

Mexichem

Third Quarter 2015 Earnings Results

October 21, 2015 at 1:00 p.m. Eastern

CORPORATE PARTICIPANTS

Antonio Carrillo – *Chief Executive Officer*

Rodrigo Guzmán Perera – *Chief Financial Officer*

Berenice Munoz – *Director of Investor Relations*

PRESENTATION

Operator

Good morning, everyone, and welcome to the Mexichem Third Quarter 2015 Results Conference Call. Your speakers today will be Mr. Antonio Carrillo, CEO; Mr. Rodrigo Guzmán, CFO; and Miss Berenice Munoz, Director of Investor Relations. Following today's presentation there will be a question and answer session. During this conference call management will make forward-looking statements to assist you in understanding its expectation for future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially. Please refer to the company's filings with both the Mexicano [indiscernible] for full details of those risks.

In addition, the statements during this call, including statements related to the market conditions and future performance are based on management's views as of today. And it is anticipated that future developments may cause these views to change. Please consider the information presented in this light. The company may at some point elect to update the forward-looking statements made today, but specifically disclaims any obligation to do so. Please note that today's call cannot be reproduced in whole or in part without the explicit consent of Mexichem. Please note, this event is being recorded.

I'll now turn the call over to Miss Berenice Munoz, Director of Investor Relations.

Berenice Munoz

Thank you, operator. Good morning, and welcome to our Results Conference Call. We are pleased to be here today and share with you our results for the third quarter of 2015. We appreciate your time and participation at this conference call. The speakers, as mentioned, will be Antonio Carrillo, Chief Executive Officer; Rodrigo Guzmán Perera, Chief Financial Officer; and myself, Berenice Munoz, Director of Investor Relations.

I will now turn the call over to Antonio for opening comments.

Antonio Carrillo

Thanks, Berenice, and good morning, everyone. Thank you for participating in today's call to review Mexichem's third quarter results, disclose our outlook for the remainder of the year, and look ahead to the factors that we expect come into play in 2016.

From an operating standpoint, this was a very strong quarter for Mexichem. Each of our business groups succeeded in significantly expanding their EBITDA margins. On a reported basis, EBITDA increased at a double digit rate, and on a constant currency basis revenues were up 12% and EBITDA grew by 24%. This performance was even more impressive if you exclude special charges in order to gauge Mexichem's operating and earnings power.

Rodrigo will provide more detail on these later, but excluding restructuring and special charges, EBITDA growth would have been over 30% on a cost currency neutral basis. As a global company reporting in US dollars Mexichem is exposed to a global economy that in dollar terms has contracted in 2015. This is the first time the global economy has contracted in dollar terms since 2009. Therefore, reporting solid EBITDA growth in dollar terms and significant EBITDA margin expansion shows the resilience and strength of our business.

Third quarter results were impressive, even though we are comparing against a weak third quarter last year when we experienced an unexpected sharp decline in our European operations and that [indiscernible] shortages that significantly increased our production costs. While these specific issues

were no longer factors in the current year's third quarter, we did face pricing pressures tied to the decline in oil prices. Oil prices have slipped 22% since the end of this year's second quarter, and are down 50% from last year's third quarter levels. When oil prices fall PVC prices tend to follow, and there's a lot between the time PVC prices fall and when we face a similar impact in the raw material prices. Therefore, margins shrink temporarily and then expand again.

The other factor we faced during the quarter was the devaluation of key currencies for us, namely those in Latin America and Europe against the US dollar. When currencies devalue against the dollar we see two impacts. First, we have the translation effect, which reduces the size of our non-dollar denominated operations. As an example of this effect, we have Colombia. In local currency our Colombian operations have grown by 50% of EBITDA, a tremendous job. However, when you measure them in dollars they are flat against 2014.

The second effect of the valuations is the competitiveness of our PVC exports. For Mexichem that is an epic supporter of PVC and has costs in dollars exporting to regions with currencies that have significant devaluations against the dollar is a big challenge. Having said this, our Vinyl business has done a tremendous job. This is the business group that has showed the greatest year-on-year improvement in the third quarter. Revenues increased 12%, EBITDA more than doubled, and the EBITDA margins almost doubled, rebounding to 15% from 8% a year ago.

Plant utilization continues to be low due to the declining prices during the quarter and the impact of the valuations; however, these represent great potential for when the market stabilizes. We continue to see improvement in our PMV joint venture, which is a key part of Mexichem's vertical integration strategy. Since February of this year we have experienced improving results of the PMV facility. We have seen a positive impact due to higher selling prices in Europe, but on the other hand PMV has been negatively affected by low VCM prices in America. Based on our current visibility we are on track at PMV to reach by the end of the year a production run rate of about \$300,000 per year.

The Fluor business had mixed results in the third quarter, but was able to expand EBITDA margins by 205 basis points despite lower sales and EBITDA. We continue to experience solid demand in asset grade fluorspar and hydrofluoric acid. As expected, however, demand for metallurgical fluorspar has been weak from our traditional steel industry customers, and we faced difficult year-on-year comparisons in the third quarter.

On the positive side, we have started to develop the cement market, which has a much broader base of customers. With this new proactive strategy I believe we will be able to penetrate new markets over time and generate margins and volumes which are similar to the metallurgical business. Demand in prices for the Fluor's group downstream refrigerant gases remained steady in the third quarter, led by our European operations. But we can expect much lower comparisons in this year's fourth quarter, in large part due to a one-time 16.8 million payment that Mexichem received in last year's fourth quarter.

During the second quarter we launched an anti-dumping suit against China on blended gases in conjunction with other gas producers. This procedure does not have a significant impact on Mexichem since we are a small producer of these products.

On the 134 case we continued to make progress on our appeal. The business group that is the most negatively affected by foreign exchange fluctuations is Fluent. In this business our reported revenues for the third quarter were 5% lower year-on-year, but 12% up on a constant currency basis. And the 19% increase in reported EBITDA would have been 41% in a constant currency when you exclude charges related to the closing of our two plants in Brazil in the third quarter.

The consolidation of the Dura-Line acquisition was a major contributor to the group's revenue and EBITDA growth. Additionally, thanks to restructuring actions to streamline our European manufacturing operations, Fluent Europe achieved sequential increases in EBITDA margin in each quarter of this year and increased its EBITDA margin to 15% in the third quarter. During the quarter we continued to see the deterioration in our business conditions in Brazil. Since the beginning of the year we have been taking measures in preparation for a slowing economy. However, during the third quarter we spent a significant amount of time in Brazil to re-design our business to the new realities in what we expect will be a tough first half of 2016.

By the end of this year we expect to reduce our workforce in Brazil by 800 people, or 25%, and in the third quarter we booked restructuring costs related to the closing of two of our eight facilities. Our business in Brazil continues to be profitable, but conditions are tough. We will continue to evaluate the situation in Brazil and take further actions if needed. For the quarter, our Brazil operations represented 3% of total EBITDA.

To sum up, we achieved strong operating performance in the third quarter, while maintaining the financial discipline we have discussed on previous calls. Rodrigo will fill you in on the details in a moment, but I'm pleased to report that our major capital investment in the ethylene cracker joint venture with OxyChem is moving forward on schedule and on budget, and we expect the plant to start in the first quarter of 2017. Also we ended the third quarter with a net debt to EBITDA ratio of 2.1x, which we expect will be closer to 2x by the end of the year.

Finally, we reached an important milestone in the third quarter, gaining significant improved visibility in two key areas. First, in PMV we have achieved eight months of performance that generally is consistent with our expectations. At the same time, we have neutralized most of the impact of Mexichem's Venezuelan operations on EBITDA results by adopting an exchange rate of 198 bolivars per dollar. This has reduced the Venezuelan effect on our EBITDA to less than 1%.

At this point I would like to turn the call over to Rodrigo Guzmán, our Chief Financial Officer, to review our third quarter financial performance.

Rodrigo Guzmán Perera

Thank you, Antonio. First of all, I want to highlight that our operations had an impressive performance during the quarter. This year's second and third quarter were so challenging due that the bigger part of the appreciation of the currencies occurred during that period. For example, it is impressive that our Fluent Colombian operation had [indiscernible] proximity 50% this year in EBITDA terms and local currency, while remaining flat in dollar terms. The impact of the translation effect in our revenues during the first nine months has been approximately \$450 million, and \$52 million in EBITDA, which represents 10% in revenues, and 8% in EBITDA over the first nine months of the last year.

It is important to mention that our Fluent business, which is the one that was more impacted by the appreciation of the dollar, revenues adjusted only by the FX translation factor in the third quarter of '15 grew 12%, while EBITDA grew 41%. Our guidance then is impacted by this factor. But we continue confident to grow 10% in EBITDA in a global economy that has been contracting about 5% in dollar terms.

I will now take you through the third quarter 2015 figures in more detail and comment on the first nine months of 2015 results. Third quarter operating results were in line with our objective of increasing operating profitability at a faster pace than revenue. Even with pricing and currency headwinds we posted a 13% increase in reported EBITDA, and 38% in operating income. Importantly, the EBITDA margin increased in each of our business groups, showing year-on-year improvements ranging from

205 basis points to 724 basis points.

In the third quarter, reported revenue increased modestly by 17 million year-on-year, or 1%, to 1.4 billion, reflecting acquisitions and organic growth aggregating \$211 million. This more than offset the 174 million reported revenue decline in our Fluent business group mainly related to the appreciation of the US dollar against the euro and most Latin American currencies, and the 21 million year-on-year decline in Venezuela revenues mainly as a result of changes in law in the last quarter to use 198 bolivars per dollar. On a constant currency basis third quarter revenues will have increased 12%.

Looking at third quarter revenue highlights for our three business groups, the final report is 535 million in revenue, representing double digit revenue growth of 12% and volume growth of 43%, compared to last year's third quarter when, as Antonio mentioned, we faced difficult market conditions due to ethylene shortages. The groups' results in this year third quarter benefited from improvements in PMV production, the consolidation of Vestolit, and lower input cost, which more than offset the impact of lower PVC sales prices.

Our Fluent Business Group posted a 5% decline in reported sales to \$793 million. On a constant currency basis considering the foreign exchange impact on Fluent LatAm and Fluent Europe of 149 million in the aggregate, revenues would have increased by 12%, primarily benefiting from the Dura-Line acquisition, which was only consolidated in last year's third quarter results for 11 days.

Exclusive of our Venezuelan operations, revenues would have increased 15% on a constant currency basis. Our Fluor Business reported revenue of 151 million for the quarter, a decrease of 9% year-over-year, primarily due to lower demand for metallurgical fluorspar from steel industry clients, a situation that we highlighted in last quarter results.

Turning to central region: North America and Europe increased by 400 basis points and 300 basis points, respectively, primarily reflecting the Vestolit and Dura-Line acquisition, with the latter responsible for the substantial increase in our sales in the United States, which represent 17% of total third quarter sales, up from 11% in the same period last year.

Brazil represented 7% of total revenue for the first nine months of this year, accounting for about 27% of our third quarter sales in South America, consistent with previous quarters. EBITDA for the quarter was \$234 million, up 13% compared to the third quarter of 2014. And we have increased 32% to 271 million after further adjustments of foreign exchange translation, restructuring cost, and our Fluor hedging strategy input.

On the plus side, EBITDA benefited from the consolidation of Dura-Line and Vestolit. We charted \$32 million in the aggregate. Also benefiting EBITDA performance was the significant 724 basis points increase in March into the Vinyl group, and the expansion of 309 basis points in Fluent, thanks to the inclusion of Vestolit lower input cost and improved performance of PMV, and the Fluent Europe margin expansion to 15%. These improvements were achieved despite a 22 million reduction in reported EBITDA coming from the appreciation of the US dollar, and 14 million due to foreign exchange law changes in Venezuela.

In the third quarter we absorbed a \$14 million non-operating loss resulting from a Mexican peso denominated currency hedge related to our Fluor mine. These reduced our reported and constant currency EBITDA fees. But it is a one-time charge and as we [indiscernible] the hedge in September of this year.

As I mentioned before, operating income for the third quarter increased 38%, or \$138 million from a

year ago. In addition to the factors that I just mentioned, operating income benefited from lower depreciation and amortization costs as a result of the FX conversion in Fluent Europe and Fluent Brazil, where our [indiscernible] currency is local.

In addition, PMV had lower year-over-year depreciation and amortization costs in this quarter due to increases in the useful life of the assets related to the Pajaritos complex as a consequence of the investments we have been doing in assets since October 2013.

Financial costs increased 9%, or \$4 million, to \$55 million. This was due to the 410 million increase in the total financial debt related to our 750 million international bond issuance, which was completed in September 2014.

Our effective tax rate for the third quarter was 35%, income from continuing operations before income tax increased by \$34 million, or 67% in the quarter, while cash taxes increased 25 million. This increase was due to a higher tax position in certain subsidiaries resulting from the strong US dollar and a taxable dividend received by foreign operations. It was offset by different taxes recognized by those subsidiaries with high tax loss positions, leading back to a 35% effective tax rate. For more information on income tax we are happy to discuss off line.

The company reported net majority income of 54 million, compared to net majority income of 53 million in the third quarter of 2014, an increase of 2%. On an adjusted basis, which excludes either in the third quarter of '14 or in the third quarter of '15, the effect of the currency hedge net of [indiscernible] taxes, as I mentioned earlier, majority net income will have increased by 23%. A brief review of our results for the first nine months of 2015 shows a 5% increase in reported revenues to 4.4 billion, equating to revenue growth of 15% on a constant basis, and 16%, excluding also PMV and Venezuela.

Year-to-date revenue growth was driven by a combination of acquisitions and organic growth. For the first nine months of 2014 reported EBITDA was up 6% to \$688 million, compared to the \$661 million reported in the first nine months of 2014. These represent an increase of 18% to \$783 million on a constant currency basis, excluding restructuring and the hedging effect on one-time impact.

In addition to the factors contributing to third quarter EBITDA growth, year-to-date EBITDA performance benefited from a margin increase of 245 basis points in the Fluor Business Group, and 139 basis points in the Vinyl Business Group. 2015 year-to-date, operating profit was 401 million, up 12% from 359 million, while net majority income was 137 million, down from 152 million in the first nine months of 2014, primarily due to higher taxes. Excluding the effect of the hedging loss net majority income would have been 152 million, up 2% from 149 million.

Moving to the balance sheet, pro forma net working capital for the first nine months of 2015 declined by 280 million, or 39% compared to the similar bill last year, while sales remained stable. Net financial debt at the end of the third quarter was 1.8 billion, leading to a pro forma net debt to EBITDA ratio of 2.1x at September 30, 2015. Interest coverage to pro forma EBITDA was 3.9x.

Operating cash flow before capital expenditures in the first nine months of 2015 was 18% higher than in the same period of the last year as a result of the strong working capital management done in this year. Working capital management generated 106 million in CUSIP of Dura-Line and Vestolit acquisitions. Capex in the third quarter was \$216 million. On a year-to-date basis, capex was \$467 million, from which 240 million has been invested in the ethylene cracker. For full year 2015 we reaffirm that our capital expenditures will approximately be 700 million, with 70% of our cash budget allocated to increase vertical integration to our joint ventures, and the remainder earmarked for the fast return capacity expansion projects.

I will now turn the call back over to Antonio for his closing comments.

Antonio Carrillo

Thank you, Rodrigo. Before I continue with my prepared remarks I just want to clarify. I think Rodrigo mentioned Brazil was 70% of revenue to us, 7% of revenue for Mexichem in the third quarter, and 3% in terms of EBITDA.

As we look ahead to this year's fourth quarter, we expect to see continued EBITDA growth and margin expansion in our Vinyl and Fluent Business Group that more than offsets lower projections for our Fluor Business. For full year 2015 we expect to report EBITDA of approximately \$900 million, representing about 10% year-on-year growth, exclusive of restructuring charges and the one-time loss forward on hedging recorded in the third quarter.

On a currency neutral basis this represents approximately 15% year-on-year EBITDA growth based on the foreign exchange impact on EBITDA in the first nine months of just over 50 million. 2016 should be another year of increased profitability for Mexichem. The macro landscape promises to be challenging, and we are particularly focused on the differential between oil and gas prices, metallurgical fluors [indiscernible] volumes, Brazil and the potential for further currency fluctuations.

On the plus side, however, we have several factors that should benefit Mexichem. First, the performance of the two acquisitions we completed last year and we integrated this year. Together Dura-Line and Vestolit have significantly increased the scale and scope of Mexichem operations, which are still in the early stages of leveraging. I'm pleased to report that both companies are likely to outperform the initial expectations we provided in August of last year when we had announced them. In both of these acquisitions we have started an aggressive expansion plan.

In Dura-Line during this year we have opened a new plant in India, and we're building two new plants, one in the US and one in India. At the same time, we're opening in the west coast of the US a plant that had been shut down for a long time. To develop our LatAm markets for Dura-Line products, we have opened offices in Colombia and Brazil, and we're in the process of installing new equipment to start producing Dura-Line's products in both countries. For Vestolit, during the year we approved an expansion plan that would increase the capacity by 10%, or 40,000 tons, which will start in 2017. This would allow us to become the largest producer of specialty PVC in the world.

Second, in addition to the incremental EBITDA they account for in the aggregate, both acquisitions have added specialty products that have broadened and diversified our end markets and geographies, creating tremendous cross-selling opportunities. For example, we currently have projects under development in Central America for the renewable energy industry. Using [indiscernible] pipe manufactured by Dura-Line we have begun to use the Dura-Line's specialty mining piping on our fluorspar mines, and we have started using Mexichem platforms in Brazil, India, and Turkey to sell fluorspar to the cement industries there.

Third, Vestolit and Dura-Line have significantly enhanced our industrial flexibility, which enables us to efficiently stretch production to meet market demand for specific products and to change production location to maximize profitability. As an example, our presence in Europe after the acquisition of Vestolit has allowed us to take advantage of higher ethylene prices and PVC margins there, compared to North America, where ethylene is derived from natural gas. Again, we're only at the early stages of tapping into this potential.

Lastly, and most important is the alignment of Mexichem's operating teams across the business groups and geographies to create a resilient and profitable organization.

Operator, we would like to open the call for questions now.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question and answer session. To ask a question you may press star then one on your touchtone phone. If you're using a speakerphone please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time we'll pause momentarily to assemble our roster.

Our first question comes from Diego Mendes with Itau. Please go ahead.

Diego Mendes

Yes, good afternoon, all. So, I have two main questions. The first one is for 2016, if you could provide to us what you're expecting in terms of EBITDA margin per region, and the behavior on the old Integral Solutions, now the Fluent Business, especially in terms of Latin America and Europe [indiscernible] on FX and also in Europe.

And the second question is regarding the Fluor Business, if you have any kind of update to provide us regarding the development of the new refrigerant gases and the possible investments to deliver that to the O&Ms by 2017. Thank you.

Antonio Carrillo

Sure. On the first question, on the guidance for 2016, we have not finished our internal process to have a clear number to give you. So, I will not be able to answer that question today. What I can tell you specifically, just conceptually from our Latin American operations, which is I think your main question, the big factor is Brazil, which, as we mentioned, is about 27% of the revenue of our Latin American operations in the third quarter of this year. The rest of the businesses, from the numbers I've seen, look well. We don't see any big change from what we're seeing this year, as the businesses are performing well and we have a lot of projects going on.

So, I expect that if you take Brazil as the wild card at the moment, the rest of the businesses should do very well. Our Mexican business is growing tremendously. Our Colombian business is growing great. Central American is doing fantastic. Peru is doing very well. So, overall we're doing good in Latin America, as we call it, probably the way we'd say it is the Hispanic Latin America is doing very well. The Portuguese speaking is the one that's, it's a little uncertain at the moment.

For the Fluor Business, well, let me just finish on Fluent. Europe, we've seen growth this year in terms of margins. As we said, since the beginning of the year we are focusing on more margin than volume. We are coming to a point where we're going to start switching gears because we see more opportunities in Europe at the moment. So, for next year we should also see a year with growth for our business in Europe. And then our Dura-Line acquisition in North America, I would say it's split in two. The part that's not related to oil is going extremely, extremely well, and it's overcompensating for the part that has some exposure to oil and gas.

And the rest of the countries for Dura-Line are growing very well. We're doing great in India. We're doing very well in Europe. South Africa's growing. Latin America is growing. And even our joint venture in the Middle East is going very well. So, overall I would say very positive on all the information I'm seeing from Dura-Line.

For Fluor, on the new gases it continues to be, I would say, a complicated process. As we've said before, we continue to challenge a lot of the patents from some of our competitors. During this quarter we made a major breakthrough, as we won the appeal from one of our competitors on a large patent in Europe, which now gives us a lot more flexibility to start working in Europe. But again, there's a lot of moving parts, and again, our thought is that there should be some sort of an agreement between the parties to come to a general industry solution for the problem, that we, it's approaching fast in 2017. So, no real concrete answer, but there's a lot of projects going on and a lot of, let's say, situations happening that will give us a more clear view probably sometime in 2016.

Rodrigo Guzmán Perera

And Rodrigo Guzmán is speaking also. The margins, we expect at the closing of this year in Europe it's around 10%, in Latin America, 17%, Dura-Line, which is the US, it's 12%. And I think those are the main regions we are having.

Diego Mendes

Okay, great. And just a follow up, in the case of Brazil, with this adjustment that was made on your operations, do you think there's more to come, or you already did everything that was possible given the current scenario?

Antonio Carrillo

You know, I believe that what we did in the operation is we took a very aggressive step. Being a Mexican company it has gone through these types of adjustments. I think you should never let go of a good crisis to do the adjustments you need to do. And I believe we did strong adjustments.

If the situation gets worse, of course, that's why I mentioned that we'll continue to monitor it. But at the moment I think we've done enough adjustment. The team, the numbers that come out of this adjustment should help us turn around the business and go through these significant economical situations in Brazil in a very healthy way and come out on the other side not only very well positioned, but also positioned to grow.

The reason I mention this is because if you look at the Brazilian statistics, after a recession the construction industry normally rebounds very, very strongly. We're not expecting this for 2016, of course, but what I can tell you is that we have designed the new footprint of our operations to be ready to capitalize on the Brazilian economy, which we are betting on for the long run, and to be ready to come back very strongly when it comes back.

Diego Mendes

Okay. Thank you very much.

Operator

The next question comes from Luiz Carvalho with HSBC. Please go ahead.

Luiz Carvalho

Thank you. Hi, Antonio. Hi, Rodrigo. I have basically three questions here. The first one is more in the long term, we can see [indiscernible] EBITDA growth and margin expansion mainly from the Oxy JV that you said that you will start by early 2017. I just want to [indiscernible], in the very short term and mid-term do you see any other strong catalysts for a different business that could, let's say, change dramatically your margins, or volumes, or prices? That's the first one.

The second, it's about if you can provide a better guidance on the VCM cost prediction for the fourth quarter. Can we expect similar to the second and third quarter?

And the third question is, it's a more broader one, now that your leverage is back close to 2x, and you just mentioned that you're seeing some opportunities in Europe, are you seeing any potential acquisition? Are you still, how can I say, looking back for potential further acquisitions? Thank you.

Antonio Carrillo

Surely. Let me start with the first one on the catalysts. So, Oxy, as I've said, we are going to start in the first quarter of 2017. Of course if you look at the numbers for the last year the profitability of that investment has had significant fluctuations. We still believe that over the medium term we will see significant profitability coming out of that investment. And at the same time, let's not forget that this is a very strategic investment because you cannot compete in a global economy with an operation position PVC that does not integrate into a raw material.

For the long term, we still are firm believers that producing petrochemicals in North America from shale gas will have a competitive advantage over other regions of the world. So, we are very optimistic about our cracker. Hopefully by the time we start the volatility has slowed down a little bit. And, as I've mentioned, it's not important whether oil prices are high or low right now for PVCs. It's more important, the volatility's what really creates a lot of uncertainty on these prices.

On the catalysts, PMV should continue to be a catalyst for us. PMV is a, we are just getting to a point where it's been stabilized. We are learning every day. We have more tools now than we had a year ago, now that we have ethylene cracker and we are producers of VCM, to be able to maximize the return on all the assets. The rest of our European business should continue to be a catalyst. We structured the business in a significant way, and it's performing well. And I still believe we can take that business to a 13% margin.

Dura-Line to me is a fantastic catalyst. Our presence in India and our presence in Africa is just getting started. We have put together teams to develop a Mexichem India strategy, a Mexichem Africa strategy, a Mexichem Asia strategy, and leveraging the resources and the platform that we have created locally to grow the rest of the Mexichem products I think is going to be a great catalyst for the whole Mexichem organization. I mentioned it in my remarks, we have now people selling metallurgical fluorspar and developing the market in Brazil. We are doing the same in India and in Turkey, and those are the kind of things that I think will take Mexichem to the next level.

Going to your VCM question, I mentioned in my remarks, relatively short, but the fourth quarter should be another very good quarter for Fluent and Vinyl. We think the VCM prices have touched bottom. At the moment we don't expect VCM price to continue to go down. But we should see margin and growth in both Fluent and Vinyl. Where we see a relatively weak quarter is in the fluorspar, and it's mainly coming from volumes of metallurgical fluorspar. The quarter is still going, so I've not, let's say, stopped selling fluorspar.

At the moment we are continuing to close contracts and to actively sell metallurgical fluorspar. But the market is weak and the new market we're developing, which is a global cement market for our products is starting to pick up. We have a law [ph] that's fully suited for the test we have to develop. You have to develop the fluorspar content for each one of the cement mills we're selling, so we have a significant amount of backlog in our laps due to the sales efforts we have started to create.

So, I don't expect a significant impact in the fourth quarter, but 2016 we should see a good impact from the new market we're developing in cement. So, yes, we're going to see lower fluorspar tons in the fourth quarter probably, but for 2016 I'm very optimistic that these efforts we're doing not only will accelerate our growth in fluorspar volumes, but also will give us a much broader and a healthier

customer base for the future.

On acquisitions, our goal this year, 2015 was a very challenging year for Mexichem in terms of cash, and that's why the effort on working capital has been so strong and why we have not done acquisitions. We wanted to bring back the net debt to EBITDA ratio below two. We expect to be close to two by the end of the year, probably a little better. And that will start allowing us some flexibility to look at some acquisitions, probably not the huge acquisitions, but some acquisitions. And I think, as I said, every crisis brings about opportunity, and I think Mexichem is coming to this crisis both in Brazil and in other parts of the world, ready to take advantage of it. And we have a lot of, I would say, opportunities in the horizon that will be coming up.

Luiz Carvalho

Yes. Thank you. Thank you very much.

Operator

The next question comes from Felipe Santos with JP Morgan. Please go ahead.

Felipe Santos

Hi, Antonio. I hope all is fine. Let me ask two questions. First one, how have you seen the scenario for the spreads for the next year, and how you can see this movement, this volatility in brand can impact the profitability for the next year? I know that you just released revised guidance for the year, but how do you see this can change your strategy going forward?

The second question is if you can give us an update on the construction of the plant of Oxy. Do you now have an idea on when it should be started, by the end of 2017, or the beginning of '17? How is the construction going? Thank you.

Antonio Carrillo

Can I ask, Felipe, the spreads on what, you're referring to which spreads?

Felipe Santos

For the Vinyl spreads. For the segment of Vinyl. I'm sorry.

Antonio Carrillo

Okay. As I mentioned in my remarks, when oil prices fall normally you see PVC prices fall at the same time and you get a reduction in prices for two reasons. One of course it's tied to oil in one way or another, because our competitors in Europe and other parts of the world have the raw material coming out from oil, not because we are any—we're not tied to oil per se, but some of our competitors that produce PVC out of naphtha, their costs are related to oil. That's why you see a reduction in PVC when oil prices come down. And so what happens is people, if they believe oil prices are going to continue to come down they stop buying because they perceive that they can buy PVC or polyethylene for that case, or many other derivatives, they perceive they can buy them cheaper in the weeks to come, or in the months to come. And that's why demand gets slow, and that accelerates falling prices.

Once that stabilized then raw materials catch up and then your margins start opening again. So, what we saw in the third quarter, even though we had great results we still had quite a bit of a reduction in margins in some specific markets, given that oil prices dropped 22% in the quarter compared to the end of the second quarter. But also if you think about the combination between oil prices and currencies, for a company like Mexichem that we buy raw material in dollars and we export to Europe and to Latin America, and to other countries that have significant devaluations, we saw margins contract. Now that things are stable we're seeing margins improve again, and our forecast shows that the fourth quarter

should be better in margins on the Vinyl side than we had in the third quarter.

So, again, oil prices, of course we always like oil prices high, but even in a low oil price scenario, as long as there's stability you do not see that huge fluctuation in the margins, as we have seen in the last year, for example.

On the construction of the plant in Oxy, we continue to be on budget and on time to start in the first quarter of 2017. So, we are excited. The plant is going very well. And I think everything's on track. There's no surprises there.

Felipe Santos

That's perfect. Thanks so much.

Operator

The next question comes from Chelsea Konsko from TIAA-CREF. Please go ahead.

Chelsea Konsko

Hi. I just have two questions. The first one is very short and simple. I'm just wondering, have you drawn any of your \$1.5 billion in committed credit facilities, or are those still fully available to you?

And my other question is related to your comment on how foreign exchange also impacts the competitiveness of your PVC exports. Can you just clarify how much of your PVC is exported versus consumed internally within your business?

Rodrigo Guzmán Perera

Yes. On the [indiscernible] facility of 1.5 billion, it's fully available at this moment. So, it's there for anything we will need.

Antonio Carrillo

We have not used it at all. So, on the PVC, this is probably a Rob question. We have two divisions of PVC that we created once we bought Vestolit. So, we have the commodity PVC, which we produce mainly in Mexico and Colombia. Of the commodity PVC about 30% is consumed internally, and 70% is exported. Which are the big export markets is of course the rest of Latin America, Europe, India, and some other areas in Asia. So, we have a significant portion of our sales going to export. As I said, currency fluctuations have impacted this, especially during the beginning of the year. Now that things are more stable we are being able to penetrate Europe again and we are starting to do it. Because what happens is the portion of the cost that's in Mexican pesos or in Colombian pesos in our facilities also gets very efficient when you have big devaluations. So, that also helps us.

We also produce specialty PVC in Germany and in the US, and those operations have been also the ones that have compensated some of the loss in volume on the commodity side. And that's why you see some of these margin increases, because the commodity is the one that's been impacted by the devaluation, while at the same time we're growing in more of the specialty side, which is the strategy from the beginning, and we want to continue pushing that strategy. So, I mentioned also that our plant capacity on the commodity side has been low. Plant utilization has been low. I think that's a great opportunity. We have about 30% unused capacity on the commodity side in Colombia and Mexico, and I think that's a great potential for the future.

Chelsea Konsko

So, then, just following up, how much of your business overall is specialty versus commodity PVC?

Antonio Carrillo

So, of the 1.5 million ton capacity that we have, about 300-and-some thousand tons is specialty, so 360,000 tons is specialty. So, about 20% is specialty and the rest is commodity.

Chelsea Konsko

Okay, got it. Thank you.

Operator

The next question comes from Lillian Strate [ph] with Morgan Stanley. Please go ahead.

Lillian Strate

Hi. I just wanted to follow up on your comments. You mentioned that the PMV, VCM business was affected by lower VCM prices. I understand that part. Are you seeing that translate into a lower raw material on your PVC division, and therefore yielding the benefit of having the integration, or are you getting any benefit of that lower VCM across the chain?

And my other question was on [indiscernible], on the guidance. But you've already answered that, so it's simply on the VCM.

Antonio Carrillo

Yes. So, the PMV was a very, I would say, interesting case for this quarter. VCM prices dropped significantly. To give you an idea, VCM probably dropped from a year ago to this quarter about 30%, a little over 30%, so it's a significant drop in VCM prices. So, our Vinyl Business is now buying VCM at a much cheaper cost than it was a year ago, so that's a great help and that's a little bit of why you see Vinyl margins going up on the rest of the business. You're absolutely right.

But at the same time, I mentioned that we are going to end the year with a run rate capacity of 300,000 tons of VCM, which is a significant increase from a year ago based on the investments we're doing. That doesn't mean we're going to be producing at that rate. And the reason is what PMV has allowed us to do, and I mentioned it, VCM prices have dropped significantly so there was not a lot of margin in VCM during this quarter so we were able to start exporting ethylene to Europe and other regions of the world where the margins were bigger.

So, one of the things that we are being able to achieve with this joint venture, and we will be able to do it also with Oxy, is to have some more flexibility on how to maximize a return on the total asset. This quarter the margins on PMV were very good, mainly coming from export off ethylene, so that's a little bit of the flexibility. But to answer your question specifically, yes, we're buying cheaper VCM throughout our Vinyl chain.

Lillian Strate

Okay, perfect. Thank you very much for your response.

Operator

Again, if you have a question, please press star then one.

Antonio Carrillo

Well, thank you very much for your participation today—

Operator

We have one more in the queue.

Antonio Carrillo

Oh, we have one more?

Operator

Yes.

Antonio Carrillo

Okay.

Operator

Ryan Marks from DRZ, please go ahead.

Ryan Marks

Yes. Would you be able to possibly comment on your dividend policy and provide any guidance going forward?

Antonio Carrillo

The dividend policy we have is maximum 10% of EBITDA. At the moment we have no expectations of changing that; 2016 will still be a year of capex, it will be a strong capex year. Not as much as '15, but we will still have to finish out the Oxy joint venture and we have some investment in PMV that has to be happening. So, we have no expectation of changing it, at least in the near future.

Ryan Marks

Okay. And so you'd expect the payout to be similar to this year?

Antonio Carrillo

Correct.

Ryan Marks

Okay, great.

Operator

And the next question comes from Pedro Medeiros from Citigroup. Please go ahead.

Pedro Medeiros

Thanks for taking the questions. Good afternoon. So, I have two or three quick questions, okay? The first one is just a follow up on the various discussions about PMV performance. And I just wanted to understand whether besides the incremental volumes expected from VCM in the upcoming quarters, and, well, the significant price volatility we have seen so far with ethylene and VCM, would you expect any further meaningful gain in terms of costs or efficiency from PMV in the upcoming months?

The second question is, it can be a little bit more [indiscernible], I know you have touched a bit on this point already. But in the second quarter you have benefited from very high prices of PVC in Europe. A part of that was also translated into the third quarter. Do we have any outlook or are we able to quantify how much has Mexichem benefited from that, and if that situation is likely to persist?

And the last question is about 2016. In 2016 it is expected that another very large ethylene project will start up in Mexico. Do you foresee any risk, or any concern about the supply of ethane, or the regularity of supply of ethane to PMV as a result of that?

Antonio Carrillo

Of course let me start with the PMV. So, PMV, it was shortly mentioned in the press release, the good news that we see in PMV is that, as you know, going back a little bit in history, this is a combination of a plant and a mine that was owned by Mexichem and two plants, an ethylene and a VCM plant that was owned by Pemex, put together into a joint venture. For the first time this quarter we have profitability happening not only in the chlorine and caustic soda plant, but also on the VCM plant, even at very low VCM prices. So, the good news is that both parts of these joint ventures are working well, and starting to deliver results, and providing cash, which is very important.

So, the investment, we are only about halfway through with the significant investment we're doing in PMV. Part of the investment is not only just to make it more reliable and safer, but also to provide cost efficiency to the plant. The plant, as we took it, the former Pemex facility, not only was unstable, as we saw it in our numbers, but also the efficiency of the equipment was old equipment, the usage of raw material, for example, ethane and chlorine, was not very good. So, we were using too much chlorine. We are still using too much chlorine and too much ethane to produce the VCM that we're using. And part of the investment we're having is to improve the efficiency of the plant, and make it more and more efficient, and more profitable as we do those investments.

The other thing that has helped, and we did not mention it but it's important, electricity prices, which are an important part of the cost of our material, have dropped significantly in Mexico. And we expect for them to continue to be relatively low compared to years before. And we are in the process of building, probably starting next year, co-generation facilities that will allow us to reduce even further the electricity costs we have. So, I think there's significant improvement opportunities for our joint venture with Pemex in PMV.

Going to your comments on the PVC in Europe, yes, it's true that PVC prices were higher in Europe. But at the same time for our operations they were offset by the devaluation, so we were able to sell into Europe because of the high prices, but we were hampered by the valuation. So, I don't believe that the European situation had a huge impact on the Mexichem traditional businesses, meaning the commodity PVC. It did help us on the new acquisition we did on Vestolit. But we see the forecast from Vestolit continuing to be strong, and closing the year strong, and 2016 should be another good year for Vestolit and for our PVC business. So, at the moment, unless there's some significant volatility in PVC prices we see margins recovering over the next few quarters.

Finally, on the ethylene project in Mexico, the cracker that's starting late this year or early next year, as you know, this is a cracker that's tied to a polyethylene plant, so it's not a competitor that's starting a cracker. It's more a neighbor. And, yes, you're right, the big question for Mexico overall is ethane, whether there's going to be enough ethane to supply this cracker plus what's already working. We are a very, very, very small user of ethane in Mexico. Our cracker is only a fraction, it's less than 20% of the size of the one that's starting. So, we are, let's say, in some way protected from large volumes that will be starting to use there. And we have a contract that provides some security for our supply.

But it's a good question. Based on the comments I receive from Pemex we should not be worried and there's no uncertainty on their side that they can supply the ethane. But is there a worry? Of course it's a worry, and it's something we're going to be watching closely. For the moment, Pemex has assured us that there is no risk involved for our operation, so the other good news is that we are partners with them, so they have an incentive to provide the ethane needed for our partnership. So, let's see. For the moment there is no indication that we should be worried. But it's a significant cracker that's starting, and let's see what happens.

Pedro Medeiros

Okay, thank you very much.

CONCLUSION

Operator

This concludes our question and answer session. I will now turn the conference back to Mr. Carrillo for any closing remarks.

Antonio Carrillo

I just want to thank you for attending the call. And I hope to talk to you soon. Thank you very much.

Operator

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