09/23/2020

TSE: MX: $30.62CAD Target $38.50CAD

Market Cap / Price: $2.33bn / $30.59
52 Week Low / High: $13.24 / $55.54
Beta / Yield: 2.46 / 0.64%
Geo Production: 67% Americas / 26% Oceania / 7% Africa

Q3 Rev Guidance: $758.6m vs Street at $705.5m
Q3 EPS Guidance: ($0.62) vs Street at ($0.66)
FY20 Rev Guidance: $2.35B vs Street at $2.28B
FY20 EPS Guidance: ($2.01) vs Street at $(2.16)

Fundamentals

Drivers / Catalysts:

- Made $2.4 billion in capital investments
- Returned $1.9 billion to shareholders
- Increased production by 85%
- Decreased share count by 19%
- Increased production per share by 133%
- Governments maintaining markets with increased global liquidity and low interest rate environment
- Lower production costs—Methanol is cheap to produce relative to other alternative fuels.

Management:

- CEO: John Floren has been with Methanex since 2000
- CFO: Ian Cameron has been with Methanex for over 25 years

Financials:

- Q2 Recap: Rev $710.34M -31.3%. EPS ($1.16) -383.3%.
- Q3 Expectation: Rev $758.6M +6.8%. EPS ($0.62) +46.6%.

- Revenue was $3.3 billion in 2019 compared to $4.5 billion in 2018.
- The lower revenue reflects a decrease in the average realized methanol price in 2019 compared to 2018
- Methanex historical dividend yield ranges from 2-4%

- Methanex is also on the NASDAQ ticker MEOH

Competition/Distribution/Production:

- Competitors: Lyondell Chemical Company, Terra Industries Inc, Saudi International Petrochemical Company, Deepak Fertilisers & Petrochemicals Corp. Ltd., SCC/Helm/MHTL, Sabic, Zagros, Yankuang, OCI, Petronas, MGC, Mitsubishi
- Methanex is the largest producer of methanol and has an overall global market share of 14%

- Operations consist of a single operating segment – the production and sale of methanol
- Total annual production capacity, including Methanex interests in jointly owned plants, is currently 9.4 million tonnes and is located in New Zealand, the United States, Trinidad, Egypt, Canada and Chile.
- New 1.0 million tonne plant in Geismar, Louisiana started producing in September 2020

Risks:

- Significant global uncertainty with the emergence of the coronavirus (“COVID-19”)
- Sharply lower oil price environment
- Highly leveraged with EBIT was down 80% over the last year
- Geopolitical risks
- Customer credit risks
- Plant operational shutdowns
- Overall market liquidity risks

Bottom Line:

Methanex has made significant capital investments including the new 1.0 million tonne plant in Geismar, Louisiana which in the long term will increase revenue. However, significant changes in economic conditions has lowered methanol demand and has caused Methanex to not be profitable in the short term.

In response to liquidity risks, Methanex has lowered its dividend and raised capital. All this has caused Methanex to go crashing down from a 52 week high of $55.54 to a low of $13.24. Methanex has regained some losses, but should regain more as it weathers the economic storm.

Valuation

This Year P/E: MX= -42x vs S&P= 22x
Next Year P/E : MX=4.5x vs S&P=20x
Comps This Year P/E: -24x

This Year EPS Growth: MX=-347% vs S&P=23.7%
Next Year EPS Growth: MX=59.3% vs S&P=26.9%
Comps This Year EPS Growth: -78.7%

Bottom Line:

Trading at 25.7% below the estimate of its fair value

Revenue is forecasted to grow 10.34% per year

Methanex will regain profitability and therefore, regain its share price

Methanex has a history of crashing hard during recessions and then regaining all of its losses and hitting new highs