply in the winter greater than what we've seen previous years, but we think that's more based on weather. It's been a warmer weather than a lot of new supply coming out of new assets. It's something we continue to watch.

We think that the -- when we think about Iran, we think the structural constraints are going to be the same, which is -- under sanctions environment you have -- it's difficult to operate these plants. A lot of them have been built with local EPC resources, difficult to run from a technical perspective and the gas grid is constrained for a big part of the year. So, I think we will watch to see what happens when the winter ends and we see potentially more gas availability, and it will tell us whether we see any new incremental supply coming from new plants. But we think those structural constraints are there and they're going to continue. So, we don't factor in a big amount of net supply coming out of Iran here regardless of whether plants start up.

Q - Steve Hansen {BIO 4672758 <GO>}

That's helpful. And just, the obvious follow on question is, I know G3 is just turning on, so it's probably a bit premature, but when do you start scoping the next facility? Presumably that's probably already happening, but when does the actual thought of hard dollars going into the ground start to enter the equation? Are we talking three years out, five years out? How do you think about that in the longer term? Thanks.

A - Rich Sumner {BIO 22500227 <GO>}

So, the phases for us, we'll be looking at doing commercial work to really explore our options. And it'll be partly commercial, partly technical looking at our different options that are available. That's where we are today. That process will then be narrowed down into which are the ones you want to progress. Then you'll -- then we would talk about a pre-feed, which would be still fairly limited capital. And then the next step is to move into a feed, which you start spending more money but still I don't think is the capital you're talking about. You don't get there until you reach a

final investment decision. So, we're ways away from that -- from a final investment decision where you start turning it to spend meaningful capital on a new project.

Operator

Your next question is a follow-up from the line of Josh Spector with UBS. Your line is open.

Q - Joshua Spector

Yes. Thanks. Just a quick one to clarify. When you were talking about the kind of guide or the walk to first quarter, you said slightly higher sequentially. I guess pricing up is up a decent amount. Understanding G3 is probably not in the math until second quarter, but Egypt was down last quarter. I guess, what's offsetting that when you're expecting Egypt to start? Is it a big cost of the repair maintenance associated with it or something else which limits your first quarter increase?

A - Rich Sumner {BIO 22500227 <GO>}

Yes. I think it's really -- we're going to be building inventory through the first quarter rather than seeing that product flowing through sales. So, I think really when we look at our inventory as we bring G3 and Egypt up, our overall produced sales for Q1 are looking similar to Q4, and really it's about price. So, I think we're -- when we look at quarter-over-quarter, it's more of a price story than seeing that incremental. And then when we get to Q2 is where you start to see kind of what we would call the run rate production coming through the actual sales. And that's why we kind of point to Q2 as being more indicative of our run rate and cash flow capability with all our assets running.

Q - Joshua Spector

Okay. Thank you.

Operator

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

A - Rich Sumner {BIO 22500227 <GO>}

All right. Well, thank you for your questions and interest in our company. We hope you'll join us in April when we update you on our first quarter results.

Operator

This concludes today's conference call. Thank you for joining. You may now disconnect.

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