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Celanese Corporation (CE) CEO Lori Ryerkerk on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-21-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $2.53 beats by $0.03 | Revenue of $1.59B (-10.45% Y/Y) misses by $-47.82M

Earning Call Audio

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Celanese Corporation (NYSE:CE) Q3 2019 Earnings Conference Call October 22, 2019 10:00 AM ET

Company Participants

Chuck Kyrish - Vice President, Investor Relations & Treasurer

Lori Ryerkerk - Chief Executive Officer;

Scott Richardson - Chief Financial Officer

Todd Elliott - Senior Vice President, Acetyl Chain.

Conference Call Participants

Vincent Andrews - Morgan Stanley

Jeff Zekauskas - JPMorgan

Mike Sison - Wells Fargo

Bob Koort - Goldman Sachs

John Roberts - UBS

P.J. Juvekar - Citi

Duffy Fischer - Barclays Bank

Ghansham Panjabi - Robert W. Baird

Laurence Alexander - Jefferies

Kevin McCarthy - Vertical Research Partners

David Begleiter - Deutsche Bank

Arun Viswanathan - RBC Capital Markets

Matthew Blair - Tudor, Pickering

Jim Sheehan - SunTrust Robinson Humphrey

Matthew DeYoe - Bank of America Merrill Lynch

Operator

Greetings and welcome to the Celanese Corporation Third Quarter 2019 Earnings Conference Call. At the time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Chuck Kyrish, Vice President, Treasurer and Investor Relations. Thank you, sir. You may begin.

Chuck Kyrish

Thank you, Christine. Good morning and welcome to Celanese Corporation third quarter 2019 earnings conference call. My name is Chuck Kyrish, Vice President, Investor Relations and Treasurer. With me today are Lori Ryerkerk, Chief Executive Officer; Scott

Richardson, Chief Financial Officer; and Todd Elliott, Senior Vice President, Acetyl Chain.

Celanese Corporation distributed its third quarter earnings release via Business Wire and posted prepared remarks about the quarter on our Investor Relations website, yesterday, after market close.

As a reminder, we'll discuss non-GAAP financial measures today. You can find definitions of these measures, as well as reconciliations to the comparable GAAP measures on our website. Today's presentation will include forward-looking statements. Please review the cautionary language regarding forward-looking statements, which can be found at the end of the press release, as well as the prepared comments document. Form 8-K reports containing all these materials have also been submitted to the SEC.

Since we published our prepared comments yesterday, we'll now open the line directly for your questions.

Question-and-Answer Session

Operator

Thank you. We will now be conducting a question-and-answer session. Due to time constraints, we ask that all callers limit themselves to one question and one follow-up question. If you have additional questions, you may requeue and those questions will be addressed time permitting. [Operator Instructions] Our first question comes from the line of Vincent Andrews with Morgan Stanley. Please proceed with your question.

Vincent Andrews

Sorry, had you on mute. Could you give us a bridge of -- I'm just looking at the guidance for 2020 versus your midpoint for the full year of 2019 and the low end would be 13.4% growth and the high and would be about over 20%. So if you could just help us bridge to the low end. I understand the high end would require some economic improvement. We all understand what that would be.

Lori Ryerkerk

Vincent, thank you. Look, let me start with what we said last quarter where we bridged kind of from the $10.50 to the $12, because I'm going to use the same factors. If you remember when we were going from $10.50 to $12, we kind of said it was a-third market demand business growth a-third -- sorry, a-third productivity and a –third from our cash deployment, whether that would be M&A or share buyback.

So if we look at this year, excluding the impacts of Clear Lake, we feel like the year would end around $10. And so, if we add productivity to that, that's $0.50. If we add another -- if we add the cash deployment to that, again, that can be either M&A or share buyback, that's another $0.50. That gets us to the $11.

So the $11 that we reflected in that outlook for 2020 is assuming basically current market conditions. Obviously, if we get any upside going forward from an improved demand environment or price, that can move us towards the $12.

Vincent Andrews

Okay. And as a follow-up, when we think about engineered materials into next year, the volume has been trending lower. And you talked about destocking last quarter and maybe this quarter there's a bit of residual destocking. But as we enter into 4Q, should we start to see volume turn positive again? And what type of volume growth do you think you can expect for 2020?

Lori Ryerkerk

Yes. So for engineered materials, I mean, we are up sequentially on volume second quarter to third quarter. We saw the volume up about 3%. So the residual destocking that we referred to was really pretty specific to Europe where we saw autos decline another 15% quarter-on-quarter. So that's really specific.

I would say, consistent with what we said last quarter, we really didn't see size of destocking in China. In fact, we saw volume growth in China. And the U.S. stayed flattish, so we think we were at the bottom of the destocking last quarter. So really the residual destocking was just in Europe. So for engineered materials, volume up second quarter to third quarter by about 3%.

Going into the fourth quarter, I don't know that we'll see volume growth. We see some seasonality, typically in the fourth quarter. We see China continue to grow in advance of their first quarter holiday. But typically in the U.S. and Europe, we continue to see slowdown. So I don't expect volume growth third quarter to fourth quarter, but certainly we expect volume growth based on the project wins that we've had this year, as well as just normal seasonality into first quarter next year.

Vincent Andrews

Okay. Thank you very much.

Operator

Our next question comes from the line of Jeff Zekauskas with JPMorgan. Please proceed with your question.

Jeff Zekauskas

Thanks very much. What was your -- how many shares did you buy back in the third quarter?

Scott Richardson

Yes. Jeff, so we bought about $275 million worth of shares and that was at roughly a price a little over -- between $105 and $106 a share. So that's kind of where we finished and we expect to finish the year at about $1 billion of repurchases for calendar year 2019.

Jeff Zekauskas

So I assume that means that you bought no shares in September, is that right?

Lori Ryerkerk

No, we've been steadily buying shares that since September. You know, prior to that we were more opportunistically buying them but since then we've just had a steady pattern of repurchase.

Jeff Zekauskas

Okay. Great. Thank you very much.

Operator

Our next question comes from the line of Mike Sison with Wells Fargo. Please proceed with your question.

Mike Sison

Hey, good morning. Lori, when you think about leverage to maybe better times and the extra dollars is that dollar to $12 -- I'm sorry is the extra dollar per share to $12 kind of evenly split between the Acetyl Chain and EM? And what do you think needs to happen in terms of those segments to, sort of, get that extra push?

Lori Ryerkerk

Yes, Mike I think that's right. The -- I would say it's pretty much evenly split between Acetyls and EM. You know, we don't expect any year-on-year growth, obviously, in Acetate Tow. So -- in acetyls that growth, of course, we're already assuming no impact from Clear Lake, but that growth really probably comes from tightness in the market and improved pricing into next year. In EM, I would say it comes from volume with no destocking and starting to move closer to a return to normalcy in terms of market conditions and demand.

Mike Sison

Right. And then in terms of acquisitions given that it is an area that could boost earnings next year any thoughts on the environment size? Where do you think the opportunities are focused on going forward?

Lori Ryerkerk

Yes. So if you look at our use of cash first -- our first priority is really organic investment. And if you look, of course, this year we are up against $400 million for CapEx. Next year that goes up to $500 million and that's really investment organically in ourselves in growth projects and productivity projects. So that's kind of the first use of cash next year.

M&A we continue to look at everything bolt-on acquisitions to transformational. Look we haven't found anything yet this year we wanted to invest in quite frankly because we have a lot of people wanting to get 2018 kind of multiples when we're in the 2019 price environment. So we're only going to do an M&A if it makes sense and it's the right price and it adds value to the shareholder and we just haven't found that.

So if we look forward into next year we're going to continue to look for opportunity. Clearly our main focus is on the EM side trying to acquire additional molecules or different technologies or additional geographies that we want to be in. But quite frankly we don't have anything lined up at this point. We just continue to look to see what's out there and talk to various companies that we think would be attractive.

Mike Sison

Got it. Thank you.

Operator

Our next question comes from the line of Bob Koort with Goldman Sachs. Please proceed with your question.

Bob Koort

Thank you. Good morning. Lori, could you talk a little bit about…

Lori Ryerkerk

Good morning, Bob.

Bob Koort

…maybe some specifics on the supply chain improvements you got teed up in Engineering Materials? What, sort of, efforts are you making there? Can you give us some granularity on exactly what you're doing there?

Lori Ryerkerk

Yes. So Bob, really as we've grown our EM volumes and particularly after we had the acquisitions over the last couple of years in nylon and TPE and a few other product lines we really found we were straining our supply chain system because we've added a lot of SKUs. We've had a lot of small volume materials. And while this is good for earnings it has been a strain on our supply chain system as it exists today which is largely manual or self-spreadsheet base.

And so really we stepped back and said, okay, what do we need to do right now to make sure we continue to deliver high-quality product to our customers on time? And so we've taken efforts over the last six to nine months really to strengthen our existing systems. So we've added some people. We've added some processes to really continue to do it manually, but to do it more effectively and more efficiently.

Our next phase is really -- and that's kept us running well and kept us in good shape with our customers. But our next phase is really to try to automate that. So we're looking at more IT overlay, more use of for example better forecasting, using statistics versus the very manual process we have, an IT system that handles skew better, adding bar coding at our site where we don't have it to make this all more automated. And so that effort is going on now Phase 2. We're working with a consultant to really identify the systems and the pathway to do that. And that should be completed over the next 12 months to 18 months.

Bob Koort

Got you. And could you give us on the acetic acid side maybe a look around the world in terms of operating rates? And I'm particularly curious in China. I know you guys have talked in the past about maybe seeing a few more plants there might come out of the market and help tighten things. Where does that stand these days? And I guess, I saw your main rival there is thinking about adding one million ton plant in China. So what's sort of the outlook you guys see there?

Lori Ryerkerk

So, I think if you look over the last few years we've seen a few plants come out for environmental and other reasons in China. We haven't really seen any build. As we have we've seen a few people maybe crude capacity a bit. But I'd say volume supply has been flat to maybe slightly declining in Asia and really around the world. We also saw the announcement obviously that would take some time to get built and maybe I'll ask Todd to comment more specifically. But generally, I'd say we've seen supply be fairly stable.

Now, in 2018, there was a lot of outages in the industry which helped tighten supply a bit. This year we've not seen as many outages. So, going forward again other than our expansion in Clear Lake now the one that's just been announced we haven't seen any other builds going on. And quite frankly the economics for most people haven't supported builds other than the kinds of things we've been able to do with capacity creep and very economical builds versus Greenfield builds. So, Todd do you want to--

Todd Elliott

Yes Bob. Hey, it's Todd Elliott. We're tracking with our reconfiguration project in Clear Lake. Of course we're adding about 800,000 tons there in Clear Lake by 2022. So, permits in place both for that as well as the methanol expansion plan for Clear Lake. So, that tracks. That will we think be the first world-scale best technology unit that hits the marketplace in the near-term. So, we're tracking towards that date.

More specifically to your question today if you just look at utilization rates I think you are focused mainly on China. Of course, 2018, we saw utilization rates around the world push up in the 90% range both globally as well as in China. China fell down to the probably under 70% utilization rates for most of this year. We saw that nudge up towards the end of Q3. We would call utilization in China around 70% and then towards the end of Q3 probably around 75%.

So, we actually saw some improvement. Some of that was supply related due to some supply disruptions as well as this improved demand prior to the Chinese national holiday. So, a little bit better trading conditions in China at the end of Q3. We also saw pricing move up at the end of the quarter. I think the question now is is that sustainable? We're watching that of course as we -- as we're into Q4 and certainly looking for better conditions into the New Year really main focus on demand recovery.

Bob Koort

Got it. Thanks.

Operator

Our next question comes from the line of John Roberts with UBS. Please proceed with your question.

John Roberts

Thank you. In acetyls you drove down the inventories of the downstream products to make up for the shortfall. It sounds like you plan on rebuilding those inventories. Why not just continue with low inventories at least in the early next year given the economic backdrop here?

Lori Ryerkerk

So, look we do have lower working capital this year. That is certainly helping us. Typically we have lower demand for VAM and emulsions in the fourth quarter for seasonality anyway. So, that's quite frankly why we felt comfortable driving down our inventory.

Look it's just a choice point. Typically we see a good pickup in first quarter. And there's little raw material costing right now, so we still think it makes sense to take advantage of that lower raw material cost and rebuild inventories to the extent we can in the fourth quarter.

Todd Elliott

And maybe John -- it's Todd again just to add on. This shift to derivatives has been intentional this year. I mean we saw opportunities to move about 5% of our acetic acid mix downstream to either vinyl acetate or to emulsions. And I think we mentioned in the prepared remarks we're up over 15% year-over-year if you just look at our volume patterns downstream to those derivatives.

We think that that's been a positive move that's allowed us to keep earnings up around $190 million all year really since Q1 all the way through and maintaining margins above 20% on an EBITDA as a percentage of sales basis. So that intentional shift to derivatives we think has been the right call from an activation perspective this year as we saw better opportunities in those trading conditions.

John Roberts

And then as a follow-up in engineered plastics, you cited both light-weighting of traditional vehicles and EVs as growth -- both growth drivers here. Can you just remind us of the relative Celanese content in a typical traditional vehicle versus a -- I don't know if there is one in average EV so is content higher on the EV side?

Lori Ryerkerk

I would say -- so the opportunity for content is higher on the EV side because obviously you have the battery which requires film which we provide a lot of. There's also a lot more electrical connections in an EV vehicle than a traditional vehicle. So, the opportunity for content is higher on EV, but frankly, EVs are still a very small percentage of the fleet. So, we have a -- we're happy with the amount of content we currently have in EVs, but it's still a small percentage. So, I see vehicles are still highly important to us now and for the next many years.

The good news there is that as we continue to have good penetration in auto we continue to increase the amount of content that we have in vehicles. You might have seen the comment that we've grown more than 11% annual growth rate in the amount of kilograms per vehicle.

Now, about two-thirds of that actually comes from our M&A and that's why we did the M&A to acquire nylon and TPE to have that opportunity to penetrate more on vehicles about one-third from our kind of legacy materials.

Obviously, volume is a metric. We're also very important on what is the value of the materials we're putting in vehicles, because we want to be contributing high value, high margin; obviously polymers into vehicles. So we're looking at both. But again, all of the trends light-weighting, avoidance of paints, because of emissions, our order, our durability, replacement of other plastics for functionality, these are all important trends both in ICE and EV.

John Roberts

Got it. Thank you.

Operator

Our next question comes from the line of P.J. Juvekar with Citi. Please proceed with your question.

P.J. Juvekar

Yes. Hi. Good morning.

Lori Ryerkerk

Good morning, P.J.

P.J. Juvekar

A question on Acetyls. Looks like you pushed more acid into China, and then in Western world you diverted more volumes to VAM and emulsions. Is that a strategy sort of going forward? You had a similar strategy last quarter. And what is the future of Singapore plant? You talked about rationalization in Asia. So what's the future of Singapore plant, especially in light of the new capacity announced by BP? Thank you.

Lori Ryerkerk

Yeah. So thanks P.J. So, really our strategy in Acetyls is to follow the money. So, if you look at second quarter, we actually pulled volume out of China into the Western Hemisphere where you see acid pricing was better. We pulled it into VAM, another derivatives where pricing was better.

As Todd referred to earlier, we've actually seen an increase in pricing in Asia, especially here at the end of the quarter. And demand for volumes, we actually moved more volume back into China, move volume out of Europe where we saw a real softening in the third quarter, and as we started to see softening in the Americas, move volume out as well.

So, we're really -- that is our business model, which is to have the flexibility and capability to move our molecules around between regions and between acetic acid and derivatives in order to maximize our returns, and that's how we deliver pretty stable Acetyl Chain returns.

As far as Singapore, I mean we're still working through that. Obviously, with the announced expansion in Clear Lake, we've said we'll take capacity out of Asia. We are still looking to see how everything develops in terms of pricing in China, pricing in Singapore. Obviously IMO 2020 and the impacts on pricing for fuel oil could have an impact around that decision. So, we are still preserving our options in both cases until we see where the economics lead us.

P.J. Juvekar

Thank you. And a question for Scott. Scott, you did a $275 million buyback. You're on pace to buy $1 billion worth of stock. It looks like the pecking acquisitions aren't quite there. So, can you give us an update on the overall M&A strategy? There is some talk about strategic splits or an R&D transaction. So, can you talk about that, and generally sort of the ongoing consolidation in the industry? Thank you.

Scott Richardson

Yeah. Let me hit the buyback question first P.J., and then I'll let Lori comment broadly on M&A. So, we did $275 million in the quarter. That was at an average price around $113. We did -- we've done $775 million for the year at an average price between $105 and $106. That's kind of where we sit when we finished the quarter. We expect to finish at $1 billion as I said earlier.

We're going to be opportunistic with that cash flow. We are increasing CapEx. Organic investment is our priority for extra cash and we're taking CapEx up. We're going to finish around $400 million this year. We'll take that up to $500 million next year, possibly even a little more than that as we have attractive projects. And that's always going to be our first choice.

Then we look at bolt-on M&A. In this environment, we have not seen people really being overly willing to sell in a more depressed economic environment. And so we've repurposed that cash towards buybacks, and we'll continue to do that opportunistically.

Lori Ryerkerk

Yeah. And a transformational M&A, I mean I know there's been a lot in the press and many of you have written about it and taken certain positions. I think correctly many of you said you weren't surprised by discussion of transformational M&A. And I think we've been very clear here, and Mark before me about we will continue to pursue whatever form of M&A is the most value added to the shareholder.

Look, we regularly use advisers to help us evaluate options. It's an ongoing activity to -- for us. That hasn't changed. And quite frankly, there's really no change in our philosophy around whether or not it's attractive to split the company. If, at some point in time it becomes attractive to do a split, because we've done other activities, we would consider doing that. But it is still our opinion that to split the company as it is today, really wouldn't add value to the shareholder because of the dissynergies associated with the split, and what we see as not much value uplift just from having a split short of some sort of other transformational activity.

P.J. Juvekar

Thank you.

Operator

Our next question comes from the line of Duffy Fischer with Barclays. Please proceed with your question.

Duffy Fischer

Yes. Good morning. Just want to dig in a little deeper. You called out disappointing joint ventures in the EM segment. Can you kind of walk through Saudi and Korea and Japan? And what are you seeing there that's disappointing? Is it structural? Is it just macro? Maybe kind of tease some of that out?

Lori Ryerkerk

Yes. So I -- look I think the -- let me start with Saudi with our Ibn Sina joint venture. We had indicated last quarter that we expected about a $10 million uplift from Ibn Sina this quarter versus second quarter coming out of the turnaround in Ibn Sina.

We actually only got about $4 million, so a couple of things there.

One is, we have a little bit of residual turnaround expense that still hit the books in third quarter. And the other thing is, we had a GAAP tax rate adjustment that we booked this quarter. So we didn't get everything we wanted out of Ibn Sina this quarter.

Also if we move to the POM joint ventures, what I would say is, as we really work to move POM and as we've seen challenges in POM pricing with the downturn in autos our joint ventures have suffered as well, and maybe even more so than our own volumes. So we've not seen the returns from those joint ventures that we enjoyed for example say in 2018.

But I would say, it's generally reflective of general market conditions for the products that they make and the regions that they make them more so than anything specifically around the operations of the joint venture.

Duffy Fischer

Okay. And then in tow with the shutdown of the Mexican plant happening this quarter, what's the impact of that on earnings? And then what should we see when we come out of that from kind of increased earnings on the backside? And when will that hit? Will that hit squarely in Q1? Or will we have to wait a little bit for that to flow through?

Lori Ryerkerk

Yes. So Ocotlán will shut down at the end of this month as we had discussed earlier. There was about $100 million to $110 million of costs that came with that shutdown, $10 million for personnel and another $95 million of non-cash items. So, really accelerated depreciation and impairment, so we'll see those hit this year.

That shutdown and the savings that come with it going forward make up a significant portion of the $50 million of productivity we needed to see to maintain flat earnings in Acetate Tow going forward.

So what I would say is, given that and the market dynamics, I would expect Acetate Tow going forward, so next year to look very similar to what it did this year because these savings are already baked into that.

Duffy Fischer

Great. Thank you.

Operator

Our next question comes from the line of Ghansham Panjabi with Baird. Please proceed with your question.

Ghansham Panjabi

Hey guys. Good morning. I guess first off back to the 2020 guidance, Lori. How would you have us think about quarterly phasing as we think about 2020? And related to that, how are we thinking about volumes at the low end of guidance? How would that shake out by the two core segments EM and AC?

Lori Ryerkerk

Yes. So in -- look I wouldn't -- we haven't really looked at it by quarter. So I would assume quarterly volumes tend to follow what has been -- had been our historical patterns for quarterly earnings. I wouldn't think that's much different. We see some fourth quarter seasonality. We usually see some down in the first quarter for China.

I mean, I will just look to the past really for how the quarters tend to the bake out. We don't see that being very different this year. I mean obviously we start to -- we see these full year impacts of some of the expansion projects, we've done so that has some volume uptick in the Acetyl Chain.

But we should also start seeing some volume impacts as well as some productivity impacts from some of the new projects we've done in EM, so the new compounding lines that we've just completed in Nanjing and Suzhou.

So I would -- typically we see increases in EM of kind of mid to high single digits; acetate a little bit lower than that, a couple of percent. I wouldn't say that a lot different next year.

A lot of what we're seeing in terms of what's baked into the 2020 outlook is, just similar markets to this year, the absence of Clear Lake and really productivity and cash deployment, so the things within our control.

Ghansham Panjabi

Okay. And then in terms of the destocking comments you made specific to EM and Europe, do you see that sort of phasing through as we enter 4Q? Or do you think -- still think that there is going to be some residual destocking with -- specific to autos for fourth quarter in EM? Thanks so much.

Lori Ryerkerk

No. Look, I really think if we look at fourth quarter, what we're seeing is pretty typical of the seasonality we see. I mean China as an example, if we look at our order books in October versus July, China is up about 2%. That's pretty typical that we see China come up in the fourth quarter and have good demand in advance of Chinese New Years in the first quarter.

On the other hand, the U.S. and Europe are flat to slightly down across the sectors which again is also fairly typical from a seasonal basis. So I don't really see a lot more destocking occurring.

Like we said, we saw it really in Europe as a result of the really severe decline in auto in the last quarter. But we really -- every other signal is that we're really -- we've really seen the destocking occur in all of the other sectors. And so we don't expect destocking to occur in fourth quarter.

But again, we will see some lower volume outside of China, associated with just seasonality, both in Acetyls and EM.

Ghansham Panjabi

Yeah, understood. Thanks so much, Lori.

Lori Ryerkerk

Thanks.

Operator

Our next question comes from the line of Laurence Alexander with Jefferies. Please proceed with your question.

Laurence Alexander

Good morning. Could you flesh out a little bit more detail, what you're thinking about the longer-term optionality for Acetate Tow?

Or what -- to what degrees freedom there are more limited than you might it thought initially? And secondly, can you update your thinking about opportunities to pull forward productivity and working capital efficiency gains in 2020, 2021?

Lori Ryerkerk

Yeah. So look, I mean Acetate Tow, I think, we feel confident going into 2020 of our ability to maintain relatively flat earnings. We do see pressure on volumes, as we've seen quite frankly that slowing down a little bit especially in China, where in fact China recently we've actually seen growth in cigarette demand.

So, we do expect continuing volume and price declines in Acetate Tow. But with the Ocotlán, exposure with other productivity we still see and expect that to be able to maintain flat, certainly through 2020.

Scott Richardson

Yeah. And then on productivity and working capital Laurence, I think, a lot of the investments that we're making, as we increase organic investment. A lot of those are tied to revenue generation. But it's also tied to productivity and working capital.

So for example, we've talked about the need to invest more in Engineered Materials, in Asia. That improves our supply chain. It also lowers our overall inventory level. So a lot of this is very consistent with the investments that we're making.

We've aggressively been working capital now for a while. You've seen that reflected in the improvement of free cash flow. Productivity is -- we've seen an uptick in productivity this year.

We expect that cost reduction productivity to continue into 2020. Because we're really focused on what we can control, what are the controllable actions that are unique to Celanese that are going to drive the earnings growth from 2019 and 2020, because as we said earlier, we're just not expecting fundamental improvements in our end markets.

Laurence Alexander

Okay. Thank you.

Operator

Our next question comes from Kevin McCarthy with Vertical Research Partners. Please proceed with your question.

Kevin McCarthy

Good morning. You've indicated about a $500 million capital expenditure budget for 2020. I guess two parts, can you talk through how much of that is growth versus cost-reduction projects and maintenance?

And then more broadly, that's about double what the company was spending from 2014, through 2017. Should we think of $500 million as a new normal level for the company?

Or would you expect that level to come back down in the out-years as you complete your expansions in Texas for example?

Lori Ryerkerk

Yeah. Thanks, Kevin. Yeah, so it is about double. Let me characterize it for you, so, if we -- if I look at historically, where we spent, we spend roughly $200 million a year for EHS and what I call, maintain-margin projects.

So, reliability, relighting of equipment things we need to do just to keep the current assets running and running consistent with good safety standards and environmental compliance. So that's $200 million a year.

We spend another $200 million a year like this year, $200 million a year in productivity and revenue-generation projects. So things like that Clear Lake expansion.

Things like improving energy efficiency at boilers. Things that give us a high-quality greater than 20% return. As we go up to $500 million all of that growth is really in productivity and rev gen. So it's the Clear Lake expansion project.

If we -- so I would just say $200 million is kind of our base level run and maintain capital. And then everything you see above $200 million is really towards productivity and revenue generation.

Just to put it on that perspective, our return on our total portfolio, including kind of those non-return base projects is greater than 20%. So we still have great opportunity to invest in ourselves and value-added projects that will be a great return for the shareholder.

If I go past 2020, so 2020, $500 million, if we go into 2021, 2023 we actually may see levels above $500 million as we look at our Chinese localization projects, building additional EM capacity in China, other productivity and rev gen products around the globe.

But I would say kind of post that period of growth that we've outlined, we would return to the approximately less -- the less than $400 million level of ongoing capital.

Kevin McCarthy

Great, that's very helpful. And secondly, if I may, I want to ask you to just talk through the outages in a little bit more detail. I saw in your management remarks last night that you had brought Singapore down for maintenance, I think just prior to the incident at Clear Lake. Did you have other outages? And what's your latest thinking on when the CO unit might restart at Clear Lake?

Lori Ryerkerk

Yeah. So let me address Singapore first. So, Singapore was a planned turnaround. The timing for the Singapore turnaround and the duration of the Singapore turnaround is tied to our CO producer's turnaround in Singapore. So, we only have one source of CO in Singapore, and they had to take that unit on turnaround on a planned basis. And that really accounts for the duration of the outage in Singapore. So, I would put that into the kind of normal operational bucket of events.

Clearly, Clear Lake was an unplanned downtime. We've been working through the impacts of that outage. As of today, methanol is back at full rates, acid has restarted and really at partial rate – and we'll be a partial rate until we get the CO plan up, VAM we'll be up before the end of the week. And we continue on our CO repairs, which will put us back at full rates some time within the fourth quarter.

Kevin McCarthy

Fantastic. Thank you.

Operator

Our next question comes from the line of David Begleiter with Deutsche Bank. Please proceed with your question.

David Begleiter

Thank you. Good morning.

Lori Ryerkerk

Good morning.

David Begleiter

Lori, going back to BP's one million ton JV announcement, what do think they're seeing in China that you're not as you rationalize some of your capacity in that region?

Lori Ryerkerk

So I'll ask Todd to comment, but as we've looked at that I don't know that they're seeing anything we're not. What we do know is they have the demand for that much acetic acid in their own derivatives system. And apparently, as we have done with methanol and others they have decided that being more integrated along their value chain will give them greater value. So, we wouldn't actually expect any of that acetic acid just show up on the market. We expect that to be consumed in their own derivatives, again based on our view. But Todd may have more color on that.

Todd Elliott

Yeah, Dave, it's Todd. We're just studying the news and trying to understand it better. And this is at least as far as we can tell an MOU announcement at this point. So it's early days in the project. It will take some time to work through the details, I'm sure and all the work that we follow in terms of engineering ultimately time line of projects.

As I said before, we're pleased that we're on track with our expansion in Clear Lake by 2022. So, we'll – we think we'll be first with this capability. I think Lori is right. I think this is largely an integration move upstream PX down through PTA and ultimately a polyester to service of the Chinese localized demand for polyester in the region. So, we think it's largely an integrated announcement. It will have little effect on a merchant market.

David Begleiter

Got it. And just lastly on Acetate Tow, any potential for a price increase given perhaps higher supply/demand post the closing of your Mexico facility?

Lori Ryerkerk

Yeah. So, we do believe in time as we rationalize others rationalizing the industry that there will be potential for a price increase. I mean, quite frankly, what we see is for more transactional of short-term contracts. We have been able to push through price increases for some of our longer-term contracts. We've seen price decline. So it's about in balance at the moment, but we certainly project going forward all the – continue to be tension around price, we actually think the price environment will be fairly stable and at some point in the future some opportunity to push price up.

David Begleiter

Thank you.

Operator

Our next question comes from the line of Arun Viswanathan with RBC Capital Markets. Please proceed with your question.

Arun Viswanathan

Great. Thanks. Good morning. I just wanted to go back to the portfolio questions. In the past I guess you had noted that the dissynergies have kind of come down to around $50 million a year from your prior estimate of $100 million. Have you continued to make progress on bringing those down? And if so how would you characterize that now at this point?

Lori Ryerkerk

Yeah. So, look we continue to always look at how we can do this, but there is a certain amount of dissynergies, which is always going to exist, if you're splitting into two companies. You have to have standup two management teams. You have to have two back offices. I mean, there is always going to be a certain amount of dissynergies associated with that. So, maybe let me ask Scott, if he has any more specific comments.

Scott Richardson

Yeah. I mean, you're right. With that, trajectory of statements that we've made in the past $100 million down to $50 million we continue to work it, work on the tax side of things leakage et cetera. So we have brought it down below $50 million, but I would say its closer to $50 million than it is to zero.

Arun Viswanathan

Great. Thanks. And just kind of understanding, when you think about China what's it going to take for – what are some of the markers you're looking for to see that there is an improvement in primary demand or at least the stabilization? Would it be inventory levels or anything else that we should be watching? Thanks.

Lori Ryerkerk

Yeah. Look, I think as much as anything we look at price volatility. I mean, we're anxious to get whether past this national holiday to see, if demand returns prior to Chinese New Years. Obviously, the same factors affecting the rest of the globe concerns about tariffs concerns about global recession. These also impact China. But we're just looking for the signs of sustainable – kind of sustainable demand lift to occur. I mean, again we saw an increase in Asia in the third quarter in volumes and price. It seems, it's not greatly improving at the moment, but it's also not greatly declining. So we see that as somewhat favorable. But we need some sustainability in the response which is probably what we haven't seen yet. Todd, anything you want to add?

Todd Elliott

No, I think that's right. In acetyls we -- just like Lori said, we look at order books on a daily, weekly basis. Supply/demand, utilization trends are critical as it affects the pricing environment, raw materials of course be it methanol or olefins, MTO rates. Your point on inventory levels, I'm sure that's the same across the whole of the company both finished good inventories on a customer side particularly. I mean so all those classical markers those fundamentals are what track and watch all the time.

Arun Viswanathan

Thanks.

Operator

Our next question comes from the line of Matthew Blair with Tudor, Pickering. Please proceed with your question.

Matthew Blair

Hey, good morning. The prepared comments mentioned Nanjing was running at lower rates due to a request from local authorities. Was this around air quality? And would you expect it to persist in the fourth quarter and 2020 as well?

Lori Ryerkerk

Yes. No, you're exactly right Matthew. So what we had and what all of the industry had was a request by the Chinese government to reduce rates for air quality purposes in advance of the national holiday. Since then they -- when we went back and asked to have that lifted they were willing to do so I think reflecting on our long relationship with them and their understanding of our business need. Since then I think that's mostly been lifted through most of industry in the fourth quarter. So look I expect it's going to continue from time to time in China. I would expect maybe it will happen again right before the Chinese New Years. That tends to be a pattern. So I think it will happen again. Right now, we're not seeing that being an impact on fourth quarter.

Todd Elliott

And the good news is we were able to ramp rates back up as needed following the Clear Lake incident. So we worked with the team there and certainly with the local government and we're allowed to run at full rates as we expected. And that was helpful to cover the -- from a network perspective the loss of the Clear Lake capacity. The only other thing to watch maybe late in the year is the winter season heating season. I mean typically depending on the energy profile and sources for energy production and as well as industrial activity there can be curtailment activity towards the kind of late November, December time frame depending on various conditions. So we'll watch that.

Matthew Blair

Sounds good. Thanks. And then your EM project wins last year rose about 47%. You're on a similar pace this year, but EM volumes are down about 5% this year. Could you just help me reconcile those two numbers? I mean I guess that implies your base business has seen some pretty significant volume declines. Is there anything changing in terms of the size of the profitability of the average project?

Lori Ryerkerk

Yes. So look I would say the size of the average project, if you talk about volume is less than it was. And it reflects the fact that we're doing more projects and more different types of projects. I think it's also important to realize that look some -- these projects come in through buckets. I mean, you have some that are very long-term-return projects. So for example in the medical field and some of the auto some of these are projects that continue to pay out for 5-plus years. And then you probably have another bucket that maybe you get one year from that or maybe two years and then you have a number of them that are actually very transactional. So it's a project that moves volume, but it's a onetime move.

So not all of these projects are things that pay out for five years. And so what you see is while we can have up to 15% growth from EM projects in a year's time frame, it could very well be that only 5% or something of those continue. And then of course you have attrition normally from other projects rolling off as well as just other attrition. So I mean project wins is an important metric for us, because it's just as how good are we generating materials. But they are smaller this year because of the economic conditions and we are seeing kind of more attrition in the base with lower GDP and lower demand around the world.

So that all comes into play, but we still think it's important, because this is what's allowing us to show the sequential quarter-on-quarter growth that we've shown in the last quarter. It's continuing to deliver these projects. And as we referenced in our notes, we had a lot of great project wins this quarter. Now not all that volume doesn't show up this quarter. It shows up -- many of those were long term with the medical project wins. We had some auto project wins. A lot of -- we have some 5G product wins. A lot of those will show up over the next two to five years not necessarily next quarter.

Matthew Blair

Very helpful. Thank you.

Operator

Our next question comes from the line of Jim Sheehan with SunTrust Robinson Humphrey. Please proceed with your question.

Jim Sheehan

Good morning, thank you. How should we think about plant turnaround costs in 2020 versus 2019?

Lori Ryerkerk

Yes, great question. So turnaround in 2020 we actually see -- expect to be up about $50 million. Overall, we have a number of big turnarounds next year including our joint venture methanol plant in Clear Lake some of our POM units. So these are big units that only come up for turnaround every three to four years. So we do have a significant turnaround workload next year. But that's baked into our numbers. The additional productivity that we're delivering will help offset that and that's already anticipated in the 2020 outlook that I gave you.

Jim Sheehan

Thanks. And regarding the General Motors labor union strike, how are you thinking about automotive shutdowns and whether the impact this year will be normal or above normal?

Lori Ryerkerk

Yeah. So for the GM specifically that's not a big customer of ours. So, we didn't have a lot of exposure to GM, so we haven't seen much impact from that. Clearly there are other autos that would have had a bigger impact. I don't know that we've seen that as a major impact going forward for us. I mean, we tend to be spread across quite a lot. Obviously we have a lot of auto in Europe that maybe a bigger exposure. China as we said auto actually have picked up recently. Now, I expect some consolidation of auto in China, but again I think we're well positioned for that.

Jim Sheehan

Thank you.

Chuck Kyrish

Christine, we'll make the next question, our last question.

Operator

Thank you. Our final question comes from the line of Matthew DeYoe with Bank of America Merrill Lynch. Please proceed with your question.

Matthew DeYoe

Thanks for squeezing me in. Can you just walk a little bit through the buckets on the productivity gains of $0.50 then? Because if I recall from Duffy's question, you had mentioned part of that savings is going to go the savings from the closure in Mexico and then you just mentioned part of that will go to offsetting the maintenance expense next year, which is already looking to maybe be offset by the $45 million in losses you're taking this year on Clear Lake. So where those $0.50 bucketing out? And then does that mean the net gains from productivity are less than $0.50?

Lori Ryerkerk

Yeah. So well no, no. I'd say well, no, the net gains -- this is net gain is $0.50. So this actually because of turnarounds and everything else, obviously, requires a much higher level of productivity than that. So this is net what we get of plus turnaround plus productivity et cetera, et cetera.

So where does it come from? So Ocotlán, as well as Lebanon, as well as other shutdowns that we've had and footprint management reduction that goes into the productivity bucket. There's the bucket in there, which is we work very hard on energy and cost savings.

In energy like I said boiler configuration things to help lower energy usage that goes into productivity. There's also raw material contracts and things we've done to buy forward or do things with raws to manage our raw material cost versus the spot market. That -- those for example are going to productivity.

So I'd say those are the major buckets as well as just normal optimization and maintenance spend, optimization of personnel. We've done a lot, which you've seen show up in terms of rightsizing our organization and reorganizing for the most productive organization. You've seen some of the severance costs associated with that. So those are all buckets within productivity.

Scott, do you have any other perspective on that?

Scott Richardson

No, I think that is it.

Matthew DeYoe

Okay. And then so my last one I guess. Price was down about 2% sequentially and year-over-year in EM. I think you'd mentioned P-O-M, POM as being one part of weakness. But what are the other primary markets responsible for the softness? Is this competition or deflation in raws? And then on the latter comment where are you seeing the primary savings in EM as your spread to raws has improved?

Lori Ryerkerk

Yeah. A good bit of it I would say is mix. I mean in general we've been able to hold our price in a declining raw material market. So that has helped us. But there in a few of our materials we've seen some mix impacts for example less medical, more leads or less leads, more general GUR. I mean so there's a few areas where that's happened but I'd say it's more the mix this year because in general we've been able to hold pricing despite a decline in raw materials across EM.

Matthew DeYoe

And then I guess was organic volume growth in EM, what would you say -- or I guess what the better question is how much did acquisitions contribute to EM volume growth on the quarter? Is that about 2% or something?

Lori Ryerkerk

No. So volume growth on EM was up about 3%. I would say most -- all of that is organic. There wasn't a notable difference in terms of acquisition growth.

Matthew DeYoe

I was thinking year-over-year sorry.

Lori Ryerkerk

And that's all the acquisitions or the acquisitions, which happened a while ago so.

Matthew DeYoe

Yeah. I was just thinking year-over-year, but I can square that. Thank you.

Operator

Mr. Kyrish, I would now like to turn the floor back over to you for closing comments.

Chuck Kyrish

Thank you, Christine. I would like to thank everybody for listening in today and thank you to those who participated. As usual we're around after the call for other questions. And Christine you can close the call out after that.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.