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Celanese Corp. (CE)

Q4 2018 Earnings Call

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Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Todd Elliott

Senior Vice President, Acetyls, Celanese Corp.

Scott Richardson

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OTHER PARTICIPANTS

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Michael J. Sison

Analyst, KeyBanc Capital Markets, Inc.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Ghansham Panjabi

Analyst, Robert W. Baird & Co., Inc.

Duffy Fischer

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John P. McNulty

Analyst, BMO Capital Markets (United States)

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Analyst, Citigroup Global Markets, Inc.

John Roberts

Analyst, UBS Securities LLC

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Celanese Fourth Quarter 2018 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Chuck Kyrish, Vice President, Treasurer and Investor Relations. Please go ahead.

Chuck Kyrish

Vice President, Investor Relations and Treasurer, Celanese Corp.

Thanks, Gary. Welcome to the Celanese Corporation Fourth Quarter 2018 Earnings Conference Call. This is Chuck Kyrish. With me today are Mark Rohr, Chairman and Chief Executive Officer; Scott Richardson, Chief Financial Officer; and Todd Elliott, Senior Vice President, Acetyl Chain.

Today's presentation includes forward-looking statements about expectations for future results. Actual results might differ materially from these statements. Please see our SEC reports for risk factors relating to any forward-looking statements.

Our discussion today will also include references to non -GAAP financial measures. You can find information related to these non-GAAP measures and reconciliations to their comparable GAAP measures on our website in the Investor Relations section. Form 8-K reports containing all of these materials are available on the SEC's EDGAR system.

Celanese Corporation distributed its fourth quarter 2018 earnings release via Business Wire and posted slides and prepared remarks about the quarter in the Investor Relations section of our website yesterday after market close. Since we published our comments yesterday, we'll go directly to your questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Please limit your question to one, with a single follow-up. Our first question comes from Vincent Andrews with Morgan Stanley. Please go ahead.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Thank you; and good morning, everyone. Wondering if you could help us with the Acetyl Chain and just – obviously, a lot of volatility in the fourth quarter after a phenomenal year. What would you think the range of outcomes is this year in 2019, and where are the dynamics that would book in that? There was a lot of conversation in your prepared remarks about sort of the interplay of methanol in oil and ethylene. But maybe you could just unpack that for all of us and help us with the framework for modeling purposes.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Great, Vincent. Well, let me – that's a huge question. So, this is Mark, and I'll kick that off. I'd ask Todd to make some comments here. Let me start kind of with the beginning. I think a lot of the conundrum the world finds itself in today regarding sort of the economic environment really relates to the collapse in oil prices that occurred early last year. And that collapse in oil price is going to ripple through so many raw materials, petrochemical industry, in a broad sense. and of course, that had huge impacts and ripple effects back on ethylene in China and MTO in China, and ultimately, methanol. So, you have all these dynamics that kind of roll into that.

So, we saw weakness and we saw slowdown, really, as we ended the fourth quarter – the back couple of months of the fourth quarter. In the Chain business, we saw some settling with that. And in that process of settling, we think that, that's, I would say, run its course, but it seems to be kind of normalizing now at the level, and we think we're going to see that start to recover as we get into the end of this quarter and start the next quarter going forward.

The broad dynamics of that is it was – and Todd, again, I'll ask you to give some more color on this in a second. But, really, is around China and the impact in China. The pricing we saw in China. And in many ways, it was a little bit contained in that region of the world. So, we see and we feel that we have – and I talked about this morning – talked about earnings, the earnings forecast. We think with this business, it's going to step down a little bit this year, but we feel very good about the fundamentals of this business and the ongoing earning power of this business in this range of around \$1 billion.

So, Todd, do you want to provide more clarity perhaps on...

Todd Elliott

Senior Vice President, Acetyls, Celanese Corp.

Yeah.

A

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

...just what you saw and felt as we went through...

A

Todd Elliott

Senior Vice President, Acetyls, Celanese Corp.

Well, just on the note about global capacity utilization. So, the macro fundamentals we believe are still in play. That is that when you look at the diversity of end users across Acetyls growing at around 3% per year, stack that up with the capacity picture, we still see those macro utilization rates in an often mid-80% range across the whole system. So, what Mark was describing was, this end of the year, instantaneous utilization rate change mainly on slower demand, particularly in China. So, as that sorts itself through in the first part of 2019, we kind of marked [indiscernible] (00:05:23). Particularly, after Chinese New Year, we think that will bump up those instantaneous utilization rates back up into the 80%. And that'll allow some price recovery over the course of the year.

A

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

And just as a follow-up, the decision to take the capacity out of Asia as you ramp up new capacity in the U.S., is the math effectively that the savings you're going to get from doing that, the optimization, more than offsets whatever sort of the EBITDA opportunity was there? And then, obviously, you also get to take some capacity out of the market, which might help the earnings power of all your other assets. Is that the right way to think about it?

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. Yeah. What we're trying to convey here, in a big sense – and it's part of the sort of the ongoing debate about whether people are giving value back to our shareholders for this business. To be honest, we're the only company in the world that can take and make these investments at a very modest level, get this kind of high return on productivity only. So, you don't have to have a view that the market is going to grow. The demand is needed for us to add yet another \$100 million to our foundation.

A

So, [indiscernible] (00:06:31) business is plus \$100 million for that through these kind of moves and be [indiscernible] (00:06:41) investments, that's what you see. So, this is a way for us to, we think, keep balance within what we see of the demand pictures we got out of that period of time with plenty of upside capacity to tackle that in a more EBITDA and return-friendly fashion.

Todd Elliott

Senior Vice President, Acetyls, Celanese Corp.

Yeah, absolutely. It's about always looking for another series of value-creation steps that add to the foundational level of earnings in Acetyl. So, this is the next wave that we're embarking on. So, it brings significant production, ultimately, to Clear Lake, with advantage integration backwards to methanol, soon to be in carbon monoxide when that acquisition clears.

A

Also, we have other sources this year there. Of course, we have the VAM downstream usage there on Clear Lake. Just expanded that unit by 150,000 tons. So, think very good integration benefit, a huge range of operating with great flexibility, more so than we have today, particularly, in the Asian side, so, that helps us. And to Mark's point, it's largely a productivity measure when we look out on this, so it's a nice combination of value addition steps.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Thank you. And welcome back to Chuck.

Q

Chuck Kyrish

Vice President, Investor Relations and Treasurer, Celanese Corp.

Oh, thanks.

A

Operator: The next question comes from David Begleiter with Deutsche Bank. Please go ahead.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Thank you. Good morning.

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Morning, David.

A

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Just on Engineered Materials, could you provide a little more color on the 2% operating profit growth in the quarter? Why was it so light? And looking forward to 2019, maybe expectations of that business in 2019?

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. Well, I'll start with the last one. We expect that business to grow kind of – as it has grown 10%, kind of earnings contribution year-over-year, so that you plug that into your [indiscernible] (00:08:28). Really, the fourth quarter, we did see slowdown in this business as well. We were out there pushing pricing a lot to tee up what we thought was a better return for many of our polymers as we entered 2019. And we're doing that in the face of the destocking that was naturally occurring for the reasons that I listed before that.

A

So, the world, what we really saw here in the fourth quarter is we saw a good uptick in both volume and pricing to be offset a lot by the extraordinary cost that go through our system, from inventory cost that we have as we work down some of our inventory, extraordinary cost with logistics and things like that really impacted negatively. So, it's really more of a cost-driven reduction versus any kind of fall-off in the base business.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Got it.

Q

Scott Richardson

Chief Financial Officer & Senior Vice President, Celanese Corp.

Yeah. And just on...

A

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

I'm sorry?

Q

Scott Richardson

Chief Financial Officer & Senior Vice President, Celanese Corp.

No. Sorry, David. This is Scott Richardson. I just want to add there. I think it's important also to remember the project wins that we had in the year were right on track with what we've said. So, we finished north of 3,200 projects during the year. So, the business continues to be on track for those controllable factors that we stated. And we were very clear about the importance of driving price as raws moved up during 2018. And we're very successful in doing that. And that should yield benefits from a margin perspective, moving into 2019, which can lead to the growth that Mark talked about around 10%.

A

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Very good. And Mark, just now, you reaffirmed your 2020 target, \$12 a share, which now implies about 14% EPS growth in 2020 versus 2019. Can you probably provide a bridge given that's a little bit of a robust target, given a pretty lackluster macro backdrop?

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. Let me just – in a fundamental sense, if I look at versus where we think we'll end this year, that's probably another \$300 million or so of upside. In a real simple sense, we expect as we're ending this year and starting next and be moving back into plus \$100 million kind of range for the AC business. We think that \$1 billion – \$950 million to \$1 billion is pretty much what is in the cards for us there. We expect we're going to add another \$100 million incrementally in EM, as we move from 2019 to 2020. And that process, we'll have, of course, in AC, which essentially established our basic strategy – I mean, in [indiscernible] (00:11:10) basic strategy. That leaves a balance of the last \$100 million. We think \$50 million, that's from M&A that we've got our eyes set on; and the other \$50 million is productivity.

A

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Great. Thank you very much, Mark and Scott.

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Thank you.

A

Operator: The next question comes from Mike Sison with KeyBanc. Please go ahead.

Michael J. Sison

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, guys. Mark, when you think about the Acetyl Chain near term, I just want to make sure I understand, can you maybe walk us through how those utilization rates went during the fourth quarter? And then, I think I got the feel that it's under and then I think I got to feel that it's under 80% now. And what could get that above 80% as we head into the second half of the year? And just want to make sure it's more demand-related than supply-related?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. I'll ask Todd to give specific numbers here. But in a broad sense, it's not supply-related at all. The slowdown in China was just a slowdown. And so, we saw industry utilization rates across the board in China, well beyond AC drop. And in result, actually, we saw less activity in terms of [indiscernible] (00:12:24) because actually, there wasn't nearly as much industrial production going on, as you would normally have. So, that, in the final sense, is what happened. And I think we dropped into the very low-80s. Now, whether we touched 70% or not, we don't know, but certainly, it's down three or four turns I think on capacity utilization on a short-term basis.

We also believe that, that's largely run its course. The business seems to have settled in. And this has happened in a very short period of time. It seems to have settled in. And we have a fair degree of confidence that as Chinese New Year ends and some of these other problems get cleared up, we're going to see it march right back up.

But, Todd, do you want to maybe give some specific numbers?

Todd Elliott

Senior Vice President, Acetyls, Celanese Corp.

A

[indiscernible] (00:13:06) 15 million tons of global demand, 18 million tons capacity. That's about 83%. And these are numbers we talked about before. VAM is 6 million tons of demand, 7 million tons of supply. That's about 85% utilization. We think these big macro numbers are still in place. There have been little to no additions to that supply base. So, this is really, as Mark described, an end of the year, first part of 2019 demand slowdown for various reasons. Oil price is falling; methanol price is falling; [indiscernible] (00:13:39) trade; fill in the blank.

Now, that can quickly reverse itself when customers start buying again, and this is particularly acute in China. It's really what we're describing here. If you look at our order books elsewhere in the world, in Europe, in the Americas, and also when we extend beyond just an acetic acid discussions, [indiscernible] (00:13:58), or emulsion. And order books are actually pretty good to start the year. So, this is really a short China out in the near term. And that really speaks to that instantaneous dip under the mid-80% range. Pick a number, probably high-70's or something for a few weeks here at the end of year, start of the year. But again once inventories dry out, once demand kicks back in, that can quickly start to come back into balance, which we expect it will.

Michael J. Sison

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. And then, shifting gears to EM, the new projects continue to roll. What type of organic growth you think EM can generate this year? And then is the pipeline for acquisition still pretty robust to build on that as you go forward?

Scott Richardson

Chief Financial Officer & Senior Vice President, Celanese Corp.

A

Yeah, Mike, we expect to get back up into the mid to high-single-digit type volume growth as we work our way to 2019. Now, Q1, we think, will be a little bit softer on that, but we do expect to be able to grow, so we may be in the low-single digit year-over-year growth level in Q1. But as we work our way to the balance of the year, as we see this destocking work itself out, we think that will recover.

We see the pipeline being very favorable for us. And we saw that play out even towards the end of the year as our growth, for example, in automotive was around 3%, whereas the industry declined. And so, the controllable projects and the things we continue to work with our customers are there, and that's going to get us back into what we think is going to be really good positive volume growth numbers in 2019.

Michael J. Sison

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thank you.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Thank you.

Operator: The next question comes from Robert Koort with Goldman Sachs. Please go ahead.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Good morning.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Good morning.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Mark, can you talk about how much capital you had to spend or you did spend on the syngas plant in Clear Lake? And is that a future strategy to get back or integrate. I guess I don't see the merits of that, if you have better uses of your capital elsewhere...

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

To answer your question, I'm not going to give you the exact number, but it'll be public before too long. But that's the legacy asset they actually sell on its own. Years ago, it's kind of embedded in our asset. And of course, we had the opportunity to acquire that. If you look at in terms of reference to the new unit, it's a fraction of the cost of a new unit, so it presents very favorable economics for us as we look at expanding acetic acid production there. So, that's not plugged into it.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

So, that unit wasn't supplying you currently?

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

It was, but Air Products now – Linde is building a new unit. So, all of Linde had loss that contract with us.

A

Robert Koort

Analyst, Goldman Sachs & Co. LLC

And you guys obviously got more aggressive in the market. You talked about being opportunistic, buying stock at about \$100 in the fourth quarter. Should we presume, given your optimism into second half of 2019 and 2020 that you should be buying quite a bit of stock here in the first part of the year as well?

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. We have \$700 million still available to us between what we've promised you guys we'd buy and what's authorized to buy. So, we'll continue to be opportunistic with that.

A

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Got it. Thank you.

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Thank you.

A

Operator: The next question comes from Ghansham Panjabi with Robert W. Baird. Please go ahead.

Ghansham Panjabi

Analyst, Robert W. Baird & Co., Inc.

Hey, guys. Good morning.

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Good morning.

A

Ghansham Panjabi

Analyst, Robert W. Baird & Co., Inc.

I guess, back to the \$100 million sort of productivity boost as part of your acetic acid network adjustments. Can you sort of break that out between production, savings, and logistics? And is it just not as important, going forward, to be as diversified from a feedstock standpoint?

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. We think it is very important to be diversified on a feedstock standpoint. The economics associated with the asset base is that we have in the U.S. and then this [indiscernible] (00:18:11) in there is stunningly good. And it's so good that it overcomes disadvantages you would normally see in logistics and things like that. So, it's a unique opportunity for us to restructure; reconfigure, as Todd said; and drive just on constant volume and yet lower cost base of approximately \$100 million.

And the important message for you in that is you can present value that back today, if you like to do that, because it is, as I said, \$100 million, and it's not dependent on acetic acid pricing, or those sorts of things to achieve. So, that's the message [indiscernible] (00:18:47) we're trying to get across, that we can take steps to increase and lift that floor, that foundation. [indiscernible] (00:18:54) and still position ourselves then as this business grows, as utilization tightens up, which we fully expect to happen to have, yet again, more capacity available to drive the market around the world.

Ghansham Panjabi

Analyst, Robert W. Baird & Co., Inc.

Q

Okay. That's helpful. And then just, Mark, in your prepared comments, you mentioned some of the U.S. customers seemed a bit more optimistic looking out to 2019. Can you sort of expand on that? And then, maybe generally, can you touch on Europe as well? Thanks so much.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Yeah, I think when you talk to – as we do, yet we're privileged to have a great customer base [indiscernible] (00:19:31), works all the time. I think [indiscernible] (00:19:35) shocked or surprised with sort of a global anxiety that exist as we are.

I'll say, our U.S. customers, where everybody's gone through a little bit of stutter step here in the fourth quarter, on average, are quite optimistic. They see the fundamentals as being very strong, see the consumers largely in areas we are still in there. We've lived through a rationalization and slowdown in all the capacity and things like that. But when you look forward, they're not expecting that to continue. They expect those things to reverse a bit. So, there's a good bit of enthusiasm there. And as Todd said, there were pattern that seemed to reaffirm that, that we're seeing right now.

If you go to Asia, I say it's the same thing. China went through this stutter step. A lot of it's tied to anxiety over trade that's there as well as normal seasonality, which has been missing there. So, they're sitting there waiting for Chinese New Year's to end, and with an anticipation that somehow we'll find a way to moderate some of the anxiety with trade. So, they're not overly pessimistic. And we look at fundamentals there, and we think in the case of [indiscernible] (00:20:40), which is quite the most public example, we expect in that business to not slide further but to actually rebound as we enter this year. So, our Chinese customers are not overly anxious or overly frightful right now.

I roll that into – if I look at Europe. And so, in Europe, we talked largely, Germany. There's a fair amount of pessimism there. And it's anxiety over the exit of Brexit. Brexit is an anxiety point. I think political pressures in country are anxiety point. And they also feel like they've been impacted somewhat by Chinese trade. [indiscernible] (00:21:15), we see more pessimism, on average, out of Europe and that's really German-centric, when I say that, because a lot of our big customers are in Germany.

So, I think what we see is we see Asia, in some ways, leading us out a bit, leading the world out of this kind of anxiety. We don't think the U.S. is going to be impacted very much. And we think as Asia starts to recover, we'll see Europe stabilize and start to recover as well.

Ghansham Panjabi

Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Terrific. Thanks so much, Mark.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Sure.

Operator: The next question comes from Duffy Fischer with Barclays. Please go ahead.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Yes. Good morning, fellows.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Good morning, Duffy.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Question just around the strategy in acetic acid coming back to the U.S.. I think the permit you filed last month showed \$425 million capital tag. So, one, is that a decent number? And, two, how should we think about that impacting the overall capital spend at Celanese over the next three years?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. It's in the range for the right number. That's what I would say. And those are the numbers we'll require to put in preliminary kind of numbers when we present that sort of permit application. So, yes, it's directionally correct. I'm sorry, what was the second?

[indiscernible] (00:22:33)

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. So, \$350 million to \$400 million this coming year, I think in CapEx, moving up as we get out into 2020 and 2021, where you'll see most of this being spent. So, yes, it will be moving up about \$400 million, I think, as we enter into the next several years beyond the shift.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Okay. And then, in the U.S., you're still net short methanol, even though you're getting some from your JV partner. As you bring on this acetic acid, does that drive you to want to own more methanol? What's the strategy integration there? And the syngas plant, will you be net short syngas in the U.S. even if you're short methanol?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

I'll start this, and Todd, you hop into this as well, please. We have a wonderful partnership with Mitsui with methanol. They're the world's most efficient methanol plant, and highly regarded as such. I'll let Todd talk about options there that the guys are looking at to expand and to grow. On the syngas, it's a really good fit with the first phase of capacity we announced with this expansion of acetic acid. So Todd, do you want to...

Todd Elliott

Senior Vice President, Acetyls, Celanese Corp.

A

Yeah. [indiscernible] (00:23:53) operating rate out of the methanol unit has exceeded original design capacity, so we're pleased with that progress, so that's contributing. We're still a [indiscernible] (00:24:03) so that remains unchanged. We are looking with our partner looking at options in conjunction with the just announced reconfiguration and expansion in the U.S. for methanol options looking ahead. Nothing to say at this point, but that's just a part of our ongoing work together with our partner Mitsui. So, we will look at options there. And it could actually take the shape in two different phases, but more to come on that.

On [indiscernible] (00:24:29) your question. We were not integrated before, so we sourced deal from our partners there. Mark mentioned Linde, of course, as well as Air Products. The other new partner will be Praxair going forward, who's constructing a unit as we speak. So, this is a step into integration, through a very unique opportunity that presented itself as a part of the Linde-Praxair merger. It's a small step forward, but also complementary as we think about the longer-term plan for the expanded acetic acid footprint in Clear Lake, So, it fits to that integration. Methanol is good news so far, more to come on that as we investigate alternatives.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Great. Thank you, guys.

Todd Elliott

Senior Vice President, Acetyls, Celanese Corp.

A

Thank you.

Operator: The next question comes from John McNulty with BMO Capital Markets. Please go ahead.

John P. McNulty

Analyst, BMO Capital Markets (United States)

Q

Yeah. Thanks for taking my question. With regard to the acetyl expansion and the economics on it, it looks like it's pretty compelling. At the same time, should we be reading anything into the need to necessarily close in the Asian capacity with regard to how you're thinking about the long-term growth in that region, et cetera, because it's certainly an area that you've been growing out historically versus cutting out capacity?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

No. This is a reconfiguring. It doesn't imply anything in terms of our beliefs around growth in Asia, if that makes sense. It's a way that from a static sense, you can refigure and give yourself more optionality. And yeah, so we remain very bullish on Asia. And we remain bullish [indiscernible] (00:26:08) with the assets we have there and other assets we're going to put there in the future. So, I wouldn't look at it that way at all, John. It's simply a step change to up our base level of earnings in the company and give ourselves more optionality in the future.

John P. McNulty

Analyst, BMO Capital Markets (United States)

Q

Got it. And then, just a question on the longer-term outlook in China, in particular, around some of the environmental issues. I know it's been a hot topic certainly last year. It seems to have cooled off a little bit. But are you starting to hear anything, or are there any changes in terms of how to think about some of the potential capacity closures as we look to kind of 2019 and beyond?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah, and we keep track of this continuously. The earlier policy, I guess, reveals or update that came out of Shandong and Yunnan provinces, we're studying those. We don't see a direct impact into the acetyl business so far in terms of specific units that would need to come out. There's actually one band unit on [indiscernible] (00:27:11) that we think has got a circle around it that might be removed. That's about 100,000 ton unit.

We just saw some news come out from Hubei Province, and this is in conjunction with the Yangtze River changes, so the proximity to the river. So, Hubei Province issued chemical plant relocation list, I think, on December 13. And there's like 480 plants that are mentioned in there that are on the list for review. So, it continues; and it's a real, real subject that continues to be drawn out and information published from the respective provinces. We look at those. And as we see a direct line to specific operating units, we will update as we go.

John P. McNulty

Analyst, BMO Capital Markets (United States)

Q

Great. Thanks for the color.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Thanks.

Operator: The next question comes from P.J. Juvekar with Citi. Please go ahead.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Yes. Hi. Good morning.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Good morning, P.J.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Hey, Mark. You go in detail to describe how empty your production and how it connects C1 and C2 chemistry and the impact in China. And you were able to increase your acetyl spreads over methanol. I'm wondering, did you flex down your production in China or Singapore to do that? And if not, what exactly did you do to increase our margins?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well, I think, really, what it's just – and maybe I've spent too much time on that in the [indiscernible] (00:28:34) written script. But I want people to understand that the economics work. But also want to make a point that as you – from a legacy point of view, there certainly was a strong tie between methanol price in China and acetic acid price in China.

As you go up in capacity utilization, that starts to diminish and you start to see it break away. And then, as you look at the global optionality that we have, and the way that Todd Elliott and company run this business globally, we're able to find ways to further disconnect those two things.

So, a lot of independent actions rather than – the disconnect including buying and reselling, including how we operate our units around the world. So, I wouldn't really think special in that. I'd look at what exactly we did for that. We did the same thing we always do, which is drive optionality to create the most value for our shareholders.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Okay. And then secondly, Mark, you guide that Celanese had really good read into China with your business intelligence there. And you say that weakness was due to geopolitical issues and not fundamental. So, in your mind, at what point do the geopolitical issues become fundamental issues? Do you care to comment on that?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well, I don't know. I don't quite know how to answer that question. I guess, when you go to a period of growth like the world has gone through the last several years, and certainly, Celanese has gone through a lot last years, you develop a behavior mechanism. And so, that behavior is that you cover the inventory. You do things like that, because the world's kind of on fire. And if somebody says to the crowd, to the masses, say, not so fast, pump the brake, the brakes get pumped. And when that happens, you have a ripple effect that rolls through. That ripple effect has a lasting feeling to it, a lasting feeling being three, four, five months. But it's kind of the stack up of inventories, the production planning process, delivery cycle, all gets interrupted, and that's kind of where we're in today.

So, I think, when I say, when you pump the brakes, what does that mean? It means, a couple of quarters of this stuff. It's kind of what it means, just because of the, again, the lag time and cycles that you get into. So, I think the geopolitical pressure has to happen several of those cycles really just set into some [indiscernible] (00:30:57) or something like that. It takes a lot more than that really to drive a country and economy into negative growth levels.

So, our view is that this has been just to pump the brakes brought on by different levels of anxiety. People in China are quite concerned about -they're quite concerned about the relationships with the U.S. and not so concerned about trade. They think it's just an indication of relationships. So, our relationship with China needs to

get better. And I see a lot of signs. If that's starting to happen in spite of some of the political and legal actions that are underway today. I mean, I think, fundamentally, it's a little bit better. And hopefully, the trade this week will add to that.

In the case of Europe, I think it's a little bit more – it's more of a question of what's going on with – in trade relative to the EU and Britain, because we really just don't know the uncertainty relative to that ripple effect of that, and whether it's going to have a bigger play throughout Europe.

So, my belief is, if we pump the brakes for a couple of months. I don't think [indiscernible] (00:31:57) oil price to drop. I think we'll see ourselves start to come out of that. There's no reason fundamentally for it to change. [indiscernible] (00:32:07) the political situation gets worse versus getting better. I think it's going to get better.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you for the details.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Sure. Sure.

Operator: The next question comes from John Roberts with UBS. Please go ahead.

John Roberts

Analyst, UBS Securities LLC

Q

Thank you. And [indiscernible] (00:32:25) you continue to take kind of tactical actions to improve the business, like the shutdown in Mexico. Are there any strategic actions still on the table that you're thinking about in [indiscernible] (00:32:35) over time?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

[indiscernible] (00:32:37) we're having trouble making those happen just yet, but we are working. We'll continue to work those. And I think it's only, John, a matter of time before something surface there because it's is such an obvious need on the part of, not only the producers, but also the customers out there that want very reliable supply and expect it to.

No one's asked the question relative to the quarter. And we talked a little in the quarter, which really was related to this fixed costs rolling through that were very unusual for us, and we should have done a better job anticipating to communicate to the Street, which we did not. [indiscernible] (00:33:17) we missed several orders. Logistics, we couldn't get them out. So, when the orders reversed themselves, we were expecting back in the mid-60s as we get into the first quarter.

John Roberts

Analyst, UBS Securities LLC

Q

And then, on the supply chain correction in the Engineered Materials segment, do you have any primary data on where your customers' inventories are? How much contained plastics or is down the supply chain, or are you just

basically triangulating between what you're seeing in market data about end-market growth versus what you're selling into the channel?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

We've got a bit more triangulating today. I think my comments on this year's earnings really relate to kind of a view that we have, a very high level, what's going to happen and we'll be able to update that more in April.

John Roberts

Analyst, UBS Securities LLC

Q

Okay. Thank you.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Thank you.

Chuck Kyrish

Vice President, Investor Relations and Treasurer, Celanese Corp.

A

Okay, Gary. We'll make the next question be the final question of the call.

Operator: And that question will be from Kevin McCarthy with Vertical Research Partners. Please go ahead.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Yes. Good morning. With regard to your acetyl rationalization plans in Asia, Mark, could you comment as to whether you're dismantling capacity in either China or Singapore? Just trying to get a feel for whether you're rationalizing capacity or production plans or both.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

To answer your question, we're not fully committed to anyone site to make that happen just yet. There's options and different value slightly depend on which we would go with that. Our intention is that we rationalize capacity, it's rationalized, so that means it's not available.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Okay. And then with regard to the syngas plant acquisition, what impact would you expect that to have on your acetic acid margins or your segment margins? And can you comment on what happens with the hydrogen coming out of that unit, whether or not you need any internally, or wheel it back to a gas supplier?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. I think the marginal impact is actually a return on capital impact is where you'll get it, because you avoid any capital investment. And then on a variable cost basis, it's the same. Going in there, and I haven't really sat

down to work through the actual return. You see it in lower levels of invested capital to – and return on that capital to produce the acetic acid. That's how you're going to see it. I don't know if you want to take...

Todd Elliott

Senior Vice President, Acetyls, Celanese Corp.

A

It fits, Kevin, with the expanded footprint, right. You think of the three sources that we'll have, it fits there and creates a wide range of operating rate flexibility, much more than we have today, when you think about our Asian footprint. So, it fits with integration, it fits with future tons, and therefore requirement for CL and an operating rate flexibility, which we like, as a part of our network process as we consider different decisions. And then the hydrogen reference, we do not have the need for it internally. That would be packaged up in an arrangement with an industrial gas partner.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Thank you very much.

Chuck Kyrish

Vice President, Investor Relations and Treasurer, Celanese Corp.

Okay. Great. Thanks, everyone, for the questions today and for listening in. We're available today after the call for any further concerns or questions you have.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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