Q4 2024 Earnings Call ***(Corrected version)***

Event Details

Date: 2025-01-30
Company: Methanex Corp.
Ticker: MX-CA

Company Participants

Sarah Herriott - Methanex Corp., Director-Investor Relations
Rich Sumner - Methanex Corp., President, Chief Executive Officer & Director

Other Participants

Hamir Patel - Analyst
Joel Jackson - Analyst
Ben Isaacson - Analyst
James Cannon - Analyst
Hassan I. Ahmed - Analyst
Steve Hansen - Analyst
Kevin Estok - Analyst
Matthew Blair - Analyst
Nelson Ng - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is John, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Methanex Corporation Fourth Quarter 2024 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. 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

Good morning, everyone. Welcome to our fourth quarter 2024 results conference call. Our 2024 fourth 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 forecast or projections, which are included in the forward-looking information. Please refer to our fourth 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 the 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 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

Thank you, Sarah and good morning, everyone. We appreciate you joining us today as we discuss our fourth quarter 2024 results. I'd like to start the call by thanking our global team for their ongoing dedication to safety. We achieved the best safety performance on record for the company in 2024 in a year of meaningful changes in our operating assets. And these results are a demonstration of the team's commitment to responsible care across the globe.

Now turning to the financial and operational review of the company for the fourth quarter. Our fourth quarter average realized price of $370 per tonne and produced sales of approximately 1.5 million tonnes generated adjusted EBITDA of $224 million and adjusted net income of $1.24 per share.

Adjusted EBITDA was higher compared to the third quarter of 2024, primarily due to a higher average realized price and higher produced sales. For the full year of 2024, we had an average realized price of $355, produced sales of just over 6 million tonnes and generated adjusted EBITDA of $764 million and adjusted net income of $252 million or $3.72 per share.

Now, turning to short-term methanol pricing and market dynamics. We entered the fourth quarter with very tight market conditions in the Atlantic Basin, underpinned by stable demand and lower -- and low operating rates from several key supply sources with these conditions remaining through the quarter. In the Pacific Basin, we entered the fourth quarter in a more balanced market with stable production and healthy inventories from lower methanol to olefins operating rates in the third quarter.

Through the fourth quarter, conditions in the Pacific tightened because of increased operating rates from MTO producers, combined with increasing supply constraints, particularly from Iran. Consequently, MTO operating rates decreased late in the fourth quarter with this trend continuing into the first quarter. Overall, tight market conditions globally led to an increased methanol pricing environment in the fourth quarter and into 2025.

Our global average realized price of $370 per metric tonne was $14 higher than the previous quarter. Methanol pricing strength continued into the first quarter of 2025 with our European quarterly price posted at €700 per tonne, representing a €130 per tonne increase from the fourth quarter. Our posted prices for North America and China increased in January and rolled in February. And in Asia Pacific, we increased posted prices in January and February.

Comparing methanol demand in 2024 to 2023, we estimate global methanol demand increased by approximately 3 million tonnes, which included relatively flat year-over-year demand for methanol to olefins, given supply constraints in the industry. In 2025, we expect methanol demand to grow at a similar rate to 2024, driven by demand from traditional chemical applications, as well as energy applications with operating rates in methanol to olefins again playing a critical role in balancing the market.

We expect incremental supply will come from full-year production of G3 and from the Malaysian Sarawak plant, which we understand recently started producing methanol. Looking beyond 2025, we continue to see favorable supply and demand dynamics with traditional chemical and energy applications demand expected to outpace supply, given limited capacity additions projected in the industry.

Now, turning to our operations. Methanex production in the fourth quarter was higher compared to the third quarter, with higher production from Geismar, Chile, New Zealand and Egypt. Our production was higher than our produced sales in the fourth quarter of 2024 due to an inventory build that produced methanol from these higher production levels.

In Geismar, production was higher during the fourth quarter with G3 operating at full rates in October and December. In mid-November, we took a proactive shutdown of G3 to inspect some of the newly commissioned equipment to ensure reliability. The plant successfully restarted and resumed full operating rates in December and has been operating at high rates since the restart.

In Chile, I'm very happy to share that both plants have been operating at full rates, and that after a brief maintenance outage in November, we produced 150,000 tonnes of methanol in December, which is the highest monthly level production we've reached in Chile since 2007. We have gas contracts in place with Chilean and Argentina gas producers until 2030 and 2027, respectively, which underpin approximately 55% of the site's gas requirements year-round.

We continue to expect seasonality in production and are seeing positive developments making full gas supply for a two-plant operation available for longer periods. Based on contracted gas, 2025 production is expected to be between 1.3 million tonnes and 1.4 million tonnes, which would result in the fourth consecutive annual increase in production from Chile.

In Egypt, production increased compared to the third quarter as temperatures moderated the gas balances in the country stabilized, and we operated at close to full rates based on improved gas availability. We're monitoring the gas market closely and would expect to experience some curtailments in 2025, particularly in the summer months, depending on gas supply and demand dynamics.

In New Zealand, production in the fourth quarter was higher compared to the third quarter with the restart of our Motunui II plant in November. In August, operations were temporarily idled as we entered short-term commercial arrangements to provide contractual natural gas into the New Zealand electricity market until the end of -- October 2024.

Based on the current outlook from gas suppliers, we expect 500,000 tonnes to 700,000 tonnes of production from New Zealand in 2025, which will be dependent on gas availability and any on selling of gas into the electricity market to support New Zealand's energy needs.

In 2025, we have three turnaround schedule that will impact our production in the first three quarters. Our expected equity production guidance for 2025 is approximately 7.5 million equity tonnes, which includes the impact of these turnarounds and forecast for gas feedstock availability outside of North America but excludes any incremental production from OCI assets post-acquisition closing dates. Actual production may vary by quarter based on timing of turnarounds, gas availability, unplanned outages and unanticipated events.

Now, turning to our current financial position and outlook. We ended the fourth quarter with $879 million of our share of cash and continued access to our $500 million undrawn revolving credit facility. During the fourth quarter, we repaid the $300 million bond with cash generated from operations and executed our OCI acquisition financing plan, including issuing a $600 million bond and securing a $650 million Term Loan A commitment from our banking partners. The completion of these arrangements gives us the financial capacity and flexibility to complete the OCI acquisition and our targeted deleveraging plan.

We're continuing to progress the regulatory process as planned. Looking forward to 2025, our priorities are focused on closing the OCI transaction safely and efficient – and efficiently, integrating the assets, achieving the identified synergies, and reducing leverage by repaying $550 million to $600 million in debt over the next 18 months, assuming a $350 realized methanol price.

Beyond this, we do not anticipate significant growth capital over the next few years and remain focused on maintaining a strong balance sheet and financial flexibility. With strong free cash flow capability from our existing assets, which we expect to be strengthened by the OCI acquisition, we're in position to execute a balanced approach that includes deleveraging and shareholder distributions, depending on future market conditions in methanol pricing.

Based on our first quarter, European posted price, along with our January and February posted prices in North America, China and Asia Pacific, our January and February average realized price range is forecasted to be between approximately $395 per metric tonne and $405 per metric tonne. Based on this higher forecasted average realized price coupled with our produced sales expected to normalize closer to fourth quarter production levels, we expect significant -- significantly higher adjusted EBITDA in the first quarter of 2025 compared to the fourth quarter.

We'd now be happy to answer questions.

QUESTION AND ANSWER SECTION

Operator

Thank you. Your first question comes from the line of Hamir Patel with CIBC Capital Markets. Please go ahead.

Analyst: Hamir Patel

Question – Hamir Patel: Hi. Good morning. Rich, are you able to give us an update on how the regular -- regulatory approvals for the OCI deal are progressing? And should we still assume a close sometime in the first half?

Answer – Rich Sumner: Yeah. It's -- Thanks, Hamir. We're progressing things well as planned and we're going through the process in both Europe and the U.S as we discussed previously. And right now, the expectation is to close in the first half, it's looking like it's going to be obviously -- looking like it's more a Q2 close sometime in the first half of the year, but a Q2 close right now. So we're getting things all prepared for that and starting to plan the integration as we get ready for regulatory approval.

Question – Hamir Patel: Okay, great, Rich. Thanks. And just the second -- last question I had was, can you just speak to what you're hearing about output levels from the Iranian methanol industry? It seems like from some of the trade reports that they were barely running in December. If you have any insights as to how much has come back and potential for further supply disruptions there this year?

Answer – Rich Sumner: Yeah. Well, we don't have direct insight, but what we do is track a lot of the flows and import statistics into the -- mainly into China, and we've seen a significant reduction in imports into China, which is impacting inventory levels there. It would indicate that they -- you're right, there was not a lot of production coming through in December and likely into January. And I think that the energy crisis that Iran is going through is pretty well publicized.

So they're having quite a difficult time just from the -- keeping the residential demand supplied. And that's significantly impacting industry and methanol production. So, we think that that probably leads to constrained supply, particularly through the winter here. But likely as we saw last year, maybe a pro -- more prolonged impact of that through the first quarter and possibly into the second quarter. But we're going to continue to monitor it.

Question – Hamir Patel: Okay. Fair enough. That's all I had. I'll get back in the queue. Thanks.

Operator

Your next question comes from the line of Joel Jackson with BMO Capital Markets. Please go ahead.

Analyst: Joel Jackson

Question – Joel Jackson: Good morning, Rich. I'm just following-up on a question I think you just said. So, you said -- I think you said that you expect, sorry, sales of produced methanol in Q1 to be similar to production levels in Q4, is that right?

Answer – Rich Sumner: That's correct. Yeah.

Question – Joel Jackson: Now -- it seems like it'd be higher in Q1, because if I take your guidance and I factor in turnarounds, like it seems like production should be similar in Q1 versus Q4 and you have 400,000 tonnes inventory build in Q4. So, can you tell us what would attribute production look like in Q1 versus Q4? And then aren't you drawing down the inventory?

Answer – Rich Sumner: Well, we're -- I don't think we're going to be drawing -- it's an inventory buildup produced product because there's a bit of a change in our system when we bring in -- our overall inventory levels are the same, but we're bringing in more produced with more production, which means the change from produced methanol to our own produced methanol, which is a good thing for us. So we've got an inventory build of produced, not an overall inventory build.

And so like where we are production should be similar where we're operating is consistent with the fourth quarter right now, the assets are running really well. So we would expect a similar production level at this point. But we'll have -- our focus is making sure we're delivering and performing on the assets. So we expect that kind of production level would be more kind of our run rate that we would see coming through, assuming we keep production levels at really high levels they are today. Hopefully that answers the question.

Question – Joel Jackson: Sure. And then I'll follow-up. So, your mid-cycle methanol, $250 methanol, you talked about before what you want to do as you close your OCI deal and pay down debt before we start buybacks.

Answer – Rich Sumner: Yeah.

Question – Joel Jackson: I'm sure you saw the sensitivity here. We're not a $250 methanol. We're a $400. I mean, can you just give a sense of if it's $400 methanol, not $350, like how many months quicker do you get through that debt repayment or how do you think about, what does $400 methanol versus $350 methanol means or how fast you can do start buybacks?

Answer – Rich Sumner: Yeah. So I think, if we look at where we are, Q1, we would be at this methanol price with our assets performing the way they are, we would expect free cash flow in the $150 million or more range. So, if you just kind of do the math, this is pre-OCI deal with our existing asset base producing where it is, that would be a 12-month timeframe.

But, of course, we're going to plan for a lower methanol price environment, and we've got all the financing in place that we have. And right now, I think this is great, because assuming a Q2 close, we're going to be bringing cash to the table on close and are starting incremental leverage is going to a lot lower than when we first came out with the deal announcement. So we're already making our way on our deleveraging as we operate every day in a tight methanol market, and that's what we're going to continue to focus on.

Question – Joel Jackson: Thank you.

Operator

Your next question comes from the line of Ben Isaacson with Scotiabank. Please go ahead.

Analyst: Ben Isaacson

Question – Ben Isaacson: Thank you and good morning, everyone. Two questions. First one is on New Zealand, Rich, last quarter on the call you said to start modeling one plant in New Zealand going forward, and that's certainly consistent with your guidance. But the question is, when you said that, were you thinking 500,000 tonnes to 700,000 tonnes for the year or is this actually a step worse than you were thinking? And the reason why I'm asking is, what is the risk that we completely lose methanol production in New Zealand in two or three years?

Answer – Rich Sumner: Yeah. So, at the time when we were gearing to a one-plant operation, we were looking at -- working with our gas suppliers on the future deliveries of gas and what we were seeing was enough gas to run a one-plant operation. The actual rates were going to be determined on really looking closely at production for the year. And the range we've given also does include potentially some downside in methanol production where we may be on selling some gas into the market.

But then you're right, we do need to see a production and investment going into the upstream in New Zealand from where we are today to continue to support the one-plant operation into the future. And that's something that we're going to be working on with gas suppliers as well as with the government who we believe is looking at a lot of the policies that have not been incentivizing the right things for the upstream in the country, and we're 50% of the market. So we're going to be working through that and we'll be giving guidance as we progress.

So it's hard to say -- it's hard to say beyond this year what is it going to look like, and is there risk? Yeah, there's risk there's – there risk and it's something that we're going to be working to preserve the long-term sustainability of our supply into New Zealand. So, but we'll continue to give updates.

And right now we do think it's one plant at less than full rates with the potential that some gas gets diverted depending on what happens in the country. And what's happening in the country when there's -- with the energy crisis partly because of the lack of upstream and the government today recognizes that. So that's something we think there is a focus on and something we'll be working towards.

Question – Ben Isaacson: Perfect. That's helpful. And then my second question is, and I may have missed this when the OCI deal was announced. But does the regional mix shift of sales volume post-OCI mean that you'll have a higher ASP all else equal on $350 methanol? And if so, does that also mean you'll have a higher margin, all else equal?

Answer – Rich Sumner: So just on the ASP, I think the answer is in today's pricing environment where we're seeing premiums in outside of China, I think the answer is yes. A lot of the markets that -- the markets that we expect to be selling to will probably be mainly Atlantic-based. So, yes, on the higher realized price, in terms of translating into higher profits, we would have modeled all this into our forecast of earnings and we used everything at a $350 price.

So, we would expect there to be a higher uplift in ARP. How that models back to our average realized price sort of remains to be seen on how differentials work in the industry. And one of the things that you'll see this year as we've reduced down our sales and that will probably be showing up mainly in China, but we'll also be reducing down purchases in the region.

So, net-net, it's not a -- it wasn't the big margin driving part of our business. And so you shouldn't expect -- you should expect a higher uplift in price, but not necessarily tracking back to margin, because that wasn't where we were earning a lot of the margins in our business.

Question – Ben Isaacson: Got it. Thanks so much. Appreciate it.

Operator

Your next question comes from the line of Josh Spector with UBS. Please go ahead.

Analyst: James Cannon

Question – James Cannon: Hey, guys. This is James Cannon on for Josh. I just wanted to double click on one of the earlier questions on gas availability in New Zealand. You said that the guidance there reflects potential for some on selling of gas, but could you just frame for us based on your pure gas supply what the implied production would look like?

Answer – Rich Sumner: I think right now, on gas, we're probably in the middle of that range or somewhere between the 600,000 and 700,000 without any gas on selling. And that's going to be dependent on production out of the gas fields. And then if it goes lower than that, it's likely we would be selling into the into the gas market.

And I will remind that from a business perspective, we -- when we've given our future forecast on earnings that we do have a few sites, Trinidad and New Zealand, these are from a volume perspective are still in our numbers. But from an overall earnings perspective and our run rate earnings are now representing a lot smaller proportion. And so, right now we do see a shift with G3 and now the OCI acquisition where we are seeing a lot of the value uplift in North America and as well as upside around Chile today.

Question – James Cannon: Yeah, that makes sense. And then just one more on the MTO affordability. I don't know if you mentioned that earlier. Could you just remind us where that sits right now?

Answer – Rich Sumner: Yes. Today, we see ethylene and propylene prices that are around in $850 per tonne to $900 per tonne, and that translates into around a $300 somewhere between $280, $300 MTO affordability. But that's at a C2, C3 level. They also have integrated downstream.

And when you factor in the integrated downstream, it's slightly higher or slightly – could be at slightly lower depending on where they're going. So we do think that we've seen pricing above that level in China, which is indicating that meth -- markets are tight and that where we've seen that pushing to above right up to their highest kind of affordability for coastal MTO producers at that $310 -- $320 level.

Question – James Cannon: Got it. Thank you very much.

Answer – Rich Sumner: Thanks.

Operator

Your next question comes from the line of Hassan Ahmed with Alembic Global. Please go ahead.

Analyst: Hassan I. Ahmed

Question – Hassan I. Ahmed: Good morning, Rich. A question on pricing. Obviously, there's been a fair degree of buoyancy across all the regions. But there continue to be sort of variances, particularly in terms of North American pricing and Asian pricing. So, how should we think about the delta between those two?

Answer – Rich Sumner: Thanks, Hassan. I think right now we see there are some more and more where we'd say on the existing supply, there's more and more -- well, there's temporal constraints on supply and then there's more structural -- constraints on supply. And so, we saw the Atlantic markets getting a lot firmer, because of European pressure on European -- producers.

We've also seen Venezuela operating at low rates. Trinidad, ourselves reduced production in Trinidad by million tonnes. The -- there's a plant in Equatorial Guinea that we don't think is operating methanol today. And so, you've seen that those being somewhat -- some of that's temporary, but a lot of that is structural.

So we've seen imports and particularly into Europe being under pressure. And there isn't a lot of free flows that are from maybe the Middle East that might balance the market, because there's pressure on the trade, firstly, there's not a lot of uncontracted volume. And secondly, the trade routes through the Red Sea is effectively no one wants to take the risk to move product there.

So, we do think that that these forces are in place for at least now. And we're going to have to see how balance comes back into the markets as some of these temporal things change. But there is structural forces that we think are in place that aren't going to ease in any kind of short timeframe.

So, we do think that there's premiums that we're seeing in the Atlantic is likely to be there for at least into the near-term to medium-term here. And then, I think the -- we have seen premiums in the Asia Pacific, outside of China as well. The Asia market's probably trading at a $20 to $30 premium above China.

So, today, that's sort of what we've seen and that those -- that tightness in the market sort of remains. And as we look forward, demand continues to grow. And these supply constraints, we'll have to see how much actually gets into the market. And then also geopolitical forces could put increased pressure on some of the -- supply into the industry as we see what impact the new U.S administration is going to have in certain jurisdictions as well.

Question – Hassan I. Ahmed: Understood. Very helpful. And as a follow-up, I guess like a two-part thing on the North American sort of gas situation. I mean, obviously, Henry Hub prices are up meaningfully over the last several months. And obviously, you guys are doubling down on your North American capacity with the whole OCI acquisition.

So, how are you guys thinking about the hedging strategy as it exists today? Will there be any changes to that? And then sort of moving slightly away from the gas side, just, I mean, obviously, a lot of noise around Canada tariffs and the like, how are you thinking about that? And I mean, would that have any -- if at all, there were any Canadian sort of tariffs imposed, would that have any impact on your trade flows and earnings?

Answer – Rich Sumner: Yeah. Thanks, Hassan. So I'll start with the gas side. We have seen spikes in that what I call the short end of the spot pricing, which we think spot pricing is heavily impacted by weather and inventory levels. And so, from that perspective, we expect volatility in the short-term. And we -- our hedging strategy is to be 70% hedged and have the flexibility to participate in the -- in that volatility and we do take the risk in a short-term that we see spikes, but we also get the benefit when it's below the forward curve.

When we look at the forward curve, the forward curves stay more steady, which is an indication even -- we have even seen it coming down a little bit. It's an indication that the supply and demand balances look healthy from a supply perspective and from a cost structure perspective for us.

So we're – we're -- we like the North American gas market. And that was clearly something we took a very close look at when we did the OCI deal, and we like the structural forces there. And so, I think this new administration is also looking for the increased supply across the oil and gas industry, which is a positive. And there's other things that obviously factor in there. But we like long-term North American gas.

When we look at trade policy, and where we think about tariffs, obviously, the big ones that are being discussed is Canada, Mexico and then China. For us, is the acute business impact is pretty marginal. We do have some products flowing from Madison had across the border into the U.S, but we're talking about a pretty small volume for what we sell in a year. And we have -- if that cost is difficult to recover, we have ways to manage it within our supply chain and the flexibility to deliver to customers from a different point potentially at pretty marginal incremental cost.

So now our concern from that perspective, I think, for us, we are – we are now going to be a very big U.S producer and so we'll add an exporter out of the U.S, and we'll have to really carefully look at potentially retaliatory tariffs. We don't have any U.S product going to China right now, because there's already a tariff on -- on methanol and but it's something we'll be following really closely, but don't really see any acute impact to our business.

Question – Hassan I. Ahmed: Very helpful, Rich. Thank you so much.

Operator

Your next question comes from the line of Steve Hansen with Raymond James. Please go ahead.

Analyst: Steve Hansen

Question – Steve Hansen: Yeah. Good morning, guys. Now that the OCI transaction seems to be drawing closer and likely moves ahead as fully proposed, what do you need to do to get ready in advance? I'm just trying to think about supply chains, the broader marketing logistics, mechanism or team that you've got in place. I mean, what do you need to do to be ready to take on all these tonnes as the transaction results closer?

Answer – Rich Sumner: Thanks, Steve. Our -- we're busy doing a lot of integration planning right now. We're obviously still going through the regulatory process. So, for us, it's being ready on day one. And we've got a great team in place on our side across all the functions looking at the integration and -- a huge priority for the company right now. We're going to be -- the big thing is a safe and reliable integration and doing that as quickly as we can, but doing it safely and reliably and we've got all of our teams looking at it.

I don't -- for us right now, there's a big thing about can we process and operate the business on day one. And we're spending a lot of time trying to figure out, make sure that we're ready and well planned for the closing. So, right now, when you think about marketing or logistics, yeah, well we understand the market and the supply chains well, and we don't see any big complications there. But we're going to be thinking through everything really carefully as we go to execute this safely and reliably and efficiently as soon as we possibly can.

Question – Steve Hansen: Okay. Helpful. Thanks. And I just want to go back to the inventory question that was raised earlier, but though I think. I understand the context around increasing your company-produced product in inventory that sends it a reason to me, but it was still a big number, the 440,000 or whatever it was. How should we think about inventory levels of produced products going forward? Maybe -- the question, just in a sense that do we expect some of that to draw down through the period in the first half of this year? Or how do we think about that level changing over time?

Answer – Rich Sumner: Yeah. I mean, it's hard -- I guess hard to say. Overall inventory levels, we don't think when we finished the year here are necessarily high for our supply chain. So, the mix between purchased and produced inventory we think probably stays about the same and it should be around 80% produced and 20% purchased. That's that we have in our supply chains kind of steady.

And so -- and that's where we are today. So I don't think we're going to see a big release. But when we do have a period like, we went from -- we weren't operating in New Zealand, we were operating one plant in Chile, we didn't have G3 operating and Egypt was operating lower. So it's a significant build in the quarter to a more structural kind of inventory position at the end of the year, that -- if that helps.

Question – Steve Hansen: No. that is -- that's actually very helpful. And just one last one, if I may, is just around the court decision that you referenced in the release. And just so we all understand it, this is really around the ability for you to market the product coming off the Natgasoline plant. I think that was sort of the cause of that legal case. And if you could confirm that, maybe just that's actually the question. Could you confirm that so we can understand how you'll be marketing those tonnes?

Answer – Rich Sumner: Yeah. It -- it was -- the dispute was around the transferability of the joint venture partner's rights and that's rights for everything, operational decisions, financial decisions and marketing decisions. And so, right now we believe that that is -- the decision is that those rights all transfer to a purchaser.

And that's been -- that's the judgment of the court. And so that's exactly what we'd expect as those rights are now transferring on sale. Of course, there is an appeal process that we -- we're not aware of what will happen there. And so something we still have to track and we'll update you as things progress there.

Question – Steve Hansen: Okay. Very helpful. Thank you.

Operator

Your next question comes from the line of Kevin Estok with Jefferies. Please go ahead.

Analyst: Kevin Estok

Question – Kevin Estok: Hey, guys. Thank you for taking my question. Just back on the MTO operating rates, I know there's been some fluctuation in the back half of the year. I think like Q3, maybe they're around like 65% and then around 85% for Q4. I guess, where do they currently stand as of like early January or currently? Just want to build up some assumptions here.

Answer – Rich Sumner: Yeah. Right now, we think that the operating rates are in the low-70s and there's probably going to be increased pressure. There's a bit of a lag impact with Iran as Iran's operating rates, they sort of show up about 30 days to 45 days after the production impact. So, we do expect that imports into China continue to be under pressure and MTO is a big buyer of Iranian imports.

So, with that, in the 70s right now and it's something we're going to continue to watch really at the end of the day, what this is, is balancing the market, it's really a supply-driven operating rate because there's just not enough supply available for them to run consistently. So, in a lot of ways, the lower operate -- operating rates are indicative of a tight supply market.

Question – Kevin Estok: Okay. Thank you. Appreciate it. And then just on the discount rates, I guess, what are your expectations for the year or at least Q1 just given the higher overall average pricing?

Answer – Rich Sumner: Well, I think we probably haven't given guidance on discount rates. I do think what you will see is a higher percentage of Atlantic-based sales, which should result in a higher discount rate than 2024 on average. But I'd also translate -- as we discussed earlier on the call into a higher average realized price, just given the markets that we're selling, and these are higher netback markets. So, I think the higher discount is probably not the area to look at. It's probably the fact that we're realizing actually a higher price in our network.

Question – Kevin Estok: Got it. Okay. Thank you. Appreciate it.

Operator

Your next question comes from the line of Matthew Blair with TPH. Please go ahead.

Analyst: Matthew Blair

Question – Matthew Blair: Thank you and good morning. Maybe sticking on the discount rates, as we think about the discount for 2025, is anything changing regarding how you're negotiating new methanol contracts for this year, and in particular, should we expect discount rates to generally increase as the year progresses?

Answer – Rich Sumner: I think what we're seeing is the Atlantic markets have been pretty constrained on supply I think. We -- I don't think you should expect a big deterioration in discount rates. But given the higher proportion of sales, our average discount may go up, but not -- that's not the result of a big deterioration in discount rates. Again, I think that translates into the higher pricing for the business, which is a positive.

Question – Matthew Blair: It sounds good. And then was there another New Zealand gas diversion benefit in the fourth quarter? And if so, what was the EBITDA impact there?

Answer – Rich Sumner: Yeah, there was and we were diverting up until the end of October. The number is around, I believe is around $30 million. But that just obviously needs to be offset with that doesn't include the lost margin of not producing methanol, right. So, we -- going forward, we'll be producing methanol and won't have the margin on the gas sales. And so all that needs to be factored in as we move forward.

Question – Matthew Blair: Sounds good. Thank you.

Operator

. Your next question comes from the line of Nelson Ng with RBC Capital Markets. Please go ahead.

Analyst: Nelson Ng

Question – Nelson Ng: Great. Thanks. Just a quick follow-up on Hassan's question on North American gas hedges. So, I think prior to the OCI acquisition, you had plans to hedge around 70% of North American production. And I believe you're buying the OCI plants without any gas hedges. So...

Answer – Rich Sumner: That's correct.

Question – Nelson Ng: ...and going -- so going forward, is that 70% the right level and meaning you'll enter into a bunch of hedges later this year?

Answer – Rich Sumner: Yeah that will be -- today, we like our gas strategy and again it's usually we're about 70% hedged in the first three years and then a little less than that three-year to five-year period. And then less again beyond the five-year period. So and then we do opportunistically layer in more hedging as we get expirees as time passes. And that strategy has worked well for us.

And right now, obviously, we're taking a close look at our hedging strategy as we plan for integration and closing of the OCI deal. But, so we won't -- we haven't layered anything in anticipation of that. And we'll be starting to do that as we get closer to the closing and bringing those assets into that same strategy.

Question – Nelson Ng: Great. Thanks. And then just one last one. Another clarification on the whole tariff situation with the U.S. So you mentioned that there is very limited trade between Canada and the U.S, no exports from the U.S to China. Does any methanol go to Mexico?

Answer – Rich Sumner: No, not in our system.

Question – Nelson Ng: Okay.

Answer – Rich Sumner: And there is very little -- there is some domestic actual production in Mexico with some demand there, but it's not a big methanol market.

Question – Nelson Ng: Okay. So any tariffs would mainly be just the indirect impact of a slowdown in, I guess, domestic consumption or even global consumption, right?

Answer – Rich Sumner: Yeah, that's right. I think the one we watch for sure is just on China 10% tariffs. That's one of the -- where methanol is consumed in China is for export manufacturing. So we will look closely and if that impacts demand in China for manufacturing of export goods that would be going to the United States, and obviously, what is the roll-on impact, where does that manufacturing show up and how long does that take and the overall impact that that may have on industry demand, but nothing acute to our business and for -- in terms of incremental costs or any risks there that we see today.

Question – Nelson Ng: Great. Thanks. That's all for me.

Operator

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

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

Operator

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