

Methanex Corporation (MEOH)

\$37.55 (As of 01/02/20)

Price Target (6-12 Months): **\$32.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 12/03/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: A

Summary

Earnings estimates for Methanex for the fourth quarter and 2019 have been moving down in the past month. The company is exposed to a challenging methanol pricing environment. In 2019, volatility in pricing is a headwind, which is stemming from unresolved trade tension along with fears surrounding global economic growth and decline in oil prices. As such, lower methanol prices are expected to exert pressure on margins. Moreover, production outages are affecting the company's operations. The company is exposed to challenges pertaining to methanol supply mainly in China. The country has adopted cleaner environment policies and shifted to natural gas instead of methanol. Nationwide safety and environmental measures in China have also impacted methanol demand. The company has also underperformed the industry in the past year.

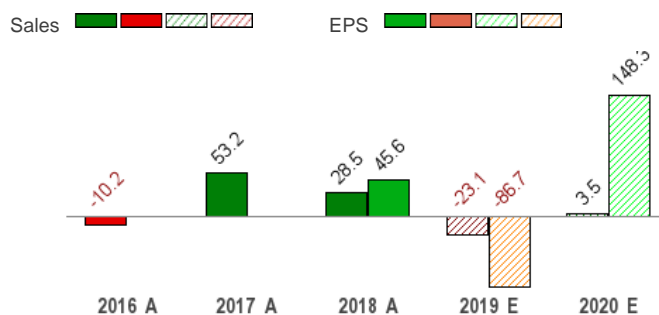
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$62.96 - \$30.25
20 Day Average Volume (sh)	285,123
Market Cap	\$2.9 B
YTD Price Change	-2.8%
Beta	1.81
Dividend / Div Yld	\$1.44 / 3.8%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 25% (191 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-32.0%
Last Sales Surprise	2.8%
EPS F1 Est- 4 week change	-1.5%
Expected Report Date	01/29/2020
Earnings ESP	-112.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					3,132 E
2019	733 A	734 A	650 A	673 E	3,025 E
2018	962 A	950 A	1,044 A	977 A	3,932 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.18 E	\$0.73 E	\$0.84 E	\$1.20 E	\$2.26 E
2019	\$0.73 A	\$0.34 A	-\$0.27 A	\$0.16 E	\$0.91 E
2018	\$2.03 A	\$1.75 A	\$1.92 A	\$1.15 A	\$6.86 A

*Quarterly figures may not add up to annual.

P/E TTM	19.3
P/E F1	16.6
PEG F1	1.1
P/S TTM	0.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/02/2020. The reports text is as of 01/03/2020.

Overview

Headquartered in Vancouver, Canada, Methanex Corporation is the world's largest supplier of methanol to North America, Asia-Pacific, Europe and Latin America. Around two-thirds of all methanol demand is used to produce traditional chemical derivatives including formaldehyde, acetic acid and a variety of other chemicals that form the basis of a large number of chemical derivatives for which demand is influenced by levels of global economic activity. The remaining one-third of methanol demand comes from energy related applications. Methanol is also used to produce methyl tertiary-butyl ether (MTBE), a gasoline component, and an emerging application is for methanol demand into olefins.

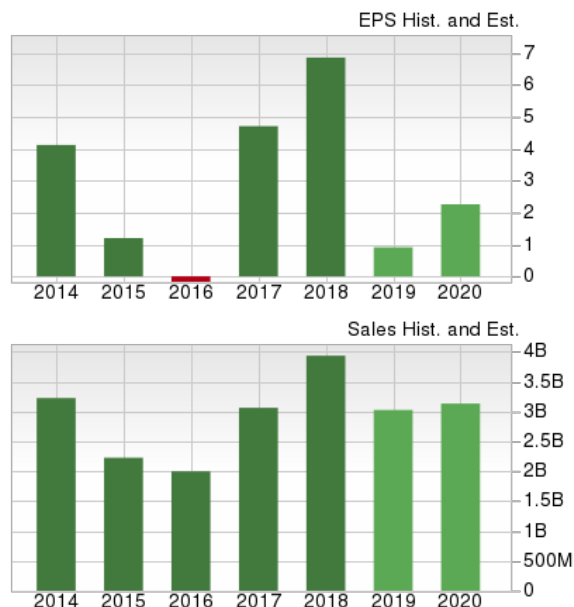
Methanex generated \$3,932 million in revenues in 2018. Its sales volume of 11.2 million tons of methanol for 2018 represented roughly 14% of global methanol demand.

Methanex's total annual production capacity, including its equity interests in jointly owned plants, is roughly 9.4 million tons. Methanex purchases methanol from others under contract and on the spot market to meet customer requirements. The company sells methanol through a global marketing and distribution system.

Methanex currently operates production sites in New Zealand, the United States, Trinidad and Tobago, Egypt, Canada and Chile. It has marketing rights for 100% of the production from the jointly-owned plants in Trinidad and Egypt that provides it with an additional 1.3 million tons of methanol offtake supply annually when the plants are operating at full capacity.

Apart from the methanol made at its production sites, the company also purchases methanol manufactured by others under methanol offtake contracts and on the spot market. This gives it the flexibility in managing supply chain while continuing to address customer needs.

Methanex completed the restart of its Chile IV plant in October 2018. The plant had been idle since 2007. In August 2018, Methanex signed natural gas supply agreements for its Chile operations. Notably, the gas agreements will allow the company for a two-plant operation in Chile during summer months in the southern hemisphere and up to a maximum of 75% of a two-plant operation annually till mid-2020. Methanex expects to secure sufficient gas supply without seasonal restrictions to continue its two-plant operation.



Reasons To Sell:

- ▼ Methanex has underperformed the industry it belongs to in the past year. The company's shares dipped 23% in this period compared with the industry's decline of 14.8%. The company is witnessing considerable volatility in the methanol pricing. Volatility in pricing is a concern for 2019 due to trade tensions, decline in oil prices along with fears around global economic growth. Also, in a declining price environment the company's margins tend to be lower compared with a stable price environment. Lower methanol prices (down 34.1% year over year) hurt the company's bottom line in third-quarter 2019 and are expected to remain a headwind in the fourth quarter.
- ▼ Production outages are also affecting the company's operations. The company undertook turnaround and maintenance activities at its New Zealand facility in the second quarter of 2018, which partly affected 2018 production at the site. Also, turnaround activities in the Waitara Valley plant, New Zealand, resulted in higher unabsorbed costs during the fourth quarter of 2018. Planned turnaround at the Geismar 1 facility also contributed to higher costs in the first quarter of 2019. There were also a few unplanned and planned outages in the downstream in the third quarter of 2019. The Egypt outage is estimated to have an impact of roughly \$20 million on third-quarter results, per Methanex. The company expects planned maintenance capital for the remainder of 2019 to be \$30 million, mainly associated with the preparation for turnarounds to be executed in 2020. As such, turnarounds may continue to affect production.
- ▼ The company is exposed to challenges pertaining to methanol supply mainly in China as the country has adopted cleaner environment policies and thus shifted to natural gas instead of methanol. Nationwide safety and environmental measures in China impacted methanol demand in traditional chemical applications in the third quarter of 2019. The company may also experience some volatility in methanol prices in the near-term due to new capacity ramps up in the United States and industry trade flows regulate.

Methanex is still exposed to a challenging methanol pricing environment. Production outages are also affecting its operations.

Risks

- Demand fundamentals for methanol remain healthy despite the global economic weakness and a few near-term challenges. Overall methanol demand grew 3.5% in 2018. While energy-related demand expanded 4% year over year, traditional demand was 3% higher compared with 2017. Of late, energy-related applications have been driving demand. Strength in oil and other energy prices have aided in boosting the demand for energy-related products, including MTBE, dimethyl ether and other fuel applications. The wide disparity between the price of crude oil and that of natural gas and coal has resulted in increased use of methanol in energy applications. Per Methanex, the global demand for methanol is expected to remain healthy moving ahead. Moreover, methanol demand rose slightly year over year in the third quarter.
 - Methanex has completed the restart of its Chile IV plant and produced first methanol from the 0.8-million-ton plant that has been idle since 2007. The Argentine Government has also granted permits for export of natural gas from Argentina to Chile. Methanex has started receiving natural gas from Argentina. These achievements represent a significant step towards a two-plant operation in Chile. The startup of Chile IV plant will help to fulfill growing methanol demand. Moreover, Methanex produced 500,000 tons in Geismar in the third quarter. It plans to complete the additional work required at the Geismar 2 plant. The plan includes the construction of a pipeline to bring CO₂ to the site along with necessary works over the next couple of years. The company's board of directors has also reached a unanimous final investment decision for a 1.8 million tons methanol plant, the Geismar 3 project, which will be located adjacent to the Geismar 1 and Geismar 2 facilities. The company anticipates its Geismar 3 plant to deliver strong returns on significant capital and operating cost advantages.
 - Methanex remains committed to boost shareholder returns leveraging its strong liquidity position. In April 2019, the company's board approved a 9% hike in its quarterly dividend to 36 cents per share. In 2018, Methanex returned \$550 million to shareholders through dividend and share repurchases of 6.6 million common shares. It also returned \$27 million to shareholders through dividend during the last reported quarter.
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Last Earnings Report

Methanex's Q3 Earnings Miss, Revenues Beat Estimates

Methanex slipped to loss (attributable to shareholders) of \$10 million or 21 cents per share in the third quarter of 2019 from profit of \$128 million or \$1.61 per share in the year-ago quarter.

Adjusted loss per share (barring one-time items) in the reported quarter was 27 cents. The Zacks Consensus Estimate for the quarter was pegged at breakeven.

Revenues declined 37.7% year over year to \$649.7 million in the quarter. However, it surpassed the Zacks Consensus Estimate of \$632 million.

Adjusted EBITDA tumbled 69.3% year over year to \$90 million. This resulted from a decrease in methanol prices, which was partly offset by higher sales volume of methanol produced by Methanex.

Operational Highlights

Production in the quarter totaled 1,837,000 tons, up 5.8% year over year. Total sales volume was 2,824,000 tons, down 1.6% year over year.

Average realized price for methanol was \$272 per ton in the quarter, down 34.1% from \$413 in the prior-year quarter.

Financials

For the reported quarter, cash flow from operating activities was \$71 million, down 68.9% year over year. The company had cash and cash equivalents of \$857 million, up 69.6% year over year.

Methanex returned \$27 million to shareholders through regular dividend payouts during the third quarter.

Outlook

The company anticipates its Geismar 3 plant to deliver strong returns on significant capital and operating cost advantages. Over the coming years, most of the large-scale capacity additions are anticipated to be in the Americas and the Middle East. Further, the company expects new non-integrated capacity additions in China to be modest on continuous restrictions by the government in China.

Quarter Ending 09/2019

Report Date	Oct 30, 2019
Sales Surprise	2.80%
EPS Surprise	-32.00%
Quarterly EPS	-0.27
Annual EPS (TTM)	1.95

Recent News

Methanex Inks Interim Supply Deal for Titan Operations – Dec 18, 2019

Methanex has issued an update on Trinidad natural gas supply discussions. The company has entered into an interim agreement with National Gas Company of Trinidad and Tobago Limited ("NGC") for the supply of natural gas to its Titan methanol facility. The supply will start from Jan 1, 2020 and will continue till Jan 31, 2020.

While the current natural gas supply deal for Titan expires on Dec 31, 2019, this interim arrangement enables Methanex to continue operations at Titan. It will also help the company to continue negotiations with NGC for a long-term natural gas supply deal.

Methanex Announces Quarterly Dividend – Nov 21, 2019

Methanex's board of directors has declared a quarterly dividend of 36 cents per share. The dividend was paid on Dec 31, 2019 to stockholders of common shares of record on Dec 17, 2019.

Valuation

Methanex's shares are down 23% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 14.8% and up 9.8% over the past year, respectively.

The S&P 500 index is up 30.7% in the past year.

The stock is currently trading at 7.74X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.5X for the Zacks sub-industry, 9.7X for the Zacks sector and 12.01X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.26X and as low as 4.72X, with a 5-year median of 8.8X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$32 price target reflects 1.46X tangible book value.

The table below shows summary valuation data for MEOH:

Valuation Multiples - MEOH					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	7.74	7.5	9.7	12.01
	5-Year High	28.26	12.41	18.17	12.86
	5-Year Low	4.72	5.08	7.34	8.49
	5-Year Median	8.8	7.23	10.53	10.66
P/B TTM	Current	1.71	1.78	2.37	4.41
	5-Year High	3.68	3.51	3.54	4.42
	5-Year Low	1.07	0.88	1.34	2.85
	5-Year Median	2.17	2.54	2.17	3.6
P/S TTM	Current	0.93	0.82	2.21	3.48
	5-Year High	2.36	1.76	3.1	3.64
	5-Year Low	0.67	0.67	1.82	2.5
	5-Year Median	1.52	1.06	2.5	3.14

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (191 out of 253)



Top Peers

BASF SE (BASFY)	Neutral
Celanese Corporation (CE)	Neutral
Eastman Chemical Company (EMN)	Neutral
LyondellBasell Industries N.V. (LYB)	Neutral
SINOPEC Shanghai Petrochemical Company, Ltd. (SHI)	Neutral
Westlake Chemical Corporation (WLK)	Neutral
Cabot Corporation (CBT)	Underperform
Eni SpA (E)	Underperform

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	MEOH Underperform	X Industry	S&P 500	CE Neutral	EMN Neutral	WLK Neutral
VGM Score	B	-	-	A	B	B
Market Cap	2.86 B	2.91 B	23.76 B	14.68 B	10.70 B	8.86 B
# of Analysts	2	3	13	9	8	5
Dividend Yield	3.83%	1.74%	1.78%	2.04%	3.36%	1.52%
Value Score	A	-	-	B	A	A
Cash/Price	0.29	0.07	0.04	0.04	0.02	0.16
EV/EBITDA	3.75	6.74	13.97	8.92	7.47	5.32
PEG Ratio	1.11	1.54	2.02	1.60	1.41	2.54
Price/Book (P/B)	1.71	2.04	3.38	4.69	1.75	1.39
Price/Cash Flow (P/CF)	3.62	6.87	13.70	8.46	6.19	5.37
P/E (F1)	16.62	14.80	18.83	11.03	10.12	16.46
Price/Sales (P/S)	0.92	0.92	2.68	2.24	1.13	1.08
Earnings Yield	6.02%	6.68%	5.30%	9.07%	9.88%	6.08%
Debt/Equity	1.38	0.61	0.72	1.13	0.91	0.59
Cash Flow (\$/share)	10.37	3.41	6.94	14.36	12.71	12.86
Growth Score	D	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	30.38%	7.94%	10.56%	15.96%	2.30%	6.61%
Proj. EPS Growth (F1/F0)	148.35%	9.04%	7.41%	13.64%	9.90%	8.67%
Curr. Cash Flow Growth	24.94%	3.75%	14.83%	36.42%	4.53%	26.46%
Hist. Cash Flow Growth (3-5 yrs)	10.18%	6.70%	9.00%	12.16%	4.27%	16.64%
Current Ratio	1.64	1.83	1.23	1.85	1.65	2.81
Debt/Capital	58.01%	39.72%	42.92%	53.01%	47.73%	37.11%
Net Margin	7.73%	5.57%	11.08%	13.85%	8.12%	5.74%
Return on Equity	8.64%	11.94%	17.10%	38.21%	16.58%	8.52%
Sales/Assets	0.62	0.85	0.55	0.69	0.58	0.67
Proj. Sales Growth (F1/F0)	3.52%	2.80%	4.20%	4.35%	2.06%	5.78%
Momentum Score	A	-	-	A	B	D
Daily Price Chg	-2.80%	0.00%	0.33%	-1.37%	-0.74%	-1.54%
1 Week Price Chg	-0.28%	0.11%	0.13%	-0.02%	-0.29%	0.94%
4 Week Price Chg	8.18%	2.30%	3.31%	-1.54%	3.94%	2.16%
12 Week Price Chg	8.90%	9.90%	9.70%	2.59%	12.72%	14.96%
52 Week Price Chg	-23.01%	10.97%	30.28%	38.18%	10.18%	5.89%
20 Day Average Volume	285,123	135,478	1,603,615	696,369	854,097	329,703
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.45%	0.00%	0.00%	-0.30%	-0.81%	-1.76%
(F1) EPS Est 12 week change	-18.51%	-2.78%	-0.57%	-2.68%	-10.38%	-10.65%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-5.67%	-1.02%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	D
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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