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Celanese Corp. (CE)

Q3 2013 Earnings Call

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Duffy Fischer

Analyst, Barclays Capital, Inc.

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John P. McNulty

Analyst, Credit Suisse Securities (USA) LLC (Broker)

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Robert A. Koort

Analyst, Goldman Sachs & Co.

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Andrew W. Cash

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Analyst, Piper Jaffray, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Celanese Corporation Q3 2013 Earnings Conference Call. [Operator Instructions] Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, today's conference is being recorded.

I would now introduce your host for today's conference call, Mr. Jon Puckett. You may begin, sir.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

Thanks, Kevin. Welcome to the Celanese Corporation third quarter 2013 conference call. My name is Jon Puckett, Vice President of Investor Relations. With me today are Mark Rohr, Chairman and Chief Executive Officer; and Steven Sterin, Senior Vice President and Chief Financial Officer.

The Celanese Corporation third quarter 2013 earnings release was distributed via Business Wire on Friday, October 18, after market close. The slides for the call and our prepared comments for the quarter were also posted on our website, www.celanese.com, in the Investor section. All of these items have been submitted to the SEC in a current report on Form 8-K.

As a reminder, some of the matters discussed today and included in our presentations may include forward-looking statements concerning, for example, Celanese Corporation's future objectives and results. Please note the cautionary language contained in the posted slides. Also, some of the matters discussed and presented include references to non-GAAP financial measures. Explanations of these measures and reconciliation to the comparable GAAP measures are included on our website, www.celanese.com, in the Investor Relations section, as applicable.

This morning, we will begin with introductory comments from Mark Rohr and then field your questions. I'd now like to turn the call over to Mark.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Thanks, Jon, and good morning, everyone. Our prepared remarks were released with the earnings last Friday, so I'll keep my comments brief and then open the line for your questions.

For the quarter, we're pleased to report adjusted earnings of \$1.20 per share. That's the highest level of earnings we've had this year. As most of you know, throughout the year, we've focused on items we control to create value for customers and shareholders. And this quarter was no different.

Our earnings came through on strengths of efforts to penetrate sophisticated markets, good operational reliability and Celanese-specific productivity initiatives. Our segment income margin expanded 240 basis points year-over-year and 110 basis points sequentially. The sequential improvement was driven by less turnaround activity in Acetyls, improved margins in Industrial Specialties and consistent results in Consumer Specialties.

Engineered Materials was slightly down due to the impact of a turnaround in our Middle Eastern affiliate, which we partially offset by continuing to penetrate the auto market. Strong earnings generated operating cash flow of \$232 million and adjusted free cash flow of \$117 million. We deployed this cash, spending \$96 million on share

repurchases, and doubling the dividend to \$0.72 per share annually. Even with these actions, we ended the quarter with \$1.1 billion on our balance sheet. And we remain well positioned to pursue our capital deployment strategy.

As we take our early view of 2014, we're approaching next year focused on Celanese-specific initiatives that will yield approximately \$100 million in incremental earnings. These initiatives are broken down into three areas of focus.

One is improved operational efficiency, which we expect will contribute approximately \$45 million to earnings in 2014. The second is creating upstream and downstream raw material and mix benefits, which we anticipate to deliver approximately \$25 million in 2014. And a third is translating innovation into earnings, which we expect to drop about \$30 million of earnings next year. We're optimistic that our hard work and success in 2013 provides us with momentum to grow 2014 earnings consistent with our long-term objectives.

So with that, I'll now turn it over to Jon for Q&A.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

Thanks, Mark. Kevin, let's go through the queue.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from David Begleiter with Deutsche Bank.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Good morning.

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Good morning, David.

A

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Mark, very good cost control in the quarter. SGA was down 14% year-over-year and quarter-over-quarter. How much of that is sustainable? How much will be given back as you continue to grow moving forward?

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Well, I think you should look at this as annual kind of numbers, David. So what we're doing is we're taking steps to continue to drive sort of our efficiency of operations, and so rather than break it out and look individually at this. I think if you look at it from an annualized kind of basis, we hope to translate that into a run rate as we go into next year.

A

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

And, Mark, looking out 2014, you didn't mention any organic volume growth or Nanjing benefits in the year-over-year bridge. Do you still expect those to be benefiting earnings growth next year?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well, I think there's a lot of ups and down. So yeah, we do anticipate some business improvements in some areas. Having said that, we've got things like pension headwinds and other items that are likely to roll through. So net-net, I think those things kind of wash out, David, as we go into next year.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

And just lastly, in Acetyl Intermediates, Q4 versus Q3, will there be less turnaround activity? And if so, what will the dollar impact be?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. It's about the same. It's flat.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you very much.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Thank you much.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

A

Thanks, David. Kevin, let's move to the next question.

Operator: Our next question comes from Duffy Fischer with Barclays.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Yes. Good morning.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Morning, Duffy.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

On the charge for the Middle East turnarounds, can you walk through, what exactly is that \$15 million? Is that costs you sent them? Is that foregone dividends back to you, or is that your pro rata share of missed EBITDA?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. It's probably not quite that high, but probably north of \$10 million. Those were the actual costs – our share of the costs of the turnaround. You also tend to have inventory draws, which you have double costs in your P&L during that period as well. So that's what that represents.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Okay. And then, Mark, on the AEM and in the autos in particular, highlighted volumes were down for auto builds 13% in the Europe, 9% in the U.S. But your volumes were only down 2%. How much visibility do you have into inventory in the chain? Is there a chance that maybe some inventory was being built, and that's why your numbers were better than what the auto numbers were?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

No. We don't think so. If you look at I mean inventory in terms of days of backlog, if anything, the y've been trending – it's gotten tighter. So – and I'm looking at Steven to make I don't give you some wrong data. But the data I've looked at would tell me that especially in Europe, inventory's tighter. So, no, we don't think that's the case. We're able to track our success in autos on a product-by-product/customer-by-customer kind of basis. So we tend to be moving into the vehicles that are moving the most of.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Great. Thank you, guys.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Thanks, Duffy.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

A

Thanks, Duffy. Kevin, let's move to the next question.

Operator: Our next question comes from Laurence Alexander with Jefferies.

Laurence Alexander

Analyst, Jefferies LLC

Q

Good morning.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Hi, Laurence.

Laurence Alexander
Analyst, Jefferies LLC

Q

I guess first, the \$45 million tailwind from plant operations that you're expecting in 2014, is that a reasonable run rate? Or do you see it increasing over time?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Well I think – I mean it was a combination of things there. Part of that is better operations, Laurence. We've had a run here late last year and early this year of more operating upsets than we'd like to have. So part of it is taking steps to minimize the likelihood of that occurring in the future, and that's well underway by our manufacturing team. Another part of the deal's with some consolidation or rationalization opportunities we have to become more efficient on manufacturing process. That part would be ongoing. So I would suggest maybe half of it or so is something you could kind of think as a run rate contribution over time.

Laurence Alexander
Analyst, Jefferies LLC

Q

Can you give an – a little bit more detail on TCX volumes or margin trends?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Well we're running our plant in China, where it's running quite well. Having said that, we're at contemporary low prices on ethanol. So there's not much contribution out of that asset today coming. We're working now with PetroChina. Very encouraged by that activity. We're trying to secure land in Indonesia, which is a agonizingly slow process. So there's still a lot of encouraging activity going on, Laurence. But again, you should not – you shouldn't see that as being a material contributor to the corporation in the near term.

Laurence Alexander
Analyst, Jefferies LLC

Q

And then just lastly, on the other activities line, as you look out over the next three, four years, anything that will drive significant lumpiness in that?

Steven M. Sterin
Chief Financial Officer & Senior Vice President, Celanese Corp.

A

Yeah. Actually, if you looked historically, that's quite a lumpy category, mostly because you've got your pension accounting going through there. So when interest rates change, you tend to see higher expense there – or higher or lower expense. So yeah, when we get into next year and we get some of the certainty around things like pension and that, we'll give you a sense of what the lumpiness look like. But yeah, it's pretty volatile.

Laurence Alexander
Analyst, Jefferies LLC

Q

But the \$100 million bridge that you're thinking of for next year, that's after taking that into account, or that's before it?

Steven M. Sterin
Chief Financial Officer & Senior Vice President, Celanese Corp.

A

It is. No, it takes into account those – any headwinds that will be in there.

Laurence Alexander
Analyst, Jefferies LLC

Q

Okay. Perfect. Thank you.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

A

Thanks, Laurence. Kevin, let's move to the next.

Operator: Our next question comes from John McNulty with Credit Suisse.

John P. McNulty

Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Thanks for taking our questions. With regard to the methanol facility that you're in the process of ramping up, can you give us an update of where we are on that; the permitting, the construction, et cetera, and if that's coming in line as expected?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. John, we've got all the major equipment on order. We're very pleased it's come in at or below budget. Relative to that, the engineering's well underway. We started doing some offside fabrication. We have two of the three permits. The last permit is waiting on the federal government. And so far, that's not a problem. But we're starting to get a little bit anxious that they're taking a fair amount of time getting that done. So right now, it's still – everything's still fine. And we'll keep you guys posted if we get to a point where that start-up up is impacted at all.

John P. McNulty

Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Great. Thanks. And then with regard to the MoU with PetroChina, I guess, maybe you can walk us through how we should be thinking about the kind of road markers along the way and maybe how we should be thinking about news flow out of that venture, if you will.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well we have two very active teams working. And I guess a way that I kind of measure these things is the seriousness of which they're taking it. So Chairman Zhou has cranked up his organization, and they're working it very actively. We just had a large group looking at the asset we have in Nanjing and getting very comfortable with the technology and the opportunities there. We've set a hard milestone for next August of, kind of a – and I'm going to call it a little project milestone. So I would hope that as we get into next year, there'll be some ability to communicate on how that's going and what the future looks like.

John P. McNulty

Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Great. Thanks very much for the color.

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Thanks, John.

Jon Puckett
Vice President-Investor Relations, Celanese Corp.

A

Kevin, let's move to the next.

Operator: Our next question comes from Frank Mitsch with Wells Fargo Securities.

Frank J. Mitsch
Analyst, Wells Fargo Securities LLC

Q

Hi. With respect to Nanjing, you mentioned that it's running quite well. Can you give us some color in terms of the operating rates there?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

The last time I looked, we were running 85% or 90% capacity. So that kind of level.

Frank J. Mitsch
Analyst, Wells Fargo Securities LLC

Q

All right. Terrific. And then, obviously, the share buybacks stepped up fairly significantly here. Can you talk about what sort of case we should be anticipating Celanese to do here in Q4 and as we enter into 2014?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Well I think we've communicated to you that – broadly, we communicate our interest to continue to be in the market as it makes sense. So I think you should expect this to continue to take advantage of the cash we have on hand and buy back some shares over time as it makes sense.

Frank J. Mitsch
Analyst, Wells Fargo Securities LLC

Q

All right. So a similar pace is not out of the question, then.

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Not out of the question.

Frank J. Mitsch
Analyst, Wells Fargo Securities LLC

Q

Thanks so much.

Jon Puckett
Vice President-Investor Relations, Celanese Corp.

A

Thanks, Frank. Kevin, let's move to the next question.

Operator: Our next question comes from Kevin McCarthy with Bank of America Merrill Lynch

Kevin W. McCarthy

Analyst, Bank of America Merrill Lynch

Q

Yes. Good morning. Mark, according to the trade press, one of your competitors will be shutting some VAM capacity in the United Kingdom. Can you talk about industry operating rate in Acetyls? And would that action have any influence on your own asset footprint in the region, either positively or negatively?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well I think the problem with VAM is that – I mean it's operating, as best we can tell, about 70% global capacity. So there is not acute shortage of that material. I think that asset shutting and Europe could tighten that market a little bit. So maybe there'll be a little bit favorable movement on that. But it's hard for us right now, Kevin, to see anything that anyone can do to dramatically impact that market.

Kevin W. McCarthy

Analyst, Bank of America Merrill Lynch

Q

Okay. And then shifting gears, if I may, to engineering plastics. You've highlighted a number of expansions of Polyplastics, KEPCO and Ibn Sina. I guess two related questions. How would you characterize the expected rate of demand growth for POM resin, let's say, over the next three years? What's a good structural rate of growth to think about? And then can you talk a little bit about your typical contract structures with the larger buyers, and how frequently you would typically re-price that product?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

When you look at POM as a whole, it's still a dramatically underutilized polymer. So I'll give you some ranges there. Just, if you look in autos, the gaps between, for us, the highest use and the average use is about four times. And that's roughly 40% of our business. If I look at it in the extreme case, in the emerging economies, it's 2x, 3x, 4x that you're talking to them. So there's tremendous upside potential in transportation, broadly speaking, for these molecules.

There's also movement to use more of our kind of engineered materials in even things like aerospace. So we're quite bullish on the ability to grow volumes in this business, but it will be specified volumes. So we feel pretty comfortable with both those sites coming on. The Malaysian site, of course, will be on early next year. And the Saudi Arabian site's going to be on, I believe, in 2016 – I think, something like that, 2016 or 2017. So it's a ways down the road.

Kevin W. McCarthy

Analyst, Bank of America Merrill Lynch

Q

Okay. Thank you.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Pricing is pretty – the comment I'd make on pricing is, if it's specification materials, an individual pricing negotiation for that. And we have the ability to move price, if we need to, through the term of that contract. If it's

in a heavily commoditized market, for example zippers, then it is not so much a contract as it is almost incremental sales.

Kevin W. McCarthy
Analyst, Bank of America Merrill Lynch

Q

Okay. Thanks very much.

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Thanks.

A

Thanks, Kevin. Kevin, let's move on to the next question.

Operator: Our next question comes from Bob Koort with Goldman Sachs.

Robert A. Koort
Analyst, Goldman Sachs & Co.

Q

Mark, can you talk a little bit, on AI, sequentially, you had some profits up. But you didn't have the same bogey of the turnaround in raw material problems. So I guess it would suggest underlying profits still shriveled a bit sequentially. So what was going on there, given some of the volume comments you had?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. That's a good observation, Bob. What we saw is we saw some strengthening in Asia. And we saw weakness in some of the derivatives, the higher-value derivatives in Europe. So the net impact of that was in base business, absent the turnaround, probably shrank a little bit.

Robert A. Koort
Analyst, Goldman Sachs & Co.

Q

And wanted to ask a little bit more on this \$100 million. You mentioned that there was a potential \$100 million. So should I read that to mean the expected value is somewhere less and the top of that range is \$100 million?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Well, no. I think that's – a couple of you guys asked us to make sure we commented early on this. And so we spent some time going through the preliminary plans, and this is the number that we came up with, summing up our actions that are out there. I think we'll update this in the first quarter, Bob. And right now, we feel pretty good about those numbers. What I can't tell you right now, since we've not finished it, is a detailed review of all of the other puts and takes commercially that occur.

And I mentioned one, it's just like pension headwinds, we won't know that until we get close to the end of this year. And a flash on that, it could be as much as \$30 million, which we kind of anticipate. And we have to have – find other ways to offset that. So our objective is to go out and incrementally create at least \$100 million. And we've outlined a way that, right now, we're trying to do that.

Robert A. Koort

Analyst, Goldman Sachs & Co.

Q

And should I view that \$100 million as having some sort of magic governor where, if the end markets are healthier, you don't have to be quite as aggressive in these actions? And if they're weaker, then you have to be more aggressive?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well, yeah, I think that's probably fair.

Robert A. Koort

Analyst, Goldman Sachs & Co.

Q

And then lastly, do you have some sense that you can share with us about how many of the sites – you mentioned non-integrated sites possibly being vulnerable to some strategic action. Is there a long list of those? Is it a short list? Is it...

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

No, it's fairly short. It's a couple.

Robert A. Koort

Analyst, Goldman Sachs & Co.

Q

Got it. And my last one – I appreciate the time. You guys – and I believe your competitors have put through some price hikes in consumer. We didn't see any price change this quarter. How long until we might see those, if they're successful?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

That's a next year kind of event. And in that segment, there's a little bit of a lag in that because volumes are always low the first part of the year. So it's quarters two, three and four next year.

Robert A. Koort

Analyst, Goldman Sachs & Co.

Q

Terrific. And thanks, again, for the new format on the conference call. Really do appreciate it.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Great. Thanks a lot.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

A

Thanks, Bob. Kevin, let's move to the next question.

Operator: Our next question comes from Vincent Andrews of Morgan Stanley.

Vincent Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thanks and good morning, everyone. I had to hop off for a minute, so I apologize if this already been asked. But do you have a view on where your turnaround activity's going to be in 2014 versus 2013?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Vincent, I'm sorry. What activity? You said...

Vincent Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Turnaround activity. So you had substantial turnarounds this year. And I am just curious how that comps against next year.

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Well actually, the first quarter and the second quarter, we have a couple of big pokes in eye for next year. So yeah, the first half of the year, you're going to see a couple big turnarounds.

Vincent Andrews
Analyst, Morgan Stanley & Co. LLC

Q

So those amounts, that'll be an incremental headwind relative to 2013?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

It's both yes and no. So yes, in terms of contemporary operations like sequentially. No, I think, if you look at it from the full year because we have some outages last year – or this year.

Vincent Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Understood. And then could you just remind us, the issue on land in Indonesia and through the bottleneck that you're in there, what are the sort of specific dynamics there? And what can you do to overcome them?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Well there's six different ways you can own – you have ownership of land in Indonesia. And so getting a clear title is unbelievably difficult. The piece of property that's been targeted by the design team, which includes Pertamina, has 32 owners. And so the process of going through and properly getting their permission and getting a sales price is just very onerous. So we're in the middle of doing that. And I'm sure you say, well, Mark, why don't you go find a piece of land that has one owner? I don't think it exists.

Vincent Andrews
Analyst, Morgan Stanley & Co. LLC

Q

And maybe just a last quick one on the – what was the thought process behind increasing the dividend again so quickly? What sort of triggered that versus the decision you made during the second quarter?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well we had – we have been, as you know, very vocal by the desire to get our dividend up into the pack. And that's something many of our shareholders have wanted us to do. And what we realized in that process is that, where the – everybody out there was doing the same thing we're doing, raising dividends double digit. And so you kind of never get there. So we decided it was better for us to go and take the step and get in the pack. And now that we're in the pack, we'll continue to grow dividends, as you would expect us to, annually.

Vincent Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you very much.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

A

Thanks, Vincent. Kevin, let's go to the next question.

Operator: Our next question comes from Jeff Zekauskas with JPMorgan.

Jeffrey Zekauskas

Analyst, JPMorgan Securities LLC

Q

Good morning.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Good morning, Jeff.

Jeffrey Zekauskas

Analyst, JPMorgan Securities LLC

Q

Did you guys you reaffirm your 2013 guidance of 12% earnings growth?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Jeff, you go back to it. I think what we gave – we didn't give – we never gave a 2013 guidance of 12% earnings growth.

Jeffrey Zekauskas

Analyst, JPMorgan Securities LLC

Q

Okay.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

What I gave was a long-term compound average over five years' expectation of that. And so that is still the long-term expectation.

Jeffrey Zekauskas
Analyst, JPMorgan Securities LLC

Q

Well maybe another way of putting it is how's the fourth quarter looking relative to the third quarter?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

It's hard for me to say, Jeff. As much as I like to, there's a lot of puts and takes that we're seeing in industry out there. On the good side, we just had some big orders that rolled in. On the bad side, we've had some folks tell us things that they've scheduled. They're going to go ahead and run off inventory and push it out into next year. So I'd be remiss if I forecasted a number there. If you push me, I think the number that you guys have for us for the full year's a reasonable number.

Jeffrey Zekauskas
Analyst, JPMorgan Securities LLC

Q

And in terms of CapEx for next year, is it likely to be closer to \$500 million or closer to \$400 million, or something in the middle?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Probably a little bit in the middle. If you roll in all the things that we have going next year – we have two big projects. We're doing a lot of the work on methanol. But my gut is, it's probably a bit overstated what we'll actually spend next year in that. We're doing a lot of work in Narrows, Virginia, rebuilding the power system there; that will occur. So I think between \$450 million and \$500 million is the number.

Jeffrey Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. And then lastly, do you expect an earnings contribution from ethanol next year in that if you're running at 85%...

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Not material, no.

Jeffrey Zekauskas
Analyst, JPMorgan Securities LLC

Q

or 90% utilization, you're not making very much. Does that change next year?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Right now, it's very heavily dependent on what ethanol pricing in China and Asia does, Jeff.

Jeffrey Zekauskas
Analyst, JPMorgan Securities LLC

Q

Yeah.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

And right now, I'd say it's – we're not counting on a contribution from that – material contribution.

Jeffrey Zekauskas

Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you very much.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Thanks, Jeff.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

A

Thanks, Jeff. Kevin, let's move to the next question.

Operator: Our next question comes from Chris Nocella with RBC Capital Markets.

Chris J. Nocella

Analyst, RBC Capital Markets LLC

Q

Great. Thanks, guys. Last week, another chemical company had pretty encouraging things to say about Europe and Asia. You mentioned higher volumes there for emulsions for your business. So can you give us a little broader sense of what you're seeing in those regions on the economic front?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. I think certainly, there's more optimism in Europe today than there was six months ago. I think Merkel's reelection is playing a big role in that. We are seeing some pretty good builds in autos. As an example, in Europe, we're seeing pretty good activity, although it's slow to start – it was slow to start and in coatings in those areas. So I think generally, Europe is feeling better about itself than it was early in the year.

In Asia, it's really a mixed bag. China is probably sequentially a little better. It seems to be getting its footing. It's certainly not getting – we can't see it getting worse, I guess, is what I'm saying, in China. Korea and Japan remain okay. India is the weakspot, and India has sort of a ripple effect on all of Southeast Asia. So I think we're ending the year in both of those regions maybe a little better than we started the year, is how I would – how I characterize it, Chris.

Chris J. Nocella

Analyst, RBC Capital Markets LLC

Q

Okay. And you started your POM plant in Frankfurt not so long ago. Can you give us a sense of how long until you hit your full utilization there, and what incremental margins could look if this rent's a little bit higher?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well we're running pretty close. I mean it's the plant that has tremendous theoretical capacity, but it's very much mix dependent. And by mix is how you compound the product in the back end of it. And right now, we're shifting that mix more and more to more specific and specialty grades, which kind of de-rates the plant a bit. So we're certainly not operating at capacity, but we're probably – we're getting pretty close, I think.

Chris J. Nocella

Analyst, RBC Capital Markets LLC

Q

Okay. Just one more from me, if you don't mind. On fuel ethanol in China, last quarter, you mentioned you're in discussions with some other parties besides PetroChina. So maybe, can you just discuss where you stand versus three months ago on some of those discussions?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah – no, we continue to – there're a number of interested parties out there. But what we need is we need someone to step up and take on a major project. And right now, we think PetroChina's the best – the most likely company to do that inside of China.

Chris J. Nocella

Analyst, RBC Capital Markets LLC

Q

Great. Thank you very much.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

A

Thanks, Chris. Kevin, let's go to the next question.

Operator: Our next question comes from Hassan Ahmed with Alembic Global.

Hassan I. Ahmed

Analyst, Alembic Global Advisors

Q

Fairly recently within AI, you guys announced a series of price hikes. Just hearing your commentary, it seems you continue to see that market fairly over-supplied. So I mean is it fair to assume that those initiatives were more to offset higher costs?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well, no, I think our costs, for the most part, have been pretty – I'm looking at Steven – been pretty flat.

Steven M. Sterin

Chief Financial Officer & Senior Vice President, Celanese Corp.

A

It's gone up a little bit...

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Maybe have gone up a little bit. I think we're still trying to shore up and establish what the floor of that business is.

Hassan I. Ahmed
Analyst, Alembic Global Advisors

Q

Understood.

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

We're out there trying to – that's what we're trying to do. We're just trying to establish a good floor.

Hassan I. Ahmed
Analyst, Alembic Global Advisors

Q

Understood. Now just sort of carrying on with that, one of the silos, obviously, within sort of earnings contribution or incremental contribution for 2014 is reduction of raw material costs, right? \$25 million. You talked about upstream and downstream efficiencies. Now as I look at the broad sort of raw material exposures you have, it's essentially methanol, natural gas and ethylene. So are you guys expecting some reductions in the prices of those commodities, or is it something beyond that?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Well I think part – pricing is a function. I know we have the base commodity, but also your logistics and your infrastructure and how you get it to where you're getting it. So we're working that part of the equation as well to give us better access to lower-cost material at whatever the market price is. We're also doing some things on energy, which you excluded in that, that can be pretty attractive for us. And that's changing from one energy source to another energy source, moving more towards gas in our plant sites. And the combination of those things is what translates into \$25 million.

Hassan I. Ahmed
Analyst, Alembic Global Advisors

Q

Understood. So it's not that you're probably baking in something sort of flattish with this year in terms of those raw materials?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. I think – I'm trying to recall the numbers – a few million bucks, I think, is what we're looking at. If you look at base – we're not looking at very much base movement in cost of raw material.

Hassan I. Ahmed
Analyst, Alembic Global Advisors

Q

Understood. Understood. Very helpful. Thanks so much.

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

Thank you.

Jon Puckett
Vice President-Investor Relations, Celanese Corp.

A

Thanks, Hassan. Kevin, let's move on to the next question.

Operator: Our next question comes from Andy Cash with SunTrust.

Andrew W. Cash

Analyst, SunTrust RobinsonHumphrey

Q

Hey, good morning. Just regarding the one or two strategic alternatives that you mentioned. Maybe at a high level you could sort of characterize that? Would it be sort of M&A or shutdowns? Should we look forward to some restructuring cost, or would there be potential gains in those transactions – or those actions?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Well there will not be a gain – a material gain, if it occurs. I think what we're looking at today, Andy, is some pretty de minimis kind of stuff. So yeah, there could be some restructuring cost in there. But it'll be pretty modest. Yeah.

Andrew W. Cash

Analyst, SunTrust RobinsonHumphrey

Q

Okay. And then secondly, if I could, over on the EVA area, you mentioned there's some over-supply. Could you characterize how that industry is operating in terms of operating rates on an industry-wide basis? And then do you think this is something that turns around in the next year? Or is it going to take a multi-year recovery?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

It's going to take a multi-year recovery, Andy. The businesses, there's plenty of capacity out there right now. Where we're seeing success – and I think most people in this business, when they have niche products they can move in a unique way in certain applications, they can manage to eke out pretty good returns. If you don't have that, you're really pulling through ethylene.

Andrew W. Cash

Analyst, SunTrust RobinsonHumphrey

Q

Okay. Thank you very much, Mark.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Thanks, Andy.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

A

Thanks, Andy. Kevin, let's move to the next.

Operator: Our next question comes from John Roberts with UBS.

John E. Roberts

Analyst, UBS Securities LLC

Q

Can you hear me?

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

A

Yes, we can, John.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

We got you, John.

John E. Roberts

Analyst, UBS Securities LLC

Q

At the end of your prepared remarks, you talk about the average CapEx staying down around \$400 million. But you're obviously going to be above that in the near term. So should we expect below \$400 million out in 2015 or 2016, or this is a post-2014 comment?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

No, no. When you get to 2016, it'll be back down below \$400 million.

John E. Roberts

Analyst, UBS Securities LLC

Q

It'll be below \$400 million.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Yeah.

John E. Roberts

Analyst, UBS Securities LLC

Q

And then with respect to your comment on the TCX milestone in China next August, what specifically are you looking for at that point? Is that just having a site identified? Or is it having some project finance lined up? Or what would be the items in the milestone for next August?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

There's a couple aspects. The project of this is the easiest part of it. The more challenging aspect for the Chinese government really is implementing the national fuel standards in a way that supports the use of ethanol broadly. Today, the fuel standards tend to be more regionally applied or provincially applied. And so there's just not a good, consistent way of doing it. So we have to go through a process, working with PetroChina, of validating the benefit of ethanol in fuel. And I know that sounds like that's a foregone conclusion. Nonetheless, we need to walk through that process with them. We need to work with certain provinces to get acceptance of it. We need to do some trials to demonstrate it. And all that activity is scheduled over the next year.

John E. Roberts
Analyst, UBS Securities LLC

Q

So you might not have a site located by next August, or at least publically announced?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

That's correct. We may not.

John E. Roberts
Analyst, UBS Securities LLC

Q

Okay. Thank you.

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

There's no shortage of sites, I'll say. And that is not the problem.

John E. Roberts
Analyst, UBS Securities LLC

Q

All right. Thank you.

Jon Puckett
Vice President-Investor Relations, Celanese Corp.

A

Okay. Thanks, John. Kevin, let's go to the next question.

Operator: Our next question comes from Mike Ritzenthaler of Piper Jaffray.

Henrique M. Akaishi
Analyst, Piper Jaffray, Inc.

Q

This is Henrique in for Mike. Regarding TCX on the deal with PetroChina, is there any risk to you plan regarding the integrity of the management team, given all the recent scandals?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

A

No. We feel pretty good about it. I mean I've got to know Chairman Zhou pretty well. And so I guess the only comment I can make is what I see at PetroChina is they're taking it very, very seriously. And all the contact I've have with them has been totally above board and – and as you would expect. So, no, we don't think so.

Henrique M. Akaishi
Analyst, Piper Jaffray, Inc.

Q

All right. Can you explain the difference between the margin pool in industrial ethanol and fuel ethanol?

Steven M. Sterin
Chief Financial Officer & Senior Vice President, Celanese Corp.

A

Well if you look at it right now, it's a little bit theoretical because there's not a lot of fuel ethanol in Asia. But where there is fuel ethanol, it's \$150, \$200 a ton higher value than industrial ethanol.

Henrique M. Akaishi

Analyst, Piper Jaffray, Inc.

Q

Okay. Last one for us. So in kind of your 2014 growth plan, innovation bucket is a sizable portion of that. Can you elaborate further on which products are included in that bucket? So Qorus and others?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. I mean Qorus is in there probably for 15% to 20% of it. There're a number of specialty materials that are in there, which is probably the bulk of it. There's some cellulose acetate new products in there, which is a little slice of it. More movement in emulsions and some unique applications is coming in through a [indiscernible] (34:02) portfolio. So everybody's got a little piece of that, I guess, is what I'd say, John.

Henrique M. Akaishi

Analyst, Piper Jaffray, Inc.

Q

Great. Thanks a lot, guys.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

A

Thanks, Henrique.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Thanks.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

A

Kevin, let's move to the next.

Operator: Our next question comes from Nils Wallin with CLSA.

Nils Wallin

Analyst, Credit Agricole Securities (USA), Inc.

Q

Morning, and thanks for taking my question. Regarding Celanese's penetration of autos, I think at one point, you may have said that there was about two kilos per auto, and your goal is to get four kilos to six kilos or so. So I was just curious if you would update us where you are in that trajectory, and how much of that occurred in this quarter.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well I don't want to give out exact numbers. What I'll say is that year-over-year, we're probably up 6% in our penetration. So you can use those kinds of numbers and get a sense of the kind of movement that we're seeing. Does that make sense? The highest vehicle we have is probably in the eight or nine kilograms per vehicle, which includes not only Engineered Materials, but also composites. And the lowest we have is probably 0.1. So that's a sense of the range...

Nils Wallin

Analyst, Credit Agricole Securities (USA), Inc.

Q

Got it. Yeah.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

But yeah. So if you think in terms of the two-ish kind of ballpark going to the eight-ish kind of in an ideal sense, that's how we see our entitlement.

Nils Wallin

Analyst, Credit Agricole Securities (USA), Inc.

Q

Okay. Understood. With regard to approvals for fuel ethanol in China, are there any particular provinces where it's further along? And is there any particular region where you're a lot more bullish on being able to get those approvals quicker?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well, yeah. I mean there's some provinces that have already approved it. And there's other provinces, and those provinces are very interested in it. Beijing is one that's unbelievably interested in it. So I don't know that we're – if I put forth a proposition we're worried about that, I'm really not. It's just a political process you've got to go through. And I think a number of the coastal provinces are – either already have approved ethanol or very interested in it. The inland provinces, especially ones we have coal and ethanol already, are more focused around trying to continue to allow methanol to go into their fuel.

Nils Wallin

Analyst, Credit Agricole Securities (USA), Inc.

Q

Understood. And just finally, if I may. Going back on the strategic alternatives for non-integrated production sites. I know – I mean this year, you got almost the same amount of improvement by shutting down Spondon. Should we think that the alternatives for these other plants will be significantly less than what you did on the Spondon shutdown?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

There'll be less than that. The order – you should have the same kind of general broad order of magnitude.

Nils Wallin

Analyst, Credit Agricole Securities (USA), Inc.

Q

Great. Thanks for taking my question.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

A

Thanks, Nils. And let's move to the next question, Kevin, and we'll have this be the last question.

Operator: Okay. Our last question comes from P.J. Juvekar with Citi.

P.J. Juvekar

Analyst, Citigroup Global Markets Inc. (Broker)

Q

Mark, you said you don't expect much ethanol contribution next year. Ethanol prices have come down and spreads have narrowed in China. So can you talk to us about what are the key drivers of that spread – ethanol spread in China? And what are the risks?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well, P.J., I think what we're seeing there is that there's a lot of ethanol available in China, currently. There's been more cassava consumed. There's actually – believe it or not, there's a lot of corn as well available in China. And so incrementally, they're shoving ethanol in the market. I have a hard time believing this, but one of the bips of data we've looked at and seems to have some foundation to is the fact that alcohol sales are down in China. And so the price of alcohol, as it goes into liquor is way off as well. And so the net-net of all those things, we've seen prices drop in the – for a while in the low \$700 a ton; they're probably \$740 or \$750 a ton now. And that's a hard place for us to make very much money.

P.J. Juvekar

Analyst, Citigroup Global Markets Inc. (Broker)

Q

And when you look at the acetyl cycle in general, what are the key things you're looking for? Is it the China growth, or is it capacity shutdowns by some of the high-cost players?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

I think it's probably the latter, although it's more China. If you look – China really is the swing market for acid. So U.S. operations are pretty steady. There's not very much in Europe, so it really gets into China. And so there, we're seeing a number of the expensive folks are starting to indicate they're throwing in the towel. So I think that's what's going to happen, P.J. But I just would urge you not to have a view that that's going to happen overnight. I think we've still got operating capacity. I would guess we're operating at high 70% – mid to high 70%. And that's just a long way from the kind of inflection point you probably need which, in the past we've seen, when you're above 90.

P.J. Juvekar

Analyst, Citigroup Global Markets Inc. (Broker)

Q

That's helpful. And lastly, can you just give us status of your Singapore plant and how it's running and utilization rate there? Thank you.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Thanks, P.J. What we run in Singapore, we continue to operate it in a way that fits our needs for our entire portfolio. And I don't see that changing right now.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

Okay. Thanks, P.J. and thanks everybody else for your time this morning. We'll be around for questions later today.

Operator: Well, ladies and gentlemen, this has concluded today's presentation. You may now disconnect and have a wonderful day.

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