Q1 2024 Earnings Call

Company Participants

- Rich Sumner, President and Chief Executive Officer
- Sarah Herriott, Director of Investor Relations

Other Participants

- Hassan Ahmed, Analyst, Alembic Global Advisors
- Joel Jackson, Analyst, BMO Capital Markets
- Joshua Spector, Analyst, UBS Securities
- Kevin Estok, Analyst, Jefferies
- Matthew Blair, Analyst, TPH
- Nelson Ng, Analyst, RBC Capital Markets
- Steven Hansen, Analyst, Raymond James
- Viktor Sayek, Analyst, Scotiabank

Presentation

Operator

Good morning. My name is Kathleen and I will be your conference operator today. At this time, I would like to welcome everyone to the Methanex Corporation 2024 First Quarter 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 Director of Investor Relations at Methanex; Ms. Sarah Herriott. Please go ahead Ms. Herriott.

Sarah Herriott {BIO 21418601 <GO>}

Good morning, everyone. Welcome to our first quarter 2024 results conference call. Our 2024 first-quarter news release, management's discussion and analysis, and financial statements can be accessed from the Financial Reports tab of the Investor Relations page on our website at methanex.com.

I would like to remind our listeners that our comments and answers to your questions today may contain forward-looking information. This information by its nature, is subject to risks and uncertainties that may cause the stated outcome to differ materially from the actual outcome. Certain material factors or assumptions were applied in drawing the conclusions or making the forecasts or projections, which are included in the forward-looking information. Please refer to our first quarter 2024 MD&A and to our 2023 Annual Report for more information.

I would also like to caution our listeners that any projections provided today regarding Methanex's future financial performance are effective as of today's date. It is our policy not to comment on or update this guidance between quarters. For clarification, any references to revenue, EBITDA, adjusted EBITDA, cash flow, adjusted income, or adjusted earnings per share made in today's remarks reflect our 63.1% economic interest in the Atlas facility, our 50% economic interest in the Egypt facility, and our 60% interest in Waterfront Shipping.

In addition, we report our adjusted EBITDA and adjusted net income to exclude the mark-to-market impact on share-based compensation and the impact of certain items associated with specific identified events. These items are non-GAAP measures and ratios that do not have any standardized meaning prescribed by GAAP, and therefore, unlikely to be comparable to similar measures presented by other companies. We report these non-GAAP measures in this way because we believe that they are a better measure of underlying operating performance and we encourage analysts covering the company to report their estimates in this manner.

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

Rich Sumner {BIO 22500227 <GO>}

Thank you, Sarah, and good morning, everyone. We appreciate you joining us today as we discuss our first quarter 2024 results.

For the first quarter, our average realized price of $343 per tonne and produced sales of approximately 1.7 million tonnes generated adjusted EBITDA of $160 million and adjusted net income of $0.65 per share. Adjusted EBITDA was higher compared to the fourth quarter of 2023, primarily due to a higher average realized price.

Our business delivered a strong quarter financially despite $25 million of G3 delay costs recognized an adjusted EBITDA during the first quarter, which was comprised of costs associated with monthly utilities, take or pay contracts, and employee costs, as well as the accounting recognition of over hedged gas costs through the third quarter projected restart.

The safe restart of G3 continues to be our company's top priority. We announced in mid-February that the startup of the G3 plant was delayed due to complications in the auto thermal reformer during the late stages of the initial startup process. Since that time, we've been working hard to understand the root cause of the issue, expedite repairs, complete comprehensive reviews of all remaining plant systems, and implement any necessary changes. These work streams are all progressing well. We estimate that the repair cost will be approximately $15 million and expect the total capital cost for the project will remain at approximately $1.3 billion. The remaining CapEx to be spent on G3 is $70 million, which is fully funded with cash on hand, and we expect it to be spent evenly over the second and third quarters of 2024. Given the progress to date on all work streams, we believe we will be ready to start up the plant in the third quarter of 2024, and I want to thank all of our global and regional team members for their continuing efforts in responding to the delay and continuing to safely manage our business.

Another critical activity for our company during the first quarter was the major repair of the Syngas compressor unit and resulting restart of our Egypt plant. We're happy to report a successful repair and safe and quality restart of the plant, all of which was executed in the timeframes we previously disclosed. And I also want to recognize our team's efforts in expediting these activities to bring us back online in Egypt.

Now, turning to the first quarter methanol pricing and market dynamics. Our first quarter global average realized price is $343 per metric tonne was $21 higher than the previous quarter as global methanol markets tightened with constrained production leading to a global inventory drop and increasing prices in all regions. Compared to the fourth quarter of 2023, global methanol demand was slightly lower, primarily due to two large Methanol-to-Olefins units completing turnarounds during this period of supply constraints, while global demand for chemical and energy applications remains steady. Methanol's cost competitiveness in the current elevated energy price environment as well as its clean-burning attributes continue to support strong demand in energy applications such as biodiesel and MTBE.

On the supply side, operating rates were constrained by seasonal natural gas restrictions in Iran and China. Supply was also constrained by planned and unplanned outages in the Atlantic basin, and overall reduced methanol production led to a drawdown of global inventory. We estimate the current methanol marginal cost of production to be between $260 per tonne and $280 per tonne based on current coal pricing in China. We continue to see relatively stable methanol pricing in China at between $290 per tonne and $310 per tonne, and all other major methanol markets pricing are at premiums to these levels.

Our second-quarter European price was posted at EUR525 per metric tonne. Our North America, Asia Pacific, and China prices for May were posted at $645, $400, and $390 per tonne, respectively. We estimate our April and May average realized price range is between approximately $345 and $355 per metric tonne.

Looking ahead into the second quarter, we anticipate both supply and demand to gradually increase and exceed first-quarter levels as gas restrictions are expected to ease and seasonal construction and mobility demand improve. Through 2024, from a supply perspective, we continue to monitor the potential startup of the project in Malaysia later in the year, and we expect the net supply impact from the planned startup of G3 to be somewhat muted given the significant offset from our supply reduction in Trinidad on similar timeframes. From a demand perspective, we continue to closely monitor the macroeconomic environment and have seen some positive economic indicators that support a stable and moderate growth rate for traditional chemical applications with favorable energy pricing and policy support, particularly in China continuing to support methanol demand into energy applications.

Now, turning to our current financial position and outlook, we ended the first quarter with approximately $378 million of cash, and yesterday we announced the renewal of our $300 million revolver with the addition of a $200 million tranche. This provides us with additional financial flexibility to manage the business and to repay the $300 million bond due in December 2024.

Looking ahead to the second quarter of 2024, we're expecting similar adjusted EBITDA and similar realized methanol price and produce sales with higher Egypt production offsetting the impact of lower Chile production as we move into the winter period in the Southern Hemisphere.

As for annual estimates, we've updated our 2024 equity production guidance to 7 million tonnes. This production has been adjusted lower for the planned startup of G3 in the third quarter with full rates through the fourth quarter, and the Egypt outage, which lasted till mid-February of this year. Actual production may vary by quarter based on the timing of turnarounds, gas availability, unplanned outages, and unanticipated events. We believe the planned startup of G3 in the third quarter represents a significant improvement in the asset portfolio and cash generation capability of our business. As a reminder, on a run rate basis at $350 per tonne realized price and 8.3 million equity tonnes, the business generates approximately $850 million in adjusted EBITDA and $450 million in free cash flow per year. We believe we're well positioned to maintain a strong balance sheet, profitably grow the business, and return excess cash to shareholders.

We'd now be happy to answer questions.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Joshua Spector from UBS. Please go ahead.

Q - Joshua Spector

Yeah. Hi. Thanks for taking my question. I guess, first, I wanted to follow up on your 2Q comments that you're implying flat sequential EBITDA despite pricing kind of May to date higher sequentially. Obviously, you talked about volumes down. But can you talk about -- are there any other factors there in terms of a ramp-up in any costs with the delay at G3 or any other investments that might move the needle there sequentially?

A - Rich Sumner {BIO 22500227 <GO>}

Yeah. I think, if we look at the second quarter respecting similar levels of produced product, we're expecting slightly higher pricing, but we probably won't get the impact that you have in the first quarter when you're in a bit more of a rising price environment, and that has some benefits. So we're expecting it to be very similar in terms of our earnings levels for the second quarter. So hopefully that answers the question.

Q - Joshua Spector

Okay. Thanks. So then if I could just ask on G3. So in terms of you making progress, I guess specifically on the root cause analysis there, I don't know if there's anything that you can comment on that you guys have concluded thus far. I mean, obviously, you know what the issue was. But in terms of making sure the issue doesn't recur when you start up, what's the level of confidence there? How far are you down that path?

A - Rich Sumner {BIO 22500227 <GO>}

We're very far down that path. What we've done is we did an independent review, root cause analysis ourselves, and we also had our technology provider, Johnson Matthey, doing their own independent review. Really a lot of this came down to the thermal dynamics on the startup of the plant. And so we are going to have -- we've agreed on a set of different startup conditions that we feel confident in moving into the restart mode part of the work streams we have now is to embed that new -- those restart conditions into our program for restart and train all of our people on how we're going to move back into that in the third quarter. So we're quite confident, we understand what the issue was and that -- we're going to have different conditions. That risk is very, very low. So --

Q - Joshua Spector

Got it. Thanks and good luck.

Operator

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

Q - Joel Jackson {BIO 16250849 <GO>}

Hi. Good morning. I'll ask a couple of questions. On the insurance settlement, you'd expect or insurance payment you'd expect kind of Egypt. Can you give us -- should know maybe what the magnitude of is now when we would expect that?

A - Rich Sumner {BIO 22500227 <GO>}

Yeah. It's -- so we're going to have a claim for 100%, Joel. As you know, we own 50% of the total magnitude of the claim, which is still kind of being discussed is over 50 -- you know, over $50 million and it's still being worked on. So we would be taking half of that, right?

Q - Joel Jackson {BIO 16250849 <GO>}

Okay. Fair enough. When you're giving your outlook for Q2, I think you said $345 to $355 is your April-May average price. So a couple of questions there. And then you talk about similar EBITDA in Q2. So a couple of questions there. One, it seems like you're applying an even steeper discount rate, like even wider discount rate in Q2 than you had in Q1. And then when you're talking about these general kind of soft guidance here, are you assuming June pricing is similar to April and May? Or are you assuming a drop-off in pricing in June?

A - Rich Sumner {BIO 22500227 <GO>}

No, no. I think we're just -- we're using like, when we look at the estimate we gave you, which would be point to a kind of a $350 price where we would be using that. There's some -- that's a small increase on an average realized price basis, but that'll be some likely -- I mean, it all depends on inventory flows and that kind of thing. So it's what level of produced product we're going to be selling. We think it'll be similar levels, which ultimately gets you back to sort of similar levels of earnings for the quarter. So there's not really any stories on discounts there, like, we have had an increase in pricing, and we'd be expecting that that would translate into slightly higher realized pricing as well.

Q - Joel Jackson {BIO 16250849 <GO>}

And just let's take one more in. If we assume the price holds around here, $350 a tonne realized methanol and G3 comes on in Q3, like you expect, and you build up enough cash to pay down your $300 million of expiring maturities this year. So at $350 methanol, do you think you'd be in a position to be able to buy back stock in the fourth quarter?

A - Rich Sumner {BIO 22500227 <GO>}

I mean, I think, we got to get our focus is G3 right now. And then, we have strong cash flows, but so we're going to watch cash really carefully as we get to the end. The focus is G3 and getting that $300 million to pay that down. You can play with the numbers. And depending -- it all depends on production and methanol prices. And so there's scenarios where we've got more cash. I think right now we're focused on the $300 million. And beyond that, when we look into next year, gave the numbers around run rate, we think there's a lot of cash to look at what we do beyond the $300 million, including share repurchases. So I wouldn't be building in any expectations on that towards the end of the year. The focus is G3 and then the $300 million.

Q - Joel Jackson {BIO 16250849 <GO>}

Thank you.

Operator

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

Q - Hassan Ahmed {BIO 7430123 <GO>}

Rich, obviously, you know, continued unrest in the Middle East, and yet again, Iran in the focus, what are you guys seeing in terms of, call it operating rates domestically within Iran, as well as Iranian product, you know, potentially still finding its way into the export markets?

A - Rich Sumner {BIO 22500227 <GO>}

Yeah. Thanks, Ahmed. Right now, we've -- we seasonally see Iran lower into the fourth and first quarter. That's typically what we see. And some of it's hard to say how much of this is operating rates, gas constraints, and then ultimately, is there any other factors at play? I think we saw a really -- quite a low production quarter in the first quarter, and it's been slow to see Iran coming back in the market slower than what we've historically seen as we've kind of move out of the first quarter. So we don't know is that still they've got gas constraints happening and or is it technical issues, but at this point, we see -- we're not seeing Iran moving back into the market the way we've normally seen it.

I think just on the Middle East conflict generally, I think it has an impact in methanol markets greatly just because there isn't a lot of Middle-East flows moving into Europe and where you've seen some supply chains being really impacted. As Iran has become more directly involved, we're going to continue to watch and see what, if any, impact that may have on them as we move forward. So difficult to say if what we're seeing today has -- how much of that is tying back to what we're seeing geopolitically.

Q - Hassan Ahmed {BIO 7430123 <GO>}

Understood. And a two-part question on demand near-term as well as longer term. In the press release, you guys talked about sequentially global methanol and demand being sort of down a smidge. And you obviously talked about some outages on the MTO side of things, but conventional demand actually holding up quite firm.

So on the nearer-term side of things, I mean, do you attribute the conventional demand firmness to restocking, or is it more organic sort of demand growth that you're seeing because of the macro environment? And then on the longer-term side of things, I've been doing a fair bit of work on the marine opportunity. Could you just also sort of rehash your latest and greatest thought process longer term on the marine opportunity, particularly with different sorts of fuel options available for that end market?

A - Rich Sumner {BIO 22500227 <GO>}

Thanks. So maybe I'll address sort of what's happening, what we're seeing on demand first on the shorter term. The court -- when we move through Q1, the reason we say demand was slightly down was -- is focusing really on the MTO production rates. Overall, we estimate their production rates were maybe slightly below 80% because of the -- there were two units that took planned turnarounds. And that often happens in the periods of tight supply. So they'll do their maintenance when there's not a lot of methanol available in the market. So we saw that. And now those units are back up and the industry's operating at 85%, 90% operating rates. So that was kind of an MTO story.

On the traditional chemical side, we saw relatively stable through the first quarter. Now it is Chinese Lunar New Year. So we do see a slowdown typically in the first quarter because of that and because China consumes about $20 million tonnes of demand for traditional chemical applications.

When we say we're -- as we move out of Q1, we're seeing some positive signs there. That point to a modest and stable demand growth in traditional chemical applications, China's manufacturing numbers are better. Their exports are a bit better. But they still have a domestic market that they're trying to manage, and that property, and the housing market's putting pressure there. So we're seeing kind of slow modest growth. And that would be our projection. Outside of China, in Asia and US and Europe, we're seeing some positive indicators around that, certainly, improvements over last year. When you look at Korea, Japan, and their dependence on export markets, that's improved this year, and then Europe as well. Things came off. They hit a base, and now we see slow growth. So what we're seeing is this sort of leveling out and what we call modestly growing demand, relatively stable in those sectors.

So that underpins why we look and we look at and think demand growth is probably something similar to last year, overall this year. And that's what it's pointing to today.

On your longer-term question for marine fuels, you know, that area continues to grow. It has the momentum around ships, continues to be really positive. Last year was the first year where methanol dual fuel ships actually outpaced on the order book, outpaced LNG. The number of ships in the water now is at a level of about 280 ships. And that will be on a stage timeframe between now and 2028, 2029. And that will really start in 2025 and kind of grow over the years.

Now your question is, what will that mean for demand? I think that's what we're really trying to figure out. They have the ships and the owners have two choices as conventional -- well, between there's methanol as a fuel or there's traditional marine fuel -- marine bunker, bunker fuels. And so their choices are going to come down to the relative economics of conventional fuels. It's going to come down to the relative economics of low carbon and their willingness to pay on -- for those lower carbon fuels as well as the clean-burning attributes. And -- so there's going to be a lot of things factoring into those decisions. And that's what our low-carbon solutions team is working on right now. We're in many discussions with different shipping companies about their future fuel choices and how we can bring cost-competitive fuels to that market to meet their demand.

Q - Hassan Ahmed {BIO 7430123 <GO>}

Very helpful, Rich. Thank you so much.

A - Rich Sumner {BIO 22500227 <GO>}

Thanks, Ahmed.

Operator

Your next question comes from the line of Steve Hansen of Raymond James. Your line is open.

Q - Steven Hansen {BIO 15756282 <GO>}

Yeah. Thanks. I appreciate the time. Rich, just wanted to go back to the G3 again. Is there one or two key gating items that are really important here over the next month or two that you need to get through that will derisk it? Or will you not know until you get really close to startup?

A - Rich Sumner {BIO 22500227 <GO>}

I'll give you like just -- I know that when we originally came out with our estimate, our estimate was based on the major lead time and critical item was the manufacture of the bricks. We have been able to expedite the manufacturer of those bricks, and we do expect those to be air freighted to us and on-site in Louisiana before the end of the second quarter. Now, that's one of the work streams, is the materials and the repair of the ATR. The other things we have to do is embed all of our learnings from the root cause analysis, as well as we're going complete a comprehensive review of all the systems that have yet to be tested through the startup.

So all of those work streams are going to be really, really important. What we are seeing is a lot of good progress. And that's why we're confident for the third quarter restart. We're not going to set an exact date here because, you know, it's all about safety and quality, and we're going to get this right. So -- but hopefully, that helps provide a bit more color.

Q - Steven Hansen {BIO 15756282 <GO>}

Oh, it does indeed. And just to be clear, so startup in Q3, and it sounds like the actual tonnes won't hit the income statement, though until Q4. Is that one thing about it?

A - Rich Sumner {BIO 22500227 <GO>}

It's give or take, that's probably the way to think of it. Yeah.

Q - Steven Hansen {BIO 15756282 <GO>}

Okay, appreciate it. And then just, if I might just circling back on a bunch of commentary in the MD&A about catalyst and Chile and some things you're planning down there. It doesn't sound like that changes too much. But just want to maybe give us a recap on exactly what's happening and how that's going to impact future production. It sounds like there's going to be some enhanced production benefits over the catalyst once it's up.

A - Rich Sumner {BIO 22500227 <GO>}

Yeah. Yeah. So I think if you look this -- I mean, that Chile for us is -- this last few quarters have been really positive. It's the first time where we've been operating those plants at full operating rates. And this was also a period where when we went to contract gas. We had -- probably were over contracted for gas from Argentina, which is great.

So, now, we still have the period where there's export restrictions in the winter months. And so, we're coming to the end of April here. And as we come to the end of April, we'll wind up producing out of one plant at around 70% rates. That'll be based on all of gas from Chile. And during this period, one of the restrictions, if you see the quarter, we were probably about 25,000 tonnes less than what the capacity numbers would say, and that's because of catalyst decline on one of the units there. So we're going to -- that's the work that we'll complete during this period. And when we restart and we're working on getting gas now for the same period next year, we'd be able to achieve that higher production. So, yeah, positive story on Chile. And we're going to continue to work on how we can shorten these timeframes for the winter period and also contract on multiple years of gas.

Q - Steven Hansen {BIO 15756282 <GO>}

Appreciate the color. Thanks.

Operator

Your next question comes from the line of Ben Isaacson of Scotiabank. Your line is open.

Q - Viktor Sayek {BIO 22874525 <GO>}

Good morning, everyone. This is actually Viktor Sayek jumping on for Ben. So, Rich, how confident are you with your production guidance in New Zealand? You know, the Q1 operating rates were below the average for the last few years. And we know some of it was maintenance-driven. But can you clarify the magnitude of a possible reduction in your production guidance? And if the gas troubles continue, what is the run rate we should think of going forward?

A - Rich Sumner {BIO 22500227 <GO>}

Thanks, Viktor. So, yeah, we have our guidance is 1 million tonnes to 1.1 million tonnes for the year. During the quarter, we operated two of our plants at less than full rates. And then towards the end of the quarter, we did one of the plants down for plan. There was planned maintenance in the gas processing in the fields, which we kind of -- we indicated previously. So we did take one of the plants down and we're looking to bring that plant back online. But you're right, there are -- the production out of the existing fields we've been pointing to is something that we're monitoring really closely.

So we're working with our -- with OMV and Todd, which are our main gas suppliers. And they're really focused on how they can get better performance out of the wells. What's encouraging as well is OMV is committed to a bigger drilling campaign later in the year, which we think is positive in the medium term. So we're going to continue to -- I don't have a revised estimate today, but that's something we're going to continue to monitor. And I think a run rate -- it's hard to give you sort of direction of what would we reset to because it's all about what's happening in the fields and the work that's happening with our key suppliers there. So we'll continue to update as things progress and let you know if there's any changes to the guidance.

In the medium- to longer-term, it's been a positive change when we think about the government there. The new government is clearly more positive and more, let's say, more supportive of the gas industry and the important role that gas plays in the energy mix. So we think that that's positive in the medium- to long-term that that's going to be a better framework for investment. But again, we're going to have to see that -- how that takes place as well. So, you know, we'll continue to give you our guidance and our outlook, but as we move through different quarters here.

Q - Viktor Sayek {BIO 22874525 <GO>}

That makes sense. Thank you.

Operator

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

Q - Matthew Blair {BIO 16648009 <GO>}

Hey, good morning. Thanks for taking my questions. What are your expectations on China's MTO market for Q2? I think we're seeing less turnaround activity planned, but then we're also seeing just lower MTO margins. So what does that mean for overall MTO utilization?

A - Rich Sumner {BIO 22500227 <GO>}

Yeah. MTO margins is something -- it's been under pressure for quite some time. What we've seen is that they've ran pretty stably. And where we have seen them typically take lower operating rates is when there's a supply-strained environment where methanol prices are running up, we will see them often take some turnarounds to perform maintenance.

Right now, they're operating at 80 -- 85% operating rates, but I would say the market's pretty tight, and in Asia in particular, they're working off low inventory levels. We haven't seen any decisions being made there that would change our view of where we are today on operating rates. But that's always something that we'll continue to monitor. A lot of times what happens is they become the balance on the market, right? So if the market goes short, then they'll moderate their rates and it puts things back into balance. But we're not seeing any indications of that right now.

Q - Matthew Blair {BIO 16648009 <GO>}

Sounds good. And then, could you talk about the underlying cost dynamics in Q2 versus Q1? It seems like there would be some tailwinds in a few areas, one would be G3, which appears to be running at like $15 million fixed cost impact in Q2 versus the $25 million in Q1. And then, I think in Egypt, shouldn't you be rolling off some elevated shipping costs as you have that plant back online? Are there any other elements on the cost side that we should be thinking about for Q2? And does that make sense that you would have some cost tailwinds in Q2 versus Q1?

A - Rich Sumner {BIO 22500227 <GO>}

Yeah. I think you're right about the G3 cost impact we brought forward. The full impact of the over-hedged position was all accounted for in the first quarter. So we wouldn't expect a big impact from that in the second quarter. The cost on a monthly basis for the take or pay will impact, which is about $4 million to $5 million, like you said. So I do think that is certainly net-net, we should expect lower costs from that shipping. You know, obviously, shipping is all about sometimes how our mix of product gets sold and which product had long supply chains, et cetera. But overall, we do expect more efficiency in our fleet than we would have experienced in the first quarter. So I think, those are probably the big ones that you've identified, and there's nothing else that would tell us anything else to factor in.

Q - Matthew Blair {BIO 16648009 <GO>}

Got it. Thank you very much.

Operator

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

Q - Kevin Estok

Hey, good morning. This is Kevin Estok on for Laurence. So just -- with gas restrictions easing into Q2, I guess, how do you expect operating rates to sort of evolve over the year? I'm just trying to get a sense of how we could expect inventories to go directionally, and then I guess sort of the puts and takes on pricing.

Just trying to get a sense of baseline pricing for '24 and '25. And I guess, how you could reasonably reach mid-cycle pricing conditions. So, yeah, just basically operating rates, just how do you expect that to evolve?

A - Rich Sumner {BIO 22500227 <GO>}

Yeah, I think, yeah, overall, global operating rates is kind of in this 65%. And that factors in a whole bunch of what happens if China's low operating rates includes low operating rates in Iran. We do typically see the Q2, Q3 periods likely being the higher quarters and then Q4 and Q1 being the lower periods. So when you average it out, it always gets to that 65% operating rate level. Demand continues to be relatively stable across traditional chemical applications, and we see reasonably positive demand on the energy applications. So again, we kind of move back to the industries growing by 2 million tonnes to 3 million tonnes.

Other than -- the Malaysian plant that's coming -- we would put that late this year, possibly even to next year. So we don't really see that impacting the market in 2024. And G3 is relatively balanced like we said with Trinidad. So we don't see operating rates really leading to a big swing in inventories and drawing down methanol prices today, but that's something we'll continue to watch. And we see 2024 being relatively balanced for the year.

Q - Kevin Estok

Okay. Got it. Thank you. And if I could just sneak one more in, I guess, with prices largely rising, I guess, how do you expect discount rates to evolve in 2024?

A - Rich Sumner {BIO 22500227 <GO>}

Well, I think what you see is that typically the contracts are done annually. And so we've had Q1 would be our first quarter of resetted discounts in our portfolio. So that typically will last through the year. And then again, you have another recontracting period which there will be an adjustment. So we really are focused more on the average realized price. And if China is pricing at $300 levels today, then, and we're realizing $350 per tonne, we're happy with the way our portfolio is performing. And we would expect that if holding all else equal, that would stay the same.

Q - Kevin Estok

Understood. Thank you.

Operator

(Operator Instructions) And your next question comes from the line of Nelson Ng from RBC Capital Markets. Your line is open.

Q - Nelson Ng {BIO 16615616 <GO>}

Great. Thanks and good morning, everyone. So you touched on methanol as a marine fuel earlier. I know green methanol is pretty expensive, but with methanol as a marine fuel, kind of ramping up. Is interest in low-carbon methanol picking up? And I guess from your perspective, are you mainly producing low-carbon methanol through the purchase of RNG in North America?

A - Rich Sumner {BIO 22500227 <GO>}

Yeah. So, thanks, Nelson. The -- for sure the momentum or the interest in methanol is growing, and the interest in low-carbon methanol is growing. Today, you're right, we do produce a small amount of green methanol for -- through renewable natural gas, but that's not into the -- we're not selling that into the marine sector today. It's actually into the traditional chemical and it's a small contract. We are looking to procure more renewable natural gas as a supply opportunity for the marine sector. The prices in the -- for renewable natural gas are pretty high. We're also looking at other ways to deliver cost-competitive low-carbon methanol. And we're looking at ways we can do that with our existing assets. And so one of the things we're looking at, as an example, is using renewable hydrogen and CO2 as a direct feed into our assets, and doing that where there's incentives and regulatory support to do that. So Geismar will be one of the locations we'll be looking at.

So those are some of the things that we're progressing. And of course, we're progressing that to be able to bring that to the marine market to offer cost-competitive low carbon. I think the industry is in a -- still in a period of discovery. And these types of investments require, you know, they would require longer-term offtakes and agreements, but we're seeing interest there and we're pursuing it. So I'm hoping we'll have more to talk about as we progress through our low-carbon solutions team.

Q - Nelson Ng {BIO 16615616 <GO>}

Great. Thanks for the color. And then just one last question I had was it relates to your balance sheet. So assuming G3 is completed and running smoothly next quarter. From a liquidity perspective, how much of a cash buffer do you plan to maintain afterward because I know in the past there was around $200 million to $300 million. So I'm not sure whether your cash buffer needs would change after G3 is completed.

A - Rich Sumner {BIO 22500227 <GO>}

We don't see that changing just to -- our structure for cash and how we move cash to fund the business. We need a certain amount of cash. And, so we're not going to be changing that. Of course, a lot of times it can depend on methanol prices and we can run it lower. But $300 million is an efficient and comfortable number for us. Don't see that changing with G3.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay. Great. Thanks. I'll leave it there.

Operator

And we have a follow-up question from Joel Jackson of BMO Capital Markets. Your line is open.

Q - Joel Jackson {BIO 16250849 <GO>}

Hey, Rich. I don't really want to beat a dead horse. I'm going to try, okay? And it's because I'm getting so much incoming on this question the last 30 minutes, and it's coming back to about the similar earnings, excuse me, similar EBITDA in Q2 versus Q1.

I think people are struggling to understand, right, so you're saying you're going to have similar volume right now, maybe slightly higher pricing. And you've spoken of cost tailwinds on this call, you said that the overhead position for G3, you've resolved that in Q1, so you don't have that problem. It seems -- I'm also looking to get $150 million EBITDA on Q2 of last year at a reasonably lower price deck and similar volumes, I think, is there something you can describe what the offsets are -- sorry, go ahead.

A - Rich Sumner {BIO 22500227 <GO>}

Yeah, I will. I think maybe I didn't describe this properly before, but in Q1 we had a bigger price move up. It was around $25 a tonne. When we have that type of price move in a quarter, we get a bit of a tailwind on our cost structure because what's coming through on our costs for both produced and purchased inventory reflects a price that was lowered from the previous quarter. So there's a bit of a tailwind that we got through Q1 that we won't get that same level of tailwind through Q2 because we're in, like, we're talking about a price move that might be $5 a tonne, $10 a tonne, something like that.

So I think that's the missing piece, mainly. And, you know, I'd probably, maybe we could have follow-on conversations about that if there is any. Yeah.

Q - Joel Jackson {BIO 16250849 <GO>}

So can you give us an order of magnitude of what was -- so what you're saying is in Q1, you had some inventory write-up on your purchased methanol. Can you give us -- I think, you're saying that. Can you give us a bit of an estimate of what that was in Q1 versus what it normally? Well, not normally, but what it was in Q1?

A - Rich Sumner {BIO 22500227 <GO>}

I think this is more of, you know, what is the cost to produce inventory in the fourth quarter, and the cost of byproduct in the fourth quarter versus the first quarter, which is reflective of higher methanol price. So I think it's just typical flows of how things work as we move through pricing through quarter-to-quarter. And I think that has probably a $10 million to $20 million positive impact on Q1 that we won't see as much of in Q2.

Q - Joel Jackson {BIO 16250849 <GO>}

Okay. I'll definitely bug Sarah on this, this afternoon. Thanks a lot.

A - Rich Sumner {BIO 22500227 <GO>}

Yeah.

Operator

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

A - Rich Sumner {BIO 22500227 <GO>}

Okay. Well, thank you, everyone, for your questions and interest in our company. And we hope you'll join us in July when we update you on our second quarter results.

Operator

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