

Methanex Corporation (MEOH)

\$19.65 (As of 06/11/20)

Price Target (6-12 Months): **\$21.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/04/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

Growth: D

Momentum: D

Summary

Earnings estimates for Methanex for the second quarter of 2020 have been going down over the past month. The company's Geismar 3 plant is expected to deliver strong returns on significant capital and operating cost advantages. Further, Methanex remains committed to boost shareholder returns and strengthen its balance sheet. The company's move to defer capital expenditure on its Geismar 3 project is anticipated to bolster its balance sheet. However, Methanex is exposed to a challenging methanol pricing environment. Lower methanol prices are expected to remain a headwind in 2020. Moreover, production outages are affecting the company's operations. Further, demand for methanol is expected to decline in the second quarter of 2020. The company has also underperformed the industry it belongs to over the past year.

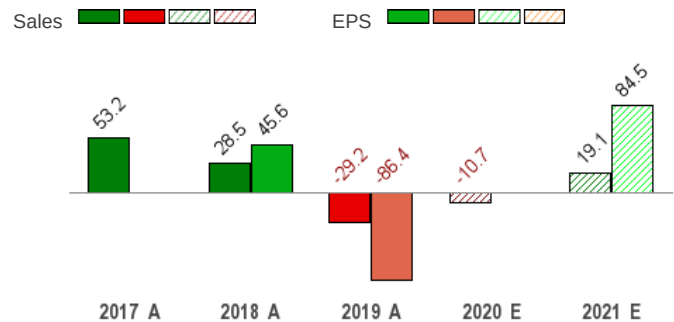
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.55 - \$9.10
20 Day Average Volume (sh)	947,659
Market Cap	\$1.5 B
YTD Price Change	-49.1%
Beta	2.22
Dividend / Div Yld	\$0.15 / 7.3%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 44% (140 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	42.9%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-17.8%
Expected Report Date	07/29/2020
Earnings ESP	5.6%
P/E TTM	65.5
P/E F1	NA
PEG F1	NA
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,962 E
2020	745 A	593 E	574 E	608 E	2,486 E
2019	733 A	734 A	650 A	659 A	2,784 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					-\$0.36 E
2020	\$0.10 A	-\$0.98 E	-\$0.93 E	-\$0.53 E	-\$2.32 E
2019	\$0.73 A	\$0.34 A	-\$0.27 A	\$0.13 A	\$0.93 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/11/2020. The reports text is as of 06/12/2020.

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.

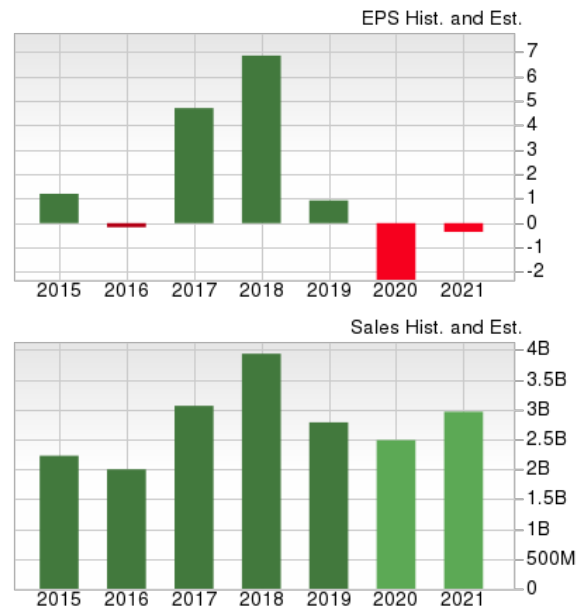
Methanex generated \$2,784 million in revenues in 2019. Its sales volume was 11.1 million tons of methanol for 2019.

Methanex's total annual production capacity, including its equity interests in jointly owned plants, is 7.6 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 Buy:

- ▲ 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 480,000 tons in Geismar in the fourth 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. Notably, Geismar 3 project is expected to strengthen global leadership position and significantly enhance asset portfolio with additional low-cost production.
- ▲ Methanex remains committed to boost shareholder returns. In April 2019, the company's board approved a 9% hike in its quarterly dividend to 36 cents per share. In 2019, Methanex returned \$161 million to shareholders through dividend and share repurchases of 1.1 million common shares. It also returned \$27 million to shareholders through dividend during the fourth quarter.
- ▲ In an effort to boost its balance sheet and maintain liquidity, Methanex has deferred roughly \$500 million in capital expenditure on its Geismar 3 project for up to 18 months due to substantial uncertainty, arising from the coronavirus pandemic. The company has also cut its maintenance capital spending for 2020 by \$30 million. The company remains focused on enhancing its financial flexibility and preserving cash amid the prevailing environment and continues to assess all capital and operating spending.

Methanex's Geismar 3 plant is expected to deliver strong returns. The company is also committed to boost shareholders' returns and strengthen its balance sheet.

Reasons To Sell:

- ▼ Methanex has underperformed the industry it belongs to in the past year. The company's shares declined 56.5% in this period compared with the industry's decline of 11.5%. The company is witnessing volatility in the methanol pricing. Trade tensions, decline in oil prices along with fears around global economic growth led to volatility in methanol pricing in 2019. Also, in a declining price environment the company's margins tend to be lower compared with a stable price environment. Lower methanol prices (down around 19% year over year) hurt the company's bottom line in first-quarter 2020. Prices also fell roughly 27% year over year in 2019. Pricing weakness on a year-over-year basis is likely to continue over the near term.
- ▼ 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. Also, there have been various unplanned outages in Iran, Southeast Asia and the United States in fourth-quarter 2019. The Trinidad outage and Geismar 2 facility outage resulted in a decline in production in fourth-quarter 2019. Overall production results in the last reported quarter was lower sequentially mainly on outages in New Zealand, Chile and Egypt. Notably, the company idled its Titan plant in Trinidad and Chile IV plant in respond to lower methanol demand, which also led to a decrease in production volumes of first-quarter 2020. The company expects planned maintenance capital expenses of roughly \$120 million for 2020.
- ▼ Demand for methanol decline 7% sequentially in the last reported quarter due to the impacts of the coronavirus pandemic and a low oil price environment. Moreover, methanol demand into traditional chemical applications decreased as manufacturing activities were severely curtailed. Methanol-to-olefins demand also declined due to numerous planned and unplanned outages in the last reported quarter. Energy-related applications demand also decreased on government restrictions. Further, the company expects the demand for methanol to decline in the second quarter of 2020.
- ▼ The company's high debt level is concerning. At the end of the first quarter of 2020, its long-term debt was \$2,811 million, up from \$2,359 million in the prior quarter and \$1,610 million from the year-ago quarter. Moreover, its total debt-to-total capital stood at 63.1% as of Mar 31, 2020, higher than 59.5% as of Dec 31, 2019. As such, the company appears to have a higher default risk.

Methanex is still exposed to a challenging methanol pricing environment. Production outages are also affecting its operations. Weak demand and high debt level are other concerns.

Last Earnings Report

Methanex's Q1 Earnings Beat Estimates, Revenues Down Y/Y

Methanex posted profits (attributable to shareholders) of \$23 million or 21 cents per share in the first quarter of 2020, down from \$38 million or 50 cents per share in the year-ago quarter.

Adjusted earnings per share (barring one-time items) in the reported quarter were 10 cents, which surpassed the Zacks Consensus Estimate of 7 cents.

Revenues declined 17.4% year over year to \$745 million in the quarter. The results were impacted by lower year-over-year methanol prices.

Adjusted EBITDA tumbled 28.9% year over year to \$138 million.

Operational Highlights

Production in the quarter totaled 2,007,000 tons, up 11% year over year. Total sales volume was 2,788,000 tons, up 2.4% year over year.

Average realized price for methanol was \$267 per ton in the quarter, down 19.3% from \$331 in the prior-year quarter.

Financials

For the reported quarter, cash flow from operating activities was \$142 million, down 33.3% year over year. The company had cash and cash equivalents of \$823 million, up 188.7% year over year.

Outlook

Methanex expects demand for methanol to be lower in the second quarter on a sequential comparison basis due to the impacts of the coronavirus pandemic and a low oil price environment. As a result, the company anticipates financial results to be lower in the second quarter as compared to the first quarter. Notably, it stated that it cannot accurately forecast the degree of impact at this point of time due to uncertainties regarding the duration and extent of the coronavirus pandemic, and the low oil price environment.

Further, Methanex deferred roughly \$500 million in capital expenditure on its Geismar 3 project for up to 18 months due to substantial uncertainty, arising from the coronavirus pandemic.

Moreover, the company reduced maintenance capital expenditure for 2020 by \$30 million. It also reduced the quarterly dividend by 90%, representing roughly \$100 million in annualized cash savings.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	NA
EPS Surprise	42.86%
Quarterly EPS	0.10
Annual EPS (TTM)	0.30

Recent News

Methanex Amends \$1.1B Credit Facilities, Boosts Flexibility - Jun 3, 2020

Methanex has boosted its financial flexibility by amending its \$300-million committed revolving credit facility and \$800-million non-revolving construction facility.

Notably, the amendment is expected to offer meaningful financial covenant relief and greater timeline flexibility for completing the Geismar 3 project.

The financial covenant relief will offer more flexibility in calculating minimum EBITDA to interest coverage ratio through Jun 30, 2021, and an increase of the maximum debt-to-capitalization ratio through Jun 30, 2023.

Per Methanex's management, the amendments to its credit facilities will substantially enhance financial flexibility to allow it to navigate through this difficult time and stay in a strong financial position.

Methanex Defers Geismar 3 Project on Coronavirus Outbreak - Apr 1, 2020

Methanex has announced that it is taking steps to defer roughly \$500 million of earlier-planned capital expenditure on its Geismar 3 project for up to 18 months due to substantial uncertainty, arising from the coronavirus pandemic.

The company is placing its Geismar 3 methanol project on temporary "care and maintenance" for up to 18 months. Notably, the estimated capital spending during a deferral of up to 18 months is the same as the projected capital expenditure that would have been incurred if the project was terminated outright. Notably, the action allows the company to complete the project when market conditions improve.

Valuation

Methanex's shares are down 49.2% in the year-to-date period and down 56.5% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 12.4% and 5.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 11.5% and 2.2%, respectively.

The S&P 500 index is down 1% in the year-to-date period and up 10.3% in the past year.

The stock is currently trading at 6.25X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.79X for the Zacks sub-industry, 9.49X for the Zacks sector and 11.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.26X and as low as 4.26X, with a 5-year median of 8.48X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$21 price target reflects 0.96X 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	6.25	7.79	9.49	11.82
	5-Year High	28.26	13.21	18.38	12.87
	5-Year Low	4.26	5.27	6.49	8.27
	5-Year Median	8.48	7.42	10.49	10.81
P/B TTM	Current	0.9	1.73	1.03	4.36
	5-Year High	3.68	3.36	3.41	4.56
	5-Year Low	0.45	0.88	1.23	2.84
	5-Year Median	2.04	1.78	2.18	3.66
P/S TTM	Current	0.48	1.18	2.43	3.43
	5-Year High	2.36	3.96	3.43	3.69
	5-Year Low	0.22	0.69	1.44	2.43
	5-Year Median	1.44	1.2	2.6	3.19

As of 06/11/2020

Industry Analysis Zacks Industry Rank: Bottom 44% (140 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
TOKUYAMA CORP (TKMY)	Outperform	1
Albemarle Corporation (ALB)	Neutral	4
Cabot Corporation (CBT)	Neutral	3
Kronos Worldwide Inc (KRO)	Neutral	2
Lithium Americas Corp. (LAC)	Neutral	3
Stepan Company (SCL)	Neutral	2
Tronox Limited (TROX)	Neutral	2
Koppers Holdings Inc. (KOP)	Underperform	5

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	MEOH	X Industry	S&P 500	ALB	CBT	TKMY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	4	3	1
VGM Score	C	-	-	D	A	A
Market Cap	1.50 B	2.25 B	21.32 B	7.92 B	1.99 B	1.62 B
# of Analysts	2	3	14	10	6	1
Dividend Yield	7.33%	1.95%	1.99%	2.07%	3.98%	0.99%
Value Score	A	-	-	D	A	A
Cash/Price	0.45	0.10	0.06	0.06	0.06	NA
EV/EBITDA	5.91	7.16	12.31	12.56	6.57	NA
PEG Ratio	NA	2.87	2.88	2.56	8.91	NA
Price/Book (P/B)	0.90	1.64	2.92	1.96	1.93	1.08
Price/Cash Flow (P/CF)	3.61	5.93	11.24	9.23	5.35	4.01
P/E (F1)	NA	19.00	20.84	22.03	17.82	8.00
Price/Sales (P/S)	0.54	0.71	2.24	2.27	0.64	0.56
Earnings Yield	-11.81%	4.94%	4.64%	4.54%	5.63%	12.50%
Debt/Equity	1.68	0.59	0.76	0.77	1.15	NA
Cash Flow (\$/share)	5.45	3.41	7.01	8.07	6.58	2.91
Growth Score	D	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	14.59%	9.93%	10.87%	9.92%	9.75%	NA
Proj. EPS Growth (F1/F0)	-349.46%	-30.29%	-10.81%	-44.01%	-49.49%	-14.12%
Curr. Cash Flow Growth	-48.22%	-8.41%	5.46%	6.86%	-22.87%	NA
Hist. Cash Flow Growth (3-5 yrs)	-6.33%	6.32%	8.55%	14.46%	-2.25%	NA
Current Ratio	2.27	1.87	1.29	1.81	2.08	NA
Debt/Capital	62.75%	39.57%	44.75%	43.45%	53.48%	NA
Net Margin	2.59%	4.87%	10.54%	14.50%	3.38%	NA
Return on Equity	1.39%	12.29%	16.08%	15.34%	17.88%	NA
Sales/Assets	0.52	0.79	0.55	0.39	1.01	NA
Proj. Sales Growth (F1/F0)	-10.44%	-8.10%	-2.60%	-17.43%	-18.10%	-7.92%
Momentum Score	D	-	-	D	C	C
Daily Price Chg	-11.13%	-7.69%	-6.44%	-11.14%	-11.09%	-3.63%
1 Week Price Chg	50.59%	8.75%	7.51%	10.18%	15.31%	0.00%
4 Week Price Chg	39.86%	11.89%	8.40%	24.80%	22.44%	18.83%
12 Week Price Chg	86.08%	30.81%	25.04%	20.31%	55.23%	34.88%
52 Week Price Chg	-56.56%	-21.15%	-6.33%	2.42%	-25.03%	-0.42%
20 Day Average Volume	947,659	93,248	2,634,935	1,363,286	428,247	341
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-17.77%	0.00%	0.00%	-4.11%	-5.77%	5.04%
(F1) EPS Est 12 week change	-216.88%	-26.00%	-15.86%	-30.55%	-44.21%	-16.09%
(Q1) EPS Est Mthly Chg	-9.55%	0.00%	0.00%	-3.04%	-77.14%	NA

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	D
VGM Score	C

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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