**Methanex Corp 2Q 2026 EARNINGS** ***(Proofread Transcript)***

› **Call Participants**

# Presentation

### Operator

Good morning. My name is Angela and I will be your conference operator today. At this time, I would like to welcome everyone to the Methanex Corporation's Second Quarter 2026 Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I would now like to turn the conference call over to the VP of Investor Relations at Methanex, Mr. Robert Winslow. Please go ahead, Mr. Winslow.

### Robert Winslow, Vice President of Investor Relations and Vp of Investor Relations

Good morning, everyone. Welcome to Methanex's second quarter 2026 results conference call. Our 2026 second quarter news release, MD&A and financial statements can be accessed through our website at methanex.com.

I would like to remind listeners that our comments today may contain forward-looking information which by its nature is subject to risks and uncertainties that may cause the stated outcome to differ materially from actual results. We may also refer to non-GAAP financial measures and ratios that do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Any references made on today's call reflect our 63.1% economic interest in the Atlas facility, our 50% economic interest in the Egypt facility, our 50% interest in the Natgasoline facility, and our 60% interest in Waterfront Shipping.

To review the cautionary language regarding forward-looking statements and to find definitions and reconciliations of the non-GAAP measures, please refer to our most recent news release, MD&A, annual report and investor presentation, all of which are posted on our website under the Investor Relations tab.

I will now turn the call over to Methanex's President and CEO, Mr. Rich Sumner, for his comments, followed by a question-and-answer period.

### Rich Sumner, President & Chief Executive Officer

Thank you, Robert, and good morning, everyone. We appreciate you joining us today to discuss our second quarter 2026 results. Our second quarter average realized price of $529 per tonne and produced sales of approximately 2.2 million tonnes generated adjusted EBITDA of $577 million and an adjusted net income of $300 million. This adjusted EBITDA, which includes a $12 million accrual for restructuring activities at our Trinidad and Tobago operations, increased versus the first quarter of 2026, largely due to a higher average realized price driven by the Middle East conflict, combined with continued strong production from our enhanced asset base, particularly in North America. The resulting strong cash flows from operations allowed us to repay the remaining $290 million outstanding on the Term Loan A while still ending the period in a strong financial position with more than $380 million of cash on the balance sheet.

The continuing Middle East conflict has resulted in an unprecedented impact on many industries, including methanol. We estimate that 15 to 20 million tonnes of annualized methanol supply is required to transit the Strait of Hormuz to reach end markets. During the second quarter, we believe some of this supply, mainly from Iran, came to market at significantly reduced volumes and almost entirely from pre-existing inventories. We believe the significant supply gaps created through the second quarter were met with a combination of rapid drawdowns of inventory, primarily in Asia, and through increasing demand rationalization, both methanol-to-olefin demand in China and other demand, particularly in Asia.

This situation led to elevated and volatile methanol pricing across the world throughout the second quarter. There remains significant uncertainty as the ultimate resolution to the ongoing conflict and the extent of damage to methanol plants and broader infrastructure are still not clear as we move into the third quarter. Under current conditions, the impact of a more prolonged conflict will become even more severe on the methanol industry.

We believe the 15 million to 20 million tonnes of production previously mentioned continues to be idle and that pre-conflict inventories are now meaningfully reduced as a result. We would expect to see even less supply from the Middle East as we move through the third quarter, and this, combined with inventory now drawn to very low levels, means we would expect increasing pressure on industry supply to meet ongoing demand. Under current conditions, demand rationalization will increasingly be required until a resolution allowing Middle East production to resume and to reach the market on a more normalized basis is found.

Turning to our operations in the second quarter, our total equity methanol production of 2.2 million tonnes was slightly below first quarter production levels. Starting in North America, we produced a record high volume during the quarter of 1.6 million tonnes across Canada and the United States. We produced 1,027,000 tonnes at Geismar, which is also a record level in a quarterly period for that site. We produced 180,000 tonnes of methanol at the Beaumont plant in the second quarter, and our equity share of production at the Natgasoline joint venture was 204,000 tonnes. At Beaumont, we took the plant offline in early June and safely executed a 30-day unplanned outage to repair the cooling tower, with the plant restarting in early July.

In Chile, we produced 327,000 tonnes in the second quarter, utilizing gas supply from Chile and Argentina. As expected, production was lower in the second quarter as we shifted to operating one plant midway through the quarter due to the seasonal reduction of gas availability from Argentina during the Southern Hemisphere winter season.

In Egypt, our second quarter production was similar to that of the first quarter with the plant operating at full rates. The plant continues to operate well today and we're closely monitoring the supply and demand balances in the country during the summer season when local residential gas demand typically peaks.

In New Zealand, we produced 46,000 tonnes in the second quarter, down from the prior quarter, as we entered into various commercial arrangements to manage and optimize our gas supply entitlements. Given the meaningful short-term uncertainty and structural challenge in the gas market, we shut down the plant for May and June and restarted in early July at similar reduced operating rates to the first quarter.

Lastly, on June 29, we announced the indefinite idling of our Titan plant in Trinidad and Tobago as we were unable to come to terms on a commercially viable natural gas contract. We'll continue to monitor future developments in Trinidad with a view to reassessing conditions over the coming years. I want to thank our excellent team members in the country for their professionalism through a difficult period. As a result of the commencement of restructuring activities, we recorded a $115 million non-cash after-tax asset impairment charge and a $12 million accrual for restructuring activities.

Looking forward, our expected equity production for 2026 is approximately 9 million tonnes of methanol. Actual production may vary by quarter based on timing of turnarounds, gas availability, unplanned outages and unanticipated events. Based on July and August contract price postings and assuming market conditions remain consistent in this volatile macro environment, we expect our average realized price range for July and August will be approximately $460 to $485 per tonne.

Assuming this pricing holds through September and factoring in produced sales volumes similar to those of the second quarter, we expect another strong quarter of earnings, lower than in the second quarter due to lower pricing. Our priorities for 2026 are unchanged: to safely and reliably operate our assets and supply chain, and to complete the OCI integration plan and realize plan synergies.

Now that the $550 million Term Loan A facility has been repaid, we're approaching our initial leverage target of approximately 3x adjusted debt to adjusted EBITDA. In this highly uncertain and volatile environment, we will continue to direct the majority of available free cash flow to building cash and reducing debt to move towards our longer-term leverage target range of 2x to 2.5x adjusted debt to adjusted EBITDA at mid-cycle pricing. As we make progress towards this goal, we will evaluate directing a modest amount of free cash flow towards share repurchases.

We would now be happy to answer questions.

# Question And Answer

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**Operator**

[Operator Instructions] On today's event, we request everyone to please limit themselves to one question and one follow-up only. Thank you. And your first question comes from the line of Ben Isaacson with Scotiabank. Your line is now open.

**Ben Isaacson, Analyst, Scotiabank**

Thank you very much, and good morning, everyone. I just have one multi-part question, Rich. On the Q4 call about six months ago, you said that we wouldn't really see much Q1 margin capture of rising spot prices as it related to the start of the war, as you were going to honor contracts and discount rates that had already been negotiated, I think, a few days earlier.

So the thinking was that if you didn't capture margin on the way up, then you would certainly capture it on the way down. And I think where the stock is down a bit today is because it appears that that ASP guide that you're giving, it appears to be giving up margin on not just the way up but the way down as well. So is that the wrong way to think about it? And can you remind us how exactly monthly contract prices are set, how those discount rates are set and adhered to?

And then just a blue sky question. Would it not be easier just to charge spot plus say a fixed premium of whatever the number is, $40 or so, for customer service availability, reliability, et cetera? Thank you.

**Rich Sumner, President & Chief Executive Officer**

Yeah, thanks. Thanks, Ben. I think just to answer that question, I think, is it the wrong way to look at it? Maybe partially, but certainly there's an explanation regarding spot. I think in a rising price environment, what happens is contract prices tend to lag the rising price. Some elements in our contracts have some reference to spot pricing and some of our regions are more focused towards a spot type of pricing element, Asia being the one that points more towards spot. So in a rising spot environment you will have, I'll call it a compression, you'll realize more off of the discount in a rising price environment. And in a lower price environment, you realize less of that contract price because of those components in our contract.

So right now, when we gave our price guide for the third quarter, just remembering that from a market perspective, we saw a pretty meaningful impact through – and this is a very highly volatile price environment we're in, through July and August was the period where we had the temporary ceasefire and a lot of product got released in a very short period of time that's now obviously stopped.

That actual volume combined with sentiment meant we saw a pretty big downshift in spot pricing, particularly in Asia, but actually in regions around the world. So we effectively put that into our estimates for the quarter to be conservative. That's actually already started to reverse. So when we look at our price guide, we're probably already at the top end of the range. If market conditions continue because we don't see supply being released, we would expect things to tighten up and that those realizations would be higher based on that view.

And then back to your point about pricing, I think the market principle has been contract price postings. That's the way the industry prices are. We're always looking – the way discounts have gone and the way some of the formulas work, we're always looking at is there a better way to price? But as of today, we remain committed to our contract price postings and that's the way we go to market to customers. Hopefully, that answers your question.

**Ben Isaacson, Analyst, Scotiabank**

That's great. Yeah, thanks, Rich. Appreciate it.

**Operator**

Your next question comes from the line of Josh Spector with UBS Group. Your line is now open.

**Josh Spector, Analyst, UBS Group**

Yeah. Hey, good morning. I just wanted to ask on the production guidance. You basically held that constant despite taking down supply. What's the assumption behind that? Are you assuming you can run Americas harder or am I just reading too much into a small change here?

**Rich Sumner, President & Chief Executive Officer**

Well, thanks, Josh. Really, when we look at that guide, we are looking at where we are today. And where we are today, we're slightly – we're higher than the guide. And so we've already accounted for the back half of the year with Titan now being idled and under the assumption that what we've seen so far and where we're higher is really in Egypt and New Zealand. And when we look at the back half of the year and how things are trending, we think we make up that volume. So we're around the 9 million tonnes and holding to that.

I will also say that when we think about the tonnes, not all tonnes are created equal when it comes to earnings and taking out Titan is a lot different than having higher Egypt volumes. So there's a benefit there certainly in terms of the cost competitiveness of the production, that's really running well right now.

**Josh Spector, Analyst, UBS Group**

Okay, that makes sense. And I just wanted to follow up on your comments you made around cash deployment and particularly buybacks. I guess we don't know how long higher prices are going to last, but you're clearly generating more cash here. And we understand your goal of getting the 2x to 2.5x, but your stock is very volatile around people's views around war on, war off. And it would seem like you have opportunistic opportunities to maybe deploy some cash there and still have pretty good visibility to getting to your leverage target in 6, 12 months from now. So why not consider doing something earlier? Or is that something that's going through the thought process at all as you look at where your stock is over the next three to six months?

**Rich Sumner, President & Chief Executive Officer**

This is certainly going through the thought process right now. We'll make an assessment of where we are against our deleveraging, what's the forward view of cash generation and where the share price is performing in determining how much goes to share repurchases and also when we would open up the flexibility to do that. But I can say that it is in the thought processes right now.

**Josh Spector, Analyst, UBS Group**

Okay, thank you.

**Operator**

Your next question comes from the line of Jeff Zekauskas with JPMorgan. Your line is now open.

**Jeffrey Zekauskas, Analyst, JP Morgan**

Thanks very much. Your cash flows were very strong this quarter, but it's a little difficult to tell if there are taxes that need to be paid or if working capital really needs to move up toward the end of the year. What do you think the relationship between your operating cash flow and your adjusted EBITDA will be this year? What percentage will be operating cash flow roughly?

**Rich Sumner, President & Chief Executive Officer**

Yeah. So when we look at our adjusted EBITDA in a normalized environment, we look at our adjusted EBITDA, and on an annualized basis, and the difference we would say is around $500 million between the two. And that's our lease payments, our interest, our capital, and then cash taxes as well.

When it comes to this period, we did have a significant working capital build that was around $150 million, and a lot of that is in our trade receivables. So you can think of a pretty big chunk of the earnings we saw is captured in AR right now. And in the event if we get back to more normalized prices, we'd expect that those earnings would come through. So the longer that that doesn't come through, the more we're earning in terms of higher prices.

And then when it relates to cash taxes, maybe I'll turn it over to Dean Richardson, our CFO, to speak to that.

**Dean Richardson, Senior Vice President, Finance & Chief Financial Officer**

Sure. Good morning, Jeff. So you're correct that we did accrue cash taxes in the quarter, obviously, given the earnings. And so you'll see that the cash taxes paid on the cash flow is a modest amount. And so there is a payable that's been built. So that's part of the build in our accounts payable. So you're correct, there is a timing factor there that's already been accounted for.

Our guide on taxes remains the same at about a 25% tax rate and about 50/50 cash taxes. And that's primarily due to in this high price environment, our US assets are not cash taxable. So that's the micro answer.

The macro answer, Rich gave it around the relationship between EBITDA and cash flow.

**Jeffrey Zekauskas, Analyst, JP Morgan**

Thanks for that. When the straits opened up, how much methanol do you estimate came through the straits? And how much have the Chinese increased their methanol production to make up for the tonnes they're not getting from

Iran?

**Rich Sumner, President & Chief Executive Officer**

Yeah, so on the first question, when we think about the Middle East and the 15 million to 20 million tonnes, the big question is how does the market stay in balance there? We think of that amount during the second quarter, about a third of that was actually released during the quarter and that was Iran coming out at smaller, more reduced volumes throughout the whole second quarter mostly. And then during the period where there was the temporary ceasefire, we saw both Iran and the Saudi volumes being released – Saudi and other non-Iranian volumes being released out of the Gulf.

So it's about a third total. Determining how much came out during the ceasefire versus is a bit difficult. So we do track vessels and a lot of those will be coming into the market over July and August. But it was certainly lumpy during that time frame.

Where we go from here, how we also balanced was on inventories, both the coastal inventories in China and then also on demand rationalization. So those levers are going to be hard to replicate because the plants haven't been idle and now inventories are fully drawn.

Domestic operating rates in China have been strong, but there hasn't been a huge step-up of Chinese operating rates. The Chinese market has been somewhat sheltered by MTO shouldering most of the supply issue with Iran. And what will happen is as we work through inventories and there's no longer these buffers, it's going to put both all of the MTO coastal demand under pressure and likely start to pressure domestic markets. So in a lot of ways, the domestic industry has been sheltered because MTO really takes the brunt of lost Iranian product into the market.

**Jeffrey Zekauskas, Analyst, JP Morgan**

Thanks.

**Operator**

Your next question comes from the line of Joel Jackson with BMO Capital Markets. Your line is now open.

**Joel Jackson, Analyst, BMO Capital Markets**

Good morning. Looking at Beaumont, you took down, I think the cooling tower is back up. I know you've talked about maybe being able to make some changes over time at that plant, maybe improving it. Would that be something you have to wait to do a bit later on a turnaround or were you able to do some of the work in June?

**Rich Sumner, President & Chief Executive Officer**

Yeah no, thanks, Joel. Just a reminder maybe about more broadly both Natgasoline and Beaumont. We're very pleased so far with what we've seen from those assets after a year from the point where we closed the deal. The operating rates we've seen so far have been above where we would have – where we sort of came out from a deal value perspective. What we've done is deep technical reviews of both the assets and that's looking at how the assets have run. We look at all of the inspection reports and then we come up with a list of risks and vulnerabilities.

And our goal is to always reduce those down as much as possible through online maintenance, through if we have unplanned maintenance as well as major turnarounds. And obviously, the most work you can do is during a major turnaround. This issue with the cooling tower we did have as a risk in our risk matrix for the plant. and we had had plans to do online maintenance during the second half of the year here. But upon further inspection, we saw that the structural damage to the support of the cooling towers was too much. So we took an outage. The team executed that within 30 days as planned, safely. And at the same time, we took out other vulnerabilities of the plant.

So our goal is to continue to run this reliably and safely. And we believe we can on a long-term basis do that with both of these sites. Now we are still learning the assets and if you ask us, would we like to have a full turnaround cycle? For sure. But we're getting to know these assets really well now and our goal is to continue to operate at really strong reliability and then get the opportunities to reduce risk as much as possible. The next one being the turnarounds, which isn't until the '28, '29 timeframe. But the team's doing a great job learning the assets and integrating with the teams.

**Joel Jackson, Analyst, BMO Capital Markets**

Okay. And then at Geismar, the three plants seem to performed really well. You did over 1 million tonnes in the quarter. You'd never done above 1 million tonnes before. Should we be modeling that going forward? Should we be above 1 million tonnes now, ignoring turnarounds or any unplanned outages?

**Rich Sumner, President & Chief Executive Officer**

That's our goal. Our goal is 4 million tonnes for the plant. That's considering about a 97% reliability rate. The plants performed. We always do that in between turnaround cycles, there becomes limitations as you get closer to a turnaround that makes getting to the 4 million tonnes, sometimes you do dip below that because you're where you are in catalyst life. But over the average, yeah, the target is to have 4 million tonnes of production there.

**Joel Jackson, Analyst, BMO Capital Markets**

Thank you.

**Operator**

Your next question comes from the line of Hassan Ahmed with Alembic Global. Your line is now open.

**Hassan Ahmed, Analyst, Alembic Global**

'Morning, Rich. Rich, wanted to revisit the 15 million to 20 million tonnes of capacity being impacted by the Middle Eastern conflict question again. I understand that you mentioned that almost a third of that was released as Hormuz opened up. And clearly it seems that these fits and starts will continue.

But, as you cut through the noise, I'm just trying to get a better sense of how much of those 15 million to 20 million tonnes have actually been significantly adversely impacted, meaning what percentage of those 15 million to 20 million tonnes will take a while to hit the market as and when there is peace declaration and Hormuz fully opens up.

**Rich Sumner, President & Chief Executive Officer**

Thanks. Thanks, Hassan. I think this is a – when you ask how much of the production is impacted, all of it is. It's all idle, so. And none of it is able to transit. We don't have free navigation flowing in through the Strait of Hormuz now. And all of it has to transit that waterway. And so we have a long ways to go before we get back to normal here.

And really what, in my opening remarks, what I was trying to communicate is, what we have is that we did have about a third of that, we would say, came into the market through pre-existing inventories, that was what was in storage or in vessels prior to the conflict. And then we haven't had any production to back that up. And how the markets really effectively weathered that is by drawing, by having that be released and then draw inventories through the supply chain.

And also, we've seen now demand much lower than what we would expect at this time of year. So typically, you'd have the coastal MTO operating, that's 10 million to 11 million tonnes of demand that would be operating at high rates in a normal year. So last year, we would have seen that operating at 80% to 90% operating rates, it's at 30% to 40%. We've seen demand rationalization in the Middle East, in India, in Southeast Asia, and that's making up for a chunk of this.

What we're not going to have, we did have this product be released through July and August and that's coming into the market today. And once we get through, if we don't see some sort of normalization once we work through that inventory, we don't have those levers to work with. And so then we've got an issue where you've got to see further demand rationalization and pressure on the industry.

And even if we get back to something that's more normal, it is really important that we were able to assess, can they get gas flowing to methanol plants the same way it was, are methanol plants able to operate at the same rates they were, and is navigation as free flowing as it was prior to the conflict level, given the risks on shipping and the ability for owners and charterers and insurers to get comfortable with that navigation. So, we're in a situation where, here, where we do see some sustained pressure to get back to something that looks like the world pre this conflict.

**Hassan Ahmed, Analyst, Alembic Global**

Very helpful, Rich. And again, wanted to dig a bit deeper, probably on the demand side now as well, particularly in light of some of the inventory statements you guys made. You obviously talked about fairly significant drawdowns of inventory in Asia.

Now, I'm just trying to get a better sense. I mean, look, no two periods are the same, but if one was to go back to 2003 and the Iraq conflict, it just seemed, starting with upstream oil prices, which obviously are quite correlated to methanol prices, going back to that time period. Initially as the conflict subsided, there were steep declines in oil, drawdowns in inventory, a lot of paper selling of oil, and in theory obviously negatively impacting downstream product pricing. And then all of a sudden, the physical buyers came out and demand picked up, there was major restocking and pricing went up significantly.

So again, with that in mind, I'm just trying to get a sense of how critical are inventory levels right now? As you earlier said that pricing even today may be trending to the higher end of the guided to range. So if pricing does start ticking up, I mean, what potentially could a restock look like?

**Rich Sumner, President & Chief Executive Officer**

Yeah no, thanks. Thanks, Hassan. I think you're asking all the right questions. It's really hard for us to formulate firm views because it is such a dynamic environment. But for us, we see the methanol side and what we see from methanol is that we think our supply chains have been depleted of inventory pretty meaningfully, especially in Asia. When you look at coastal markets in China, it's now around 500,000 tonnes. That was a 1 million tonnes draw in a quarter. That's on an annualized basis, that's a lot. And then we do think that customer supply chains are really tight.

Then it gets into, well, how is that affecting the downstream? I mentioned there that China has somewhat been sheltered because they've had strong domestic production, that has supported some of the chemical markets like acetic acid and others where you do have export that has propelled a lot of export manufacturing, which is probably filling some of the traditional chemical value chains. The gaps created by the Middle East supply. How long that lasts and how sustainable that is without price killing off demand further downstream is a big question mark for us. So these are the things that we're continually monitoring.

Now, one of the things to note for us is that the markets that are most acutely impacted here are the markets that we don't supply because it's where the Middle East is logistically advantaged. So it's a lot of India, it's Southeast Asia, it's Taiwan. But we do think that the longer this goes on, it's going to creep into the markets that we're also in. So we're paying really close attention to that with our customers as well.

But again, price is usually the one that kills it off. And then that also gets into higher pricing down the value chain and inflationary pressures and what does that do to long-term demand risks. And that's why we're navigating this current market really, really carefully and carefully monitoring this situation.

**Hassan Ahmed, Analyst, Alembic Global**

Very helpful, Rich. Thank you so much.

**Operator**

Your next question comes from the line of Nelson Ng with RBC Capital. Your line is now open.

**Nelson Ng, Analyst, RBC Capital Markets**

Great, thanks, and good morning, everyone. Just on shipping costs, I think disclosure was higher logistics and other costs in Q2 compared to Q1, reduced EBITDA by about I think $18 million. Can you just provide a bit of color in terms of whether the majority of that was mainly higher shipping costs? And within shipping costs, is it just higher fuel costs, like longer shipping routes, insurance or other factors?

**Rich Sumner, President & Chief Executive Officer**

Yeah no, thanks, Nelson. Yeah, when we're looking at our shipping costs today, I think we're in a very different environment on the supply chain than what we would have expected coming into this year. And it's affecting both the fuel costs because we saw bunker costs go up by about 40% during the quarter or over this last five-month period. The other thing that is happening is in a normal environment, you see a much lower spot vessel market. So the spot pricing for spot vessels has gone up significantly and there's far less backhaul opportunity as refiners are limiting export or unable to get the crew they need to produce or limiting exports.

And so what that means is a far less optimal fleet, both from a shipping cost as well as the – I'm going to call it the miles per tonne of methanol because we're having more shipping days for the methanol that we're moving around the world, and we're avoiding any spot exposure from a cost perspective. So those two factors are probably causing $30 million to $40 million versus our, call it, our run rate or plan for the year. All of that would actually – would normalize and go away in a different market in a different pricing scenario. So part of the price uplift we're getting is coming with a less optimized fleet which we're carefully managing.

We saw about $18 million come through in Q2. We would expect that we will continue to have some increase in costs as we move into Q3 because of the lag impact on inventory and how that works through our shipping actually gets attached to the inventory and flows on a lag basis.

**Nelson Ng, Analyst, RBC Capital Markets**

Okay, got it. And then just can you remind me, what portion of your product do you transport with your own ships versus using spot? Is it pretty much the vast majority?

**Rich Sumner, President & Chief Executive Officer**

The vast majority is our time charter. So think 80% – in a normal environment, 80% is time charter and about 10% to 20% is going to be COA and spot. In this environment, normally, we'd be doing backhaul and efficiently managing fleet. Without backhaul, we shift away from – we use our time charters to solely move our product. So we're more towards 100% basis right now because that's the most efficient way with lack of opportunity and the high cost in the system. So we're trying to optimize around that. But today, we have zero spot exposure effectively because we're managing around that.

**Nelson Ng, Analyst, RBC Capital Markets**

Okay, got it. I'll leave it there. Thank you.

**Operator**

Your next question comes from the line of Laurence Alexander with Jefferies. Your line is now open.

**Laurence Alexander, Analyst, Jefferies**

Good morning. Two related questions on the demand side. One is could you be a little bit more granular about where you're seeing demand shaking out this year by the key end markets? And can you clarify to what extent you have visibility on the degree to which demand is getting pushed back? Or are you hearing from the downstream chain, significant efforts to shift or substitute away or just outright demand destruction? Just trying to get your sense for how much visibility, if any, you've been able to get over the last few months.

**Rich Sumner, President & Chief Executive Officer**

Thanks, Laurence. Maybe just to put it into perspective, on a yearly basis again, it's 100 million tonnes, 60% of demand in China, 20% to 25% is in Asia ex-China, and 15% to 20% is in the Atlantic regions. What we've seen today is probably, I estimate we're operating 5% to 10% lower demand today than what we would normally expect in this, at this time of year.

And that's MTO operating at probably 5 million tonnes lower demand on an annualized basis than what we would expect. And then there's probably another 3 million tonnes-ish of demand between Middle East. Like MTB, they've got MTB production there, they've got some acetic acid production there, that's not operating. The market in India has been impacted, the market in Southeast Asia. So those, we would say, is probably about 5% to 10% lower and particularly in those markets.

Now when we look at outside of the other applications, when we think about formaldehyde is very much a regional type of demand. Housing has not been particularly strong. It's stable off of a low base. Some of the other applications I was talking about earlier is like acetic acid, silicone. Some of the more downstream products that you do see being exported further down the value chain.

What we think is happening is the pressure has been somewhat dealt with by China continuing to operate and exporting and that's helping that value chain by solving that, that's solving some of the supply. How much of this is real demand destruction remains to be seen. And we haven't seen it trigger huge uptick in acetic acid pricing and VAM pricing and others. So we're waiting to see how this responds because if it does lead to ultimately destruction further down the chain, you would expect to see pricing increasing to higher levels there. So we're monitoring all of it. I think as we progress here we'll get increasing visibility, both methanol as well as further down the chain.

**Laurence Alexander, Analyst, Jefferies**

Thank you.

**Operator**

Your next question comes from the line of Matthew Blair with TPH. Your line is now open.

**Matthew Blair, Analyst, Tudor, Pickering, Holt & Co.**

Thank you, and good morning. Rich, do you think that Iranian methanol supply has been structurally impaired going forward? And if so would that come from hits to like the South Pars gas field in Iran or actual damage to any Iranian methanol plants?

**Rich Sumner, President & Chief Executive Officer**

Well, thanks, Matthew. It's still unclear today around what damage may exist. I think we haven't heard any reports that lead us to believe the actual methanol plants have been damaged. But we have heard reports about the South Pars field and we have heard that the gas processing from those fields could be limited. It's really hard to know because we obviously don't have direct access to information and we've never seen a period where anything could operate stably through the last five months. So it's hard for us to know.

We will be looking really closely as soon as possible and if the gas fields are impacted or gas processing, of course, then it gets into how are you prioritizing your gas and where does methanol fit? And we do think that methanol is obviously going to be deprioritized relative to residential demand, et cetera. And that's always been the case when gas isn't operating or there's peak demand residentially, that gets prioritized.

So it's a very, this is a big risk in the ability for supply to continue to meet demand. The other big thing obviously is navigation and getting that re-established. But as of today, we don't have visibility or information that confirms any long-term damage.

**Matthew Blair, Analyst, Tudor, Pickering, Holt & Co.**

Sounds good. I think it's interesting that Methanex itself has built inventory each of the past two quarters despite a very favorable methanol price environment. Should we think about that as preparation for upcoming turnarounds in the back half of the year? Is that just normal course business? And ultimately, would you expect to draw down some of that inventory in the back half of the year?

**Rich Sumner, President & Chief Executive Officer**

Yeah, I wouldn't read too much into that. I would say that in this environment, we have seen customers being very cautious and especially when on sentiment. If they see an upward trend in pricing pressure that may stabilize, we'll probably see them destocking and running low inventories and buying as little as possible until there's a more normal. And I think the world is waiting for a more normal environment. So just small changes in our sales projections can lead to a bit of a build in inventory. But I wouldn't read a lot into that. You would expect those things to reverse over time, but I wouldn't read a lot into that build.

**Matthew Blair, Analyst, Tudor, Pickering, Holt & Co.**

Great, thank you.

**Operator**

Your next question comes from the line of Hamir Patel with CIBC Capital Markets. Your line is now open.

**Hamir Patel, Analyst, CIBC Capital Markets**

Hi, good morning. Rich, with your current customer commitments and the different demand destruction that you're seeing out there, how do you think about for the remainder of the year, your geographic sales mix? Just thinking about that slide you show that shows the different regions and how you might look to optimize that for the rest of the year.

**Rich Sumner, President & Chief Executive Officer**

Thanks, Hamir. We would stick to that guidance, probably on the low end from a China perspective, but we're going to be within the range certainly with lower Trinidad now, we would expect China would be lower. We'd be selling less there. So probably the proportionality is leaning less to China and more to markets outside of China, which obviously has a benefit from an overall ASP.

**Hamir Patel, Analyst, CIBC Capital Markets**

Great, thanks, Rich,. And just the last question I had earlier on a shipping question, I think you mentioned $30 million to $40 million headwinds you're seeing this year. You had $18 million in Q1. Should we expect most of that remainder to show up in – sorry, the $18 million in Q2, the remainder in Q3?

**Rich Sumner, President & Chief Executive Officer**

Yeah, I just want to clarify that's $30 million to $40 million a quarter. So these are significant, in terms of the fuel, 40% increase in bunker charge and then the sub optimization overall in the fleet. So something we're very carefully managing. Yeah, about half of that came through – I'm just ballparking, half came through in Q2 and the other half would be coming through. And I'm quoting the $30 million to $40 million against our run rate or our plan, which is way – far less optimized today because of fuel and fleet.

But yeah, half through Q2 and then the other half through Q3. And then once we're there, we're seeing that running through the system. If things normalize, we would expect to see the benefit coming through lower shipping costs in future quarters.

**Hamir Patel, Analyst, CIBC Capital Markets**

Okay, great. Thanks, Rich. I'll turn it over.

**Operator**

Your next question comes from the line of Ahmed Abdullah with National Bank of Canada. Your line is now open.

**Ahmed Abdullah, Analyst, National Bank of Canada**

Yeah, thanks for taking my question. Just on the Trinidad idling process, beyond the $12 million restructuring costs, are there any ongoing other cash costs or closure expenditures that you anticipate in Q3?

**Rich Sumner, President & Chief Executive Officer**

No, no, there won't be. Obviously, we still have our team there. We're going through a restructuring planning activity right now to ultimately determine what the existing or the remaining preservation team will look like. And those would be costs that would continue to be incurred in our system, but wouldn't be very material.

**Ahmed Abdullah, Analyst, National Bank of Canada**

Okay, that's fair. And just touching on the acquired assets and given their strong performance, you mentioned that you're on track to realize the synergies. Is there an opportunity that perhaps you exceed your original targets for the acquired assets in terms of synergies?

**Rich Sumner, President & Chief Executive Officer**

I think maybe just to put it in terms of some of the buckets here, we came out with $30 million of hard synergies. We've realized some of those. So we're running lower cost in certain areas. This year, though, we're running higher costs to try to tease out those synergies by the end of the year. So we're very much on track for the $30 million in hard synergies by the end of the year. And the team is doing an outstanding job progressing that.

In terms of the other, what we call, I would call them deal value, because we did make some assumptions on deal value, and I would put those in controllable and uncontrollable. The controllable variables are the asset performance and capital deployment. And both in terms of how the assets have performed and how much capital we're deploying against those assets. We're doing much better than what we showed on the deal value or the assumptions around the deal.

And then the uncontrollable are the natural gas market and the methanol pricing market. And natural gas costs in North America have continued to be very competitively priced and priced lower than the $3.50 MMBtu that we assumed on deal value. And then, of course, methanol prices have far exceeded the $350 run rate numbers that we put out.

So across all the elements, the transaction is obviously performing extremely well. And it also shows the benefit of having fixed costs because all the uplift on price goes to earnings and cash flow. But those are the elements. Our job today is to control the controllables and continue to deliver on the integration on the synergies, as well as maintaining safe, reliable operations of the assets.

**Ahmed Abdullah, Analyst, National Bank of Canada**

Okay, thank you. That's very helpful. I'll pass the line

**Operator**

Your next question comes from the line of Roger Spitz with Bank of America. Your line is now open.

**Roger Spitz, Analyst, Bank of America**

Thank you. Good morning. On Trinidad and natural gas contracts, can you speak to why you were unable to agree on a new supply contract? How was Titan not contributing EBITDA or free cash flow in the second quarter?

**Rich Sumner, President & Chief Executive Officer**

I think – so when we look at the way that the gas contract prices, and the big reason why we idled, just to be clear, is the fact that we were unable to negotiate a future gas contract and that gas contract was coming to an end. So we did wind up terminating a gas contract earlier by a few months because we'd lived up to our contractual obligations.

As it relates to the actual economics, the pricing under the gas contract is such that it's linked to methanol prices. Those methanol prices are linked to different regions around the world. And then when we assess that gas price against where Trinidad fits into our supply chain, the netback economics didn't make – we weren't making money on it from that perspective. And the fact that we weren't able to – we were talking about a gas contract that was going to be probably less favorable than the one we had at that point. And so we took the decision to idle the plant.

**Roger Spitz, Analyst, Bank of America**

Got it. And then last, on the 5.125s of ‘27, they go current on October 15. What is your thought on refi timing or given methanol price levels, maybe you’d think about just outright repaying the debt?

**Rich Sumner, President & Chief Executive Officer**

Yeah, I'll turn that over to Dean.

**Dean Richardson, Senior Vice President, Finance & Chief Financial Officer**

Yeah, Roger. You're correct. We have lots of options with regards to that in terms of as we build cash, our intentions to deploy it. So we haven't made a final determination as to early repayment or that, but we have lots of options that we're working through right now.

**Roger Spitz, Analyst, Bank of America**

Thank you very much.

**Operator**

[Operator Instructions] There are no further questions at this time. I will now turn the call back over to Mr. Rich Sumner.

**Rich Sumner, President & Chief Executive Officer**

All right. Well, thank you for your questions and interest in our company. We hope you'll join us in October when we update you on our third quarter results.

**Operator**

This concludes today's conference call. You may now disconnect.

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