Q4 2023 Earnings Call *(Corrected version)*

Event Details

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Company: Methanex Corp.
Ticker: MX-CA

Company Participants

Sarah Herriott - Methanex Corp., Director-Investor Relations
Rich Sumner - Methanex Corp., President, Chief Executive Officer & Director

Other Participants

Joel Jackson - Analyst
Steven Hansen - Analyst
Hassan I. Ahmed - Analyst
Ben Isaacson - Analyst
Joshua Spector - Analyst
Nelson Ng - Analyst
Matthew Blair - Analyst
Laurence Alexander - Analyst

MANAGEMENT DISCUSSION SECTION

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.

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

Sarah Herriott

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 conclusion for making the forecast or projection which are included in the forward-looking information. Please refer to our fourth quarter 2023 MD&A and to our 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, cash flow,

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're 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

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 tonne and produced sales of approximately 1.7 million tonnes, 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 produce sales. Our global team has delivered a strong year of operating results with production of 6.6 million equity tonnes.

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 tonnes. 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 and 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-70s percent in Q3 to mid-80s percent 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 US, 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 tonne. We currently estimate the marginal cost of production to be between $280 and $300 per tonne 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 are posted at $570, $390 and $360 per tonne – per metric tonne, respectively; and our first quarter European price was posted at €525 per tonne, an increase from Q4 of €150. Based on our January and February posted prices, we estimate our global average realized price to be approximately $335 to $345 per metric tonne 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 start up 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 tonnes 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 rapid rate in 2023. This was the first year of 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 green fuel is clearly very strong and we believe that methanol demand in marine applications will depend on a number of factors, including availability of low-carbon methanol, including green methanol, green 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 to 2028 period. In the fourth quarter, we had higher production with no scheduled turnarounds, and both Chile plants are 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 start up 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 cost to come within the budget of $1.25 billion to $1.3 billion. In 2024, we have one planned turnaround schedule. Our forecasted production for 2024 is approximately 8.1 million equity tonnes, 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 tonnes, 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 deliveries and lower production in 2024 of 1 million to 1.1 million tonnes. 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 key – strong free cash flow with limited maintenance capital and high – 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 to 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.

QUESTION AND ANSWER SECTION

Operator

We ask that you limit yourselves to one question and one follow-up question. If you have additional questions, please re-enter the queue. And your first question comes from the line of Joel Jackson with BMO Capital. Please go ahead.

Analyst: Joel Jackson

Question – Joel Jackson: 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 at G3, put enough cash on the balance sheet to pay back the bond later in the year. When do you think you're going to be in position to – you have enough cash buffer on your balance sheet and you're ready to start buying back stock?

Answer – Rich Sumner: Yeah, I think, Joel, we're obviously monitoring the markets, methanol pricing, certainly where it is to-date. Methanol pricing is – we generate strong, strong cash flows at today's methanol price. So, it will be a function of our outlook on the – firstly, it's building up the cash for – or at least having an outlook on the market by the time we make that decision to maybe open up a bit (00:13:20). 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 I think if you look forward, you hold pricing where it's at today through Q2, with all of our assets running, we will be building cash. And if we can get confident that market's holding in, then we'll see – we don't have to wait until everything is 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.

Question – Joel Jackson: Okay. That's helpful. So, when G1 and G2 came on across 2015 and early 2016, there's another plant also in the US 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 2016. You're about to put a bunch of new methanol volume on the market coming out of the States. US about to go long methanol to greater amount now. What is the team doing to make sure that you're balancing the market, you're going to run full rates in a month? How do you make sure you don't hurt the market?

Answer – Rich Sumner: So, I mean, Joel, where we've been on 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 purchased 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, we – I would say, a lot of G3 is in the market today without the plant 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 that – 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.

Analyst: Steven Hansen

Question – Steven Hansen: Yeah. 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 different things you need to do in advance to get to secure supply so that you can run those basically at full rates?

Answer – Rich Sumner: 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 its development – how – what's pace of development in that country. Really good progress through 2023 with the tie-ins that they made to the Vaca Muerta and 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, the pipeline is going to double our 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 a third 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, the old Fenix (00:17:24) project that's in the south as well. And that's – that gas is meant to come online at the end of 2024 and 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 developments 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 that – the – shorten those shoulder periods to the point where we can move towards full gas supply. So, 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.

Question – Steven Hansen: 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 any 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?

Answer – Rich Sumner: It's a – 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 and/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 – biomethanol 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 looks – 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.

Analyst: Hassan I. Ahmed

Question – Hassan I. Ahmed: 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, US/European pricing and Asian pricing. So, would love to hear your views around that delta?

Answer – Rich Sumner: Sure. 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'd say 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, I would call it, relatively firm for quite some time. And then, what we see is that depending on the, I call it, 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 US, then the premiums to – premium in the US 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 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's happening in the market, which is reflective of tight market conditions.

Question – Hassan I. Ahmed: Fair enough. Fair enough. And just moving on to the natural gas side of things, particularly in the US. I mean, I know between sort of last year and this year, we've obviously seen natural gas prices in the US coming down a fair bit. Can you talk a bit about the differences in your hedging strategy between 2023 and 2024? Because I know you guys had obviously hedged out a fair amount of US natural gas last year, where does that stand this year?

Answer – Rich Sumner: Yeah, 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 in – 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 years 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.

Analyst: Ben Isaacson

Question – Ben Isaacson: 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 million to 1.1 million tonnes. What should we modeling as a run rate for New Zealand going forward, not in 2024 but beyond 2024? What's the realistic game plan there, and is there an opportunity to monetize an asset that's not being used right now?

Answer – Rich Sumner: So, thanks, Ben. For modeling purposes, we're giving guidance right now at 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 we 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 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 look longer-term, how do 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 and the natural gas market.

The country is – uses – most of the power is renewable power, but natural gas is an important power source when there's intermittent gas or 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 in into the – 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. No, these have not delivered results. And 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 their – the impact that has on their future campaign. So, 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.

Question – Ben Isaacson: 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 roughly flat. So, does that – I mean, 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.

Answer – Rich Sumner: Ben, yeah, 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 in 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're 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 your demand obviously is going to be meaningful for the industry.

Operator

Your next question is from the line of Josh Spector with UBS. Your line is open.

Analyst: Joshua Spector

Question – Joshua Spector: Yeah. 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, 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 your near term there?

Answer – Rich Sumner: 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 Mediterranean – 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 a lot – 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 in or 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's been pretty muted.

Question – 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 application. What's the range of CapEx you see over the next couple of years on a go-forward?

Answer – Rich Sumner: 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 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.

Analyst: Nelson Ng

Question – Nelson Ng: Great. Thanks and good morning. This – 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?

Answer – Rich Sumner: Yeah. So, thanks, Nelson. 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 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.

Question – Nelson Ng: 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 general – generally lower outputs? Would you say that the generally lower trend of output is the – 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 a long outage you're expecting for maintenance at the wells (00:35:20)?

Answer – Rich Sumner: 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.

Question – Nelson Ng: 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?

Answer – Rich Sumner: Every few years, yeah.

Question – Nelson Ng: Okay.

Answer – Rich Sumner: Yeah. Every two – around every two or three years.

Question – Nelson Ng: Okay. So, base case is we might see a modest increase in 2025 out of New Zealand if everything else remains unchanged?

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

Operator

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

Analyst: Matthew Blair

Question – Matthew Blair: 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 2024 or something further out?

Answer – Rich Sumner: Thanks for that. So, I can – the first question was about capital, there will be no other kind of startup cost 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 accounts 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 we'll – overall inventory levels will likely stay something similar, potentially even down like we could see inventories be managed 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 that 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 a 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'll be buying a lot less proportion of purchased and producing more.

Question – Matthew Blair: 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?

Answer – Rich Sumner: Yeah, it'll be pretty – it should be pretty close, and it might be slightly lower because of the inventory build.

Question – Matthew Blair: 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.

Answer – Rich Sumner: Yeah. 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 RNG-based methanol. I think the challenge is about cost and availability of RNG, and RNG has other competitive alternatives that have increased the cost quite significantly and the premiums you need to pay.

And so, we have worked – we are trying to work on arrangements where we can maybe we get a more favorable price by locking in longer-term and then selling into those markets, and those are the things that we continue to pursue. And it's not just RNG 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 in the 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 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

Your next question is from the line of Laurence Alexander with Jefferies. Your line is open.

Analyst: Laurence Alexander

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

Answer – Rich Sumner: Yeah, I mean, yeah. I'll speak to the 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 growth rates again 5% to 10%, that includes MTBE, 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 a thought that it would replace big, big industrial boilers. We haven't seen that. Where we see is in smaller applications, commercial and smaller industrial changeovers. So, it's a decent growth rate, but it's not the – some of the projections that were made earlier, 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 grade. It isn't growing or expanding, and the existing industry sort of operates at around a – 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. And Geely (00:43:41) 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 (00:43:52) applications, DME, and more into these newer applications.

Question – Laurence Alexander: 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 site. Did that policy ever gel or is the absence of that sort of why you were seeing further shift in demand to mostly being in small applications?

Answer – Rich Sumner: What happened there was that industrial sites – large industrial sites got connected to the gas grid, right. So, it was – they needed to reduce down their power by coal, and we saw a lot of those – as much as possible, those gas – those industrial sites got more connected to gas and were 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...

Operator

Your next question...

Answer – Rich Sumner: ...policy didn't change but...

Operator

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

Analyst: Steven Hansen

Question – Steven Hansen: Oh, yeah. Thanks. Just a quick follow-up. 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've 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 in news (00:45:44) about for some time and whether they're going to be contributing at all to incremental supply this year? Thanks.

Answer – Rich Sumner: Thanks, Steven. Yeah, 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 Aryan plant (00:46:13) started production sometime this year. We have seen some new – some supply in the winter greater than what we've seen previous years but we think that's more based on weather.

There'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 irregardless of whether plants start up.

Question – Steven Hansen: 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 it's already happening. But when does the actual sort of hard dollars (00:47:50) going into the ground start to enter the equation? Are we talking three years out, five years out? How do you think about that longer-term. Thanks.

Answer – Rich Sumner: So, the phases for us will be, 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 really 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 a ways away from that – from a Final Investment Decision where you start turning into 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.

Analyst: Joshua Spector

Question – Joshua Spector: Yeah, thanks. Just a quick one to clarify. When you're 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 Q3 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?

Answer – Rich Sumner: Yeah, 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 really 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 a – than seeing that incremental. And then, 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.

Question – 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.

All right. Well, thank you for your questions and interest in our company. We hope you will 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.