

Mexichem S.A.B. de C.V.
Second Quarter Earnings Call
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CORPORATE PARTICIPANTS

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Rodrigo Guzman Perera – *Chief Financial Officer*

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PRESENTATION

Operator

Good morning and welcome to the Mexichem Second Quarter 2017 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star (*), then one (1) on your touchtone phone, and to withdraw your question, please press star (*), then two (2). Please note today's this event is being recorded.

I would like to turn the conference over to Marcela Munoz, of Investor Relations. Please go ahead.

Marcela Munoz

Thank you, operator. Good morning and welcome to our conference call. We are pleased to be here today to present our second quarter results. We appreciate your time and your participation in this conference call. Our speakers today will be Mr. Antonio Carrillo, CEO; and Mr. Rodrigo Guzman, CFO. I will turn now the call over to Antonio for opening comments.

Antonio Carrillo

Thanks, Marcela, and thank you for participating in this morning's conference call and review of Mexichem's second quarter results and discuss our business outlook for 2017. Our strong second quarter performance reflected improved market dynamics for certain of our key product lines and solid execution on our business strategy of increasing vertical integration and expanding the contribution from our specialty products. This has resulted in very positive year-on-year comparisons to last year's adjusted metrics with EBITDA operating income, and earnings before taxes each increasing at double-digit rates. Vertical integration or diversified yet complementary product lines and our global operations combined to reduce Mexichem's volatility and provide us with significant operating advantages. Our vertical integration across the ethane to PVC value chain and the positive effects enabled by our ethylene cracker joint venture in Texas were important contributors to our second quarter profitability.

Our broad portfolio products and our worldwide presence has given us the ability to benefit from shifts in global demand levels and pricing disparities, providing resilience to adverse economic and business conditions facing specific markets or regions and improving our visibility as an emerging market presence. These advantages were clear in the second quarter when we were able to achieve substantially higher profitability, even though certain of our key markets are experiencing very challenging economic conditions.

As one of the largest PVC producers in the world, our Vinyl group continued to benefit from year-on-year improvement in our PVC pricing, driven in part by higher demand from Asia and Europe. Additionally, while still in the stabilization phase, the ramp-up of our ethylene cracker proceeded more rapidly than expected, putting us in full production by the end of June, several months ahead of plan. As we have mentioned before, with the cracker at full capacity, our PVC production economics should be substantially similar to an integrated ethane-to-PVC producer, and this is what you see in Mexichem's results for the quarter.

And although PVC pricing tends to be volatile and will see periods of reduced pricing, product supply and demand dynamics would indicate that the trend in pricing will continue to be positive over the medium term. Fluor performed well in the second quarter with EBITDA of 11% on an 8% year-on-year sales increase. As the leading producer of refrigerant gases, Mexichem benefits from higher prevailing prices in the US and Europe, which have been driven by the recent US International Trade Commission antidumping rules against Chinese producers and the European F-gas regulation. After the ITC antidumping ruling a few months ago, we are starting to see the market behave in a more normal, competitive manner and we expect that trend to continue. Fluor's results would have been even better if it had not been for shipment delays in our upstream operations. We expect a return to normalized shipping schedule in the third quarter and to recapture that volume.

Fluent's second quarter results were mixed. Excluding the impact of reorganization charges, EBITDA was up 3.5% on a year-on-year basis, reflecting the pass through of higher raw material costs to our customers. The largest segment decline in absolute dollars was Fluent Europe, where results were hurt by quarterly depreciation of the British pound, the euro, and the Turkish lira against the US dollar. Second was LatAm, where we are managing through difficult economic conditions in two key markets. Colombia's economy has slowed down as a consequence of recent tax reform, and lack of deployment of oil-related royalties by state governments. And Brazil's economic recovery has still not fully materialized. Partially offsetting these headwinds was Fluent's US and Canada operations, which benefit from strong demand from our datacom products and the small Canadian acquisition we completed last year. Fluent's consolidated EBITDA margin expanded 30 basis points to 16.1%, reflecting a more favorable product mix.

I want to highlight that our strategy of driving margin improvements to continue to pay dividends, especially in our European operations, where margin expanded for the fourth second quarter in a row. Also in the US and Canada, the focus on datacom products is getting us away from commodity pricing and moving our margins in the right direction. Mexichem's strong second quarter results have further enhanced our trailing 12 months adjusted returns on equity and return on invested capital to 7.7% and 7.1% respectively. These are two key metrics that our entire organization is being measured against, and I am pleased to report that our performance and investment discipline have resulted in substantial increases compared to the similar period of last year.

As anticipated, our capital expenditures in the second quarter declined 51% now that the cracker investment is behind us. We did have an increase in working capital requirement this quarter, but we still report a 10% increase in operating cash flow for capex and free cash flow of \$56 million. Also our balance sheet continues to strengthen. We have a substantial cash position of \$735 million at the end of June and the net debt-to-EBITDA and adjusted EBITDA ratios improved substantially, giving us significant financial flexibility.

In terms of capital allocation, you can expect us to continue to invest in organic growth projects and take advantage of opportunities to make additional bolt-on acquisitions that add value to our product portfolio and open new markets. Additionally, we have the resources to move ahead with larger acquisitions, which are strategic and could provide strong new platforms for growth and meaningful synergies if we find the right fit.

Operator, I would like to now turn the call to Rodrigo Guzman, our CFO, who will provide the detailed review of our second quarter and first half financials. Rodrigo?

Rodrigo Guzman

Thank you Antonio, and thank you all for joining us today. We are pleased with our second quarter performance as we continue to diversify and grow our business worldwide. First, I will review the key financial highlights of the second quarter 2017 and then I will provide more color on each business group and follow with a brief overview of the first half of 2017 and our financial position at June 30, 2017. Please note that for comparative purposes, I will be referring to 2016 adjusted numbers that exclude the one-time charges of \$286 million associated with the PMV accident that occurred in April of the last year.

Second quarter 2017 consolidated net sales were up 3% to \$1.5 billion. This top line increase was driven by double-digit growth in our Vinyl business group sales and supported by higher revenues of Fluor and our Fluent US and Canada business units. On a constant currency basis, net sales were up 4%. Second quarter adjusted EBITDA increased 29% to \$334 million or \$75 million above the \$259 million in the year-ago quarter. This growth was primarily a function of better PVC prices when compared to the same period of 2016, increased profitability from the vertical integration in our Vinyl business group due to the startup of commercial operations of the ethylene cracker, and improved [unintelligible] on gas prices associated with the ITC resolution announced by the company in March 2017, which Antonio previously mentioned.

Vinyl business group adjusted EBITDA margin expanded from 16% to 27% or \$70 million, accounting for 93% of the consolidated EBITDA growth in the quarter. Consolidated EBITDA margin this quarter was 22.8%, a 460-basis point year-on-year increase. On a constant currency basis, reported EBITDA will have been \$335 million and EBITDA margin 22.6%.

Consolidated operating income increased 29% supported by adjusted operating income growth of 102% in our Vinyl business group, and double-digit operating income growth in our Fluor business group.

Financial costs increased by \$32 million or 76% to \$74 million compared to year-ago levels due to the appreciation of the Mexican peso against US dollar. This increased our Mexican peso denominated debt in dollar terms, generating an FX losses in our consolidated numbers are reported in US dollar, which is our official currency.

In the second quarter, earnings before income taxes increased 13% from \$137 million while consolidated minority net income was up 3% to \$92 million.

The higher increase in operating income of 29%, when compared to the increase in income from continuing operations before taxes of 13% both on adjusted basis, was mainly due to the FX losses we had related to the Mexican peso appreciation affecting our Mexican peso-denominated debt. The difference between that 13% increase in EBITDA level and the 3% increase in adjusted minority net income reflects the deferred tax impact associated with the Mexican peso appreciation, which generated tax gains related to the holding companies US dollar-denominated debt but not accounting gains producing an increase in deferred taxes. As a consequence, the effective tax rate in this year's second quarter increased from 18% to 41%, while the cash tax decreased by 23% compared to year-ago levels. On a pre-deferred tax basis, minority net income increased 35%, consistent with adjusted operating income and EBITDA growth rates. Minority net income was \$67 million. The year-on-year decrease is due to the reasons I just mentioned.

Trailing twelve months adjusted returns on equity and on invested capital were 7.7% and 7.1% respectively, up from 6% and 6.4% reported in the comparable period last year.

Now, let me give you more color on the financial performance of each of our business groups. Total Vinyl business group revenue increased 14% to \$572 million or 72 million on a 2% pick-up in volume. This growth was the result of improved market dynamics, higher demand, notably in Asia and Europe; higher year-over-year prices; and the integration of last year's vinyl compounds acquisition into our compounds business. The resins, compounds, and derivatives business unit, which accounted for 97% of the Vinyl group sales this quarter, increased revenues by \$72 million or 15%, to \$558 million on volume growth of 6% and have the additional benefit of pass through of compound price increases.

Our Vinyl business group's EBITDA was up 90% to \$148 million from an adjusted EBITDA of \$78 million in the year-ago quarter as a result of better prices, efficiencies in our operations, and vertical integrations from ethane PVC associated to our ethylene cracker in Texas. EBITDA margin this quarter was 25.9% as a result of these same factors.

The Vinyl business group operating income more than doubled amounting \$93 million from the adjusted operating profit of \$46 million reported last year. Net sales in the Fluent business group totaled \$770 million, \$21 million or 3% below last year due to the lower sales in the following regions: Latin America, where Colombia is facing an economic slowdown; and Brazil, where an economic recovery has yet to materialized; in Europe, because of the depreciation of the British pound, euro, and Turkish lira; and in India due to the demonetization. The decline was partially offset by 19% or \$20 million sales increase in Fluent USA and Canada, reflecting growth in the Datacom industry and the integration of Gravenhurst operation. On a constant currency basis, Fluent sales will have been \$776 million, a 2% decline year-over-year but the appreciation of the Brazilian real helped to offset the net impact of the depreciation of British pound, euro, and Turkish lira in Europe.

The Fluent business group reported a slight decline in EBITDA to \$124 million in part due to the effects I just mentioned and to \$6 million in expenses relating to the reorganization in Latin America and Europe. Without these reorganizational expenses, EBITDA will be \$130 million or an increase of 3.5%. EBITDA margin was 16.1%, up 30 basis points from 15.8% in the second quarter of 2016. Operating income decreased 1% to \$90 million.

Our Fluent business group reported an 8% sales increase to \$179 million led by the downstream part of the business as a result of continuing increases of refrigerant gas prices. EBITDA in our Fluor business was up 11% that amounted to \$73 million. EBITDA margin was 40.8%. Operating income was up 9% to \$59 million from a year-ago quarter. As for the breakdown of regional sales, please note that we are now reporting these figures by the destination rather than the origin of the order. For the first 6 months of 2017, North America accounted for 36% of total sales, with the United States representing 17% of total sales. Sales in Europe increased by accounting for 39% of total sales, with Germany and the UK representing 6% and 8% respectively. And sales in South America were up 18% of total sales with Brazil accounting for 7% of total sales.

Now, I will give you a brief overview of our first half of 2017 results. Our consolidated net sales totaled \$2.9 billion, up 7% from the \$2.7 billion reported in the same period of last year. On a constant currency basis, net sales will have increased 8% year-on-year.

Foreign currency translation effects reduced total sales by \$43 million, which impacted reported sales in Vinyl, Fluent, and Fluor business groups by \$18 million, \$16 million, and \$9 million respectively. For the first six months of 2017, EBITDA amounted to \$541 million, a 17% increase compared to the adjusted EBITDA of \$461 million in the year ago. EBITDA margin was 18.9%. On a constant currency basis EBITDA will have been \$6 million higher at \$547 million. Operating income was \$352 million, an 18% increase compared to the adjusted operating income for the first six months of 2016. In the second quarter, operating cash before capex increased 10% to \$142 million due to higher adjusted EBITDA minus cash [unintelligible] and the reduction in cash taxes and interest. This helped offset the increase in working capital needs by \$91 million during the period.

Working capital needs in the quarter and the first half of 2017 increased versus 2016 due to the startup of the cracker, higher PVC and refrigerant gas prices, which increased the dollar value of accounts receivable and inventories. It is important to highlight that once the JV starts paying dividends, it will be included in Mexichem's consolidated cash flow statement and will be accounted for as dividend cash out on the dividend line, which will be reflected at our partner share. That dividend will not necessarily reflect the EBITDA or net income of the JV due to capex, working capital, or minimum [unintelligible] and taxes. Capital expenditures in second quarter 2017 decreased by 51% to \$60 million, \$11 million of which was invested in the ethylene cracker, \$2 million as a carryover in PMV, and \$47 million was allocated to organic projects. Total and net financial debt at June 30, 2017 was \$2.3 billion and \$1.6 billion respectively, guiding us to a net debt-to-EBITDA ratio of 1.3 times while interest coverage was 6.5 times. Net debt-to-adjusted EBITDA ratio was 0.6 times and adjusted interest coverage was 5.3 times.

To sum up, we are pleased with the first half results and with the strong financial position we have heading into the second half of this year. I will now turn the call back over to Antonio for closing remarks.

Antonio Carrillo

Thank you, Rodrigo. To sum up, 2017 is evolving as a very strong year for Mexichem. I am very proud of the performance of the whole Mexichem team. Results to date and our current visibility have caused us to increase our guidance range to 15% to 25% growth in EBITDA for 2017 compared to last year's reported EBITDA of \$884 million. As we said, the cracker is still in the stabilization phase so that is the main reason for the wide range in our guidance. Our EBITDA growth expectations are supported by the associated benefits of increased vertical integration of our Vinyl group and better PVC price comparisons, improved pricing trends and higher volumes in our Fluor operations, and we also expect a recovery in the different magnitudes in some of the key markets in Fluent. Operator, I would like now to turn the call open for questions.

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 (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*), then two (2). At this time we will pause momentarily to assemble our roster.

The first question comes from Frank McGann with Bank of America Merrill Lynch. Please

go ahead.

Frank McGann

Yes and good morning. Um, two questions if I could. One is just related to the comment that you made in the Fluor segment, I believe there was some delayed sales related to some transportation issues. I was wondering if you could go into a little bit more detail on that and how significant an addition that could be potentially to the third quarter? And then secondly, thinking strategically and looking at M&A and other means of expansion, where geographically are you thinking right now is, or that could be interesting areas that you think you could see unusual growth opportunities? In the past, you've mentioned India as an area that was looking interesting. I was just sort of wondering where, what you were thinking currently?

Antonio Carrillo

Yes, good morning Frank. This is Antonio. On the Fluor side, the mine had a slight delay in sales. It was not very relevant, but it can be, we expect it to be, we expect to have very good volumes of the upstream in the third quarter, above last year, so most of the improvement we saw in sales and EBITDA came from the downstream, and the upstream was a little below last year, so we are, let's say, optimistic about our third quarter in the Fluor business for several reasons. One is prices, as I have mentioned, after the ITC, the prices are starting to become, let's say, more market-driven, competitive dynamics like we like to operate in, and prices are going up.

As we've said before, we have a lot of contracts that are going to become, we're going to renegotiate contracts with the OEMs at the end of the third quarter, beginning of the fourth quarter so we have to go through that. But overall, we're positive on the downstream part. On the upstream part, we are also seeing improvement in pricing in Fluor. If you look at the pricing coming out of China, which is the one that sets the roof let's say, we're seeing improvements, and volumes, we have good volumes. We have really good volumes in the quarter in metallurgical fluorspar, which as you know is our highest margin product, and that's where most of the delays were, or came from. So we are positive on volumes and prices for the third and fourth quarter for Fluor.

On the acquisitions, as you know, we cannot mention specifically, but I would say that we look for two types of things. One is geographic expansion. We are very small in Asia. Asia is a region that is very interesting for us and we're looking for acquisitions that not necessarily are in Asia, but that would bring additional Asian presence for us. And also platforms for growth, so products that we can, that complement our product line and we can use different platforms within Mexichem to accelerate growth. So, Asia, the US, and we are looking for more acquisitions in regions that we have presence that is not as we should have it. No, I cannot be more specific, but I think that's more or less the idea.

Frank McGann

Okay. Thank you very much. Very helpful.

Operator

The next question comes from Nikolaj Lippmann with Morgan Stanley. Please go ahead.

Nikolaj Lippmann

Thank you. Good morning. Congratulations on the strong results. It was definitely worth the wait. Thanks for taking my questions. I just have two questions. First, on the Vinyls

and trying to break out where the profitability comes from, the cracker versus the PVC. Can you just share with us your capacity utilization in the cracker in this quarter? That would be super helpful. And then second, and in terms of acquisitions, if you can share with us the, sort of the maximum size? You've done a number of acquisitions in the \$10s of millions of dollars. Are we thinking in that, sort of that range, or the 100s, or maybe even the billions? And then, you know, finally, if you can share with us how you feel about if the PVC price is performing relatively well, how you feel about being able to push these prices through in the Fluent division. Thank you very much. And again, congratulations on the numbers.

Antonio Carrillo

Thank you. Good morning, Nikolaj. So let me start with the cracker. I don't have the exact number, but I think the cracker operated somewhere in between 85% and 95%, 93%, range throughout the whole period. As we said, it was a ramp-up but really the ramp-up was faster than we expected and it's been running very well. We did have, and it's important to mention, we did have a short period where the cracker was down for small things, and it's just normal to expect the cracker to face these kinds of technical issues as we go through the year and let's say take all the bugs out of the system. That's why we opened the range so much, so, but the cracker operated very well and I would say somewhere between 85% and 92% was the range in operating capacity. On your second question, as I mentioned in my remarks, I have been mentioning that we're looking for bolt-on acquisitions that complement our product lines locally and regionally like we did in the last year. And those are small, like you saw last year in Canada and in Europe. Certainly less than \$100 million and they bring, let's say, additional platforms and bolt-on into our operations.

But we also, like always, we're also looking for Mexichem to continue to generate new platforms for growth and I cannot give you a range because those things come and go. We know exactly what we want, and it will depend on what's available and what the fit is for the company, but we are looking to try to expand Mexichem again. And always with a very disciplined approach to capital location, always as you know, which is very important to mention, because I know there's been concerns about Mexichem doing this and going and doing something crazy. And that's not what we're going to do. The governance of Mexichem over the last five years has changed dramatically. We have a very disciplined board. We have a different board. We have new committees looking at the capital location of Mexichem. We continue to be an ambitious company and we continue to have an ambitious board. But always we have a disciplined approach and thinking about the long-term opportunities and benefits of our investors.

On the PVC pricing, as I said, the dynamics of demand and supply. There's really no major expansion on PVC prices, PVC capacity around the world. Demand continues to grow and just like I mentioned, in Fluor, we're positive on PVC pricing. And we're seeing similar situations in, coming out of China, which is something that's new and we don't know the magnitude of that. But the environmental regulations there are starting to put some restrictions on capacity both in PVC and also in Fluor we're seeing reduced HF capacity and were seeing reduced mining capacity in China, that's, at least that's our thinking at the moment. We are doing more research, but that's what pushing prices up in Fluor's part, also. So we are seeing stronger pricing fundamentals, I would say.

On the, that will generate, of course as you mentioned, in the Fluent side, a stronger need

to pass through these price increases to our markets. In the second quarter, prices of PVC compared to last year were up but compared to the first quarter were down. And I mentioned we will see this volatility. So I don't expect huge price increases in PVC like we saw in the first quarter. But our teams are, let's say, once again, on their toes. I think after several years of not having any price movement, our teams were not as fast as they should have been in raising prices in the first quarter. We have to recognize that and we have done a lot of work with them. But our teams are on their toes and we believe with our brands, with our presence, with our product lines, we have the capacity to pass them through into our markets. Of course there will always be a little lag, but we are, I think, very well prepared to do it.

Nikolaj Lippmann

Thank you very much, Antonio. And again, congratulations on the numbers.

Operator

The next question comes from Vanessa Quiroga with Credit Suisse. Please go ahead.

Vanessa Quiroga

Thank you and congratulations on the results, as well. The question that I have is regarding the M&A, and if we follow up on what you have been saying but just to get a little bit more of detail. How would you explain or what could you share with us regarding the IRR or any math that you will be using in order to ensure the accretion levels of your targets when you acquire companies. And also if you could give us a sense of the potential size or the maximum size that you would be willing to take in terms of a target company. Thank you.

Antonio Carrillo

Yes, so the way we approach. There's, let me give you the two sides of the answer, but first thank you, good morning. The first one, let's talk about the two concepts of the M&A that we are looking at. I think I've shared with some of you the capital location model we have. But first of all, before the financials, the strategic portion I think is the accretive aspect, no? How does it fit Mexichem? What does Mexichem bring to this acquisition and what does the acquisition bring to Mexichem?

And we're looking for things that, of course, that Mexichem can bring to acquisitions in terms of adding value and adding platforms for these companies to accelerate their growth, but we are also looking for companies that bring to Mexichem presence in two areas. Capabilities that we don't have. Mexichem has, I think that we are starting to get into this digital mindset that we need to accelerate the digital mindset of the company, bring higher technologies to Mexichem that we can, that can assure the long-term growth of the company and we will see changes in our markets, especially in our downstream market that we need to prepare Mexichem for that. That's one thing.

The second is new markets. New markets that are, let's say, riding global trends where Mexichem is not present. There are significant global trends that we believe will drive the growth in many industries, and Mexichem has to think about how to penetrate and how to tie itself to these global trends that are emerging and that we believe are happening. And so we're looking for companies that meet those criteria. That they bring something important for us and that Mexichem can accelerate that.

From the financial point of view, of course, we look at returns, a return on equity, return on invested capital. We look at the growth rates of those companies and how fast their markets are growing. The regional presence. And of course the risks that are associated with these companies. But overall, I would say it's a return calculation and the size of the synergies that we can generate together. On the size of the acquisitions, decisions on size don't make, it depends. These things don't come every day and it's a very, very ad hoc size, depending on what's available, what's for sale. We continuously look for things, but it's, I cannot give you a specific range because it would be, I don't think it would be of any value.

Rodrigo Guzman

I think to follow up on Antonio's comment. It's important to say that every time we are looking at, for a target, we review their financials very carefully and we ensure that in the long term we can increase our return on invested capital, our return equity in a very good trend. So it's something in which we are so focused and that's the way in which we decide if we are going to go or not go in a specific acquisition.

Vanessa Quiroga

Okay. That's very helpful, Antonio and Rodrigo. And would you be able to comment anything on the news that came out regarding Mexichem participating in the process for a company called [unintelligible]? Sorry if you commented something about it on the initial remarks.

Antonio Carrillo

Well, as you know we cannot comment on any of the acquisitions we are pursuing, so we cannot comment on that one specifically. So, we don't do it with anyone. It's not specifically to that, it's just we don't do it with anyone.

Venessa Quiroga

Okay, that's good. Thank you very much.

Antonio Carrillo

Thank you.

Operator

The next question comes from Julia Ozenda with UBS. Please go ahead.

Julia Ozensa

Hi. Thank you for the call. Just [unintelligible] questions. If it's possible, can you fully mention the financial contribution from the Oxy JV cracker in your results please, and also could you provide more color on the changes from your previous estimates to your current estimates regarding this cracker in the guidance. And my second question and also a follow up, you mentioned that the China pricing, the fluorspar pricing in China is improving and I wonder if this has already impacted the second quarter or this is something that you are seeing more in July that we should expect to be impacting more the third quarter? Thanks.

Antonio Carrillo

Yes, so let me start with the first one. As we've mentioned in our calls, and I know it's difficult to give you the full color on this, but the idea of the JV cracker was to simulate and to make our financials and our economics in our PVC production in North America very

similar to a fully integrated PVC producer from ethane to PVC. So the contribution you see is not only from the cracker, and when we mention the cracker, it's not specifically by the cracker itself, but by the total integration that we achieved with the cracker and the new VCM formula we have, so I, we cannot give you specifics on the cracker. What I can tell you is that, you know, the cracker is behaving very well, the economics of the cracker are looking good, and the economics specifically of the total chain from ethane to PVC with all its components in the middle, behaved very well for us in the second quarter and we have a very good forecast for the third and fourth quarter that in part is allowing us to answer your second question to change the guidance.

The guidance is being changed for I would say three reasons. One is of course the reliability of the cracker has proven better than we expected even though, so that's, if you make the numbers up, that takes us to the top end of the guidance that we have given before and if we continue like this we would surpass that, no? So that's why we are opening the guidance. The second is PVC prices continue to be good and demand continues to be strong so that's also in that equation. And the Fluor situation, which is also helping. We also believe that the Fluor is starting to have some positive trends.

What I can tell you from the pricing is most of our contracts, a lot of the large contracts we have, have formulas. So Chinese pricing is not reflected in our numbers yet, and that's one thing, the one side. The other is I have, I don't know, I cannot honestly tell you until we finish our study in China the sustainability of the Chinese prices going up. At the moment it is strong, but I cannot honestly tell you that the dynamics like they are in PVC that I am confident to tell you that in the medium term the prices are going to continue to go up. In Fluor, I don't know, with Chinese, especially on the environmental side, I'm not sure how sustainable this is and we hope it's sustainable and that the Chinese continue to crack down on pollution, but I cannot honestly tell you that that's going to be the case. For the moment, we are positive for the second half of the year.

Julia Ozensa

Okay. Perfect. Thanks a lot.

Operator

The next question comes from Andre Hachem with Itau. Please go ahead.

Andre Hachem

Hello guys. Thank you for the questions. I apologize if this was asked earlier, but I have two questions. The first one is regarding the PMV plant. Has there been any decision on what will be to the next step moving forward. In regard to the ethylene cracker you guys have onsite, it still is not operating as of now, but is it still, has it already been write offed or is it still on the balance sheet? That's the first question. The second question is in regards to pricing volumes in the Fluor division LatAm. How has the pricing volume been? Have you guys been able to pass through some of the price increases? And secondly, in regards to volumes. What is your outlook for the remainder of the year? What has been the main problem regions besides Brazil? Thank you.

Antonio Carrillo

Yes sure. Starting with the PMV and with the ethylene cracker still there. So there have not been decisions yet on the PMV future. What I can tell you is that there has been a lot of progress on PMV in many of the issues that are still pending. A lot of progress was made in the second quarter and we expect also to have a lot of progress in the third

quarter, and probably by in the third quarter make a decision on PMV. The cracker is still not running and it's not been written down. We did provide in the press release the value of the ethylene cracker in case we decide not to operate, but at the moment it has not been written down because we have not made that decision.

The third question on the pricing on Fluent, we, as I mentioned, if you take away the restructuring, it would have been a little above last year in Fluent and what that tells you is we have already passed through most of the pricing. I can tell you I'm confident that the pricing has gone through and that we are moving along so, the pricing is not the problem at the moment. It's really, it was volume in certain specific markets, especially Brazil and Colombia. Colombia and Brazil are probably the two most challenging markets, and in Colombia it's very specific. I think the overall economy is doing well but if you talk to most companies, they're not doing well, they didn't have a very good first half in Colombia. And it's very specific reasons. We mentioned some tax reform. We also mentioned specific the government receives funds from the oil revenues and profits and most of the royalties go to regional governments, which have not been deploying the money fast enough, but there were changes recently that allow us to believe that the second half is going to be better. Also Brazil, the recovery is happening. It's just not happening as fast as we would like it to happen.

And then specific things. In Europe, we had a great quarter in terms of business operation, the margin, we have never had a margin like that. We have had every quarter for the last three years, every quarter goes up compared to the previous year's same quarter. The US, after we did this change in the strategy last year of moving away from commodities is doing fantastic. Demand continues to be strong. And India had some issues in the first half, not in the Indian markets specifically or a little bit, but mostly in the export market. We had specific orders last year that for comparison purposes make India not look good, but we expect a strong half in the second half, so we look at our forecasts. Most of our Fluent regions are optimistic about the second half.

Andre Hachem

Great. Thank you very much. That was very helpful. And again, congratulations on the results. They were very good.

Antonio Carrillo

Thank you.

Operator

Again, if you have a question please press star (*), then one (1). The next question comes from Felipe Santos with JPMorgan. Please go ahead.

Felipe Santos

Hi Antonio. Just one question. I don't know if you have mentioned this before. Just regarding operations in the Texas plant. It is notable that the results of the company were possibly impacted by debt, but what this is kind of almost running on increasing [unintelligible] right? You should have like a [unintelligible] effect in terms of costs, et cetera, in the quarter. How do you see in the short, like to the beginning of next year, the operation of this plant, the cost dilution, and EBITDA margins expanding, and the second question is related to that. If you intend to release or open more detail for the running of this operation or if your partner also expects us to do this. Anything that could give more color how profitable the plant is. Thank you.

Antonio Carrillo

Thanks, Felipe. As we mentioned, the cracker, it's, you have to put into context the whole value chain. So ethylene prices, chlorine, caustics, solvent, natural gas, electricity, to simulate the whole PVC chain, no? And when you put all of those things together, in the second quarter we got the results that you saw. And based on the numbers we see today, where we see relative stability in most of them, or positive signs in some of them, negative signs in some others, I would say that the total mix of those allows us to raise the guidance and you should see quarters that are relatively similar with today's pricing in the third and fourth quarter.

Of course, the fourth quarter, remember it has some seasonality where volumes go down, but overall, the forecast that I see today with the whole numbers included would allow us to believe that they would be relatively similar in terms of EBITDA compared to the second quarter. So we don't see anything in the second quarter that would be abnormal to what we're seeing for the third and fourth quarter.

As of disclosure for the cracker, and I know there's a lot of concerns about this, and it's not that we don't want to disclose it, it's simply that we believe it would be misleading to give you a portion of a formula not the total value, and that's what I'm trying to describe. The value of the formula includes the whole, all the concepts that I mentioned before, no? And if you look at one piece of the formula it would be misleading for you and for most of you, if we only give you a portion, no? So the way to model it, in my point of view, is to put all the elements in a bucket and try to model each one of them, which I know is not an easy proposition.

Felipe Santos

Yes. No, thanks so much. The idea is just to see in full the profitability of the plant. Just to confirm I understood this correctly. So going forward for the plant specifically, you feel that we have reached the normal, the average EBITDA level that we should be seeing going forward. Right? Of course, disregarding fluctuations on prices and costs.

Antonio Carrillo

As I said, we didn't run at 100% in the second quarter, we'd run a little below that. Right now, the cracker is running at 101%. It's running very well, so there will be some improvement to that, so little ups and downs. This, it doesn't run specifically at a certain level every day, but it's a range, and based on the current pricing, that's where we see it today, no?

Felipe Santos

No, that's great. Thanks so much.

Antonio Carrillo

Thanks.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to CEO Antonio Carrillo for any closing remarks.

CONCLUSION

Antonio Carrillo

Just to thank everyone for joining the conference call and I hope to talk to you in the next three months. Thank you.

Operator

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