

Methanex Corporation (MEOH)

\$21.71 (As of 08/27/20)

Price Target (6-12 Months): **\$23.00**

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:B

Value: A

Growth: D

Momentum: C

Summary

Methanex's adjusted earnings for the second quarter surpassed the Zacks Consensus Estimate, while sales missed the same. 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 and demand environment. Lower methanol prices are expected to remain a headwind in 2020. Moreover, production outages are affecting the company's operations. Methanex's high debt levels are another concern. The company has also underperformed the industry it belongs to over the past year.

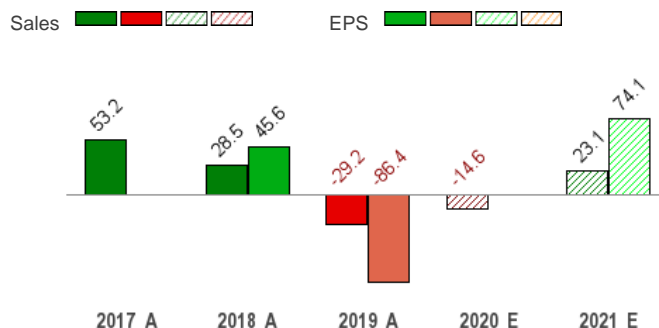
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$42.19 - \$9.10
20 Day Average Volume (sh)	294,878
Market Cap	\$1.7 B
YTD Price Change	-43.8%
Beta	2.23
Dividend / Div Yld	\$0.15 / 0.7%
Industry	Chemical - Diversified
Zacks Industry Rank	Top 48% (122 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.0%
Last Sales Surprise	-13.6%
EPS F1 Est- 4 week change	14.5%
Expected Report Date	11/04/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,926 E
2020	745 A	512 A	474 E	573 E	2,377 E
2019	733 A	734 A	650 A	659 A	2,784 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					-\$0.60 E
2020	\$0.10 A	-\$0.84 A	-\$0.97 E	-\$0.62 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.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/27/2020. The reports text is as of 08/28/2020.

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.

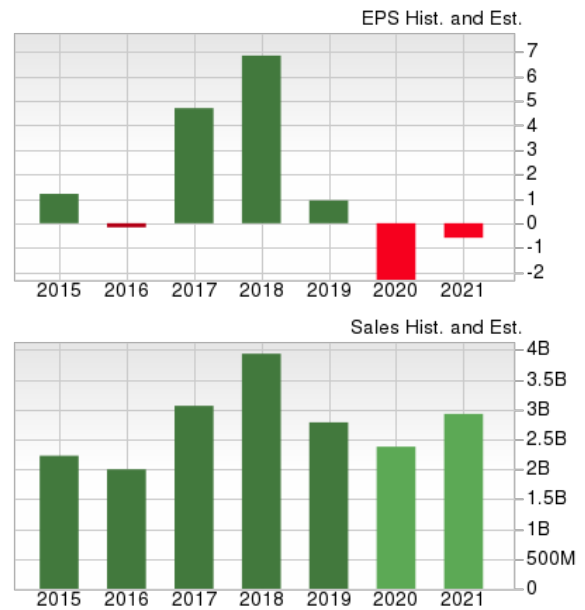
Methanex generated \$2,784 million in revenues in 2019. Its sales volume was 11.1 million tons of methanol for 2019.

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.
- ▲ 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. These moves are expected to help the company to generate \$100 million in annualized cash savings. 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 29.9% in this period against the industry's rise of 8.9%. 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. Methanol prices fell roughly 27% year over year 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 35% year over year) hurt the company's bottom line in second-quarter 2020. 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. 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 first-quarter 2020 was also 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 in second-quarter 2020. The company expects planned maintenance capital expenses of roughly \$120 million for 2020.
- ▼ Demand for methanol declined 5% sequentially in the last reported quarter due to substantial declines in most parts of the world outside China on account of 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, especially in the automotive and construction markets. Energy-related applications' demand also decreased on account of reduced ground transportation and fuel demand. Demand weakness is likely to continue moving ahead.
- ▼ The company's high debt level is concerning. At the end of the second quarter of 2020, its long-term debt was \$2,738 million, up from \$1,601 million from the year-ago quarter. Moreover, its total debt-to-total capital stood at 63.8% as of Jun 30, 2020, higher than 63.1% as of Mar 31, 2020. 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 Earnings Beat, Revenues Miss Estimates in Q2

Methanex slipped to a loss (attributable to shareholders) of \$65 million or 85 cents per share in the second quarter of 2020 from a profit of \$50 million or 51 cents per share in the year-ago quarter.

Adjusted loss per share (barring one-time items) in the reported quarter was 84 cents, which was narrower than the Zacks Consensus Estimate of a loss of \$1.05.

Revenues declined 39.6% year over year to \$512 million in the quarter. The results were impacted by lower year-over-year methanol prices. Moreover, it missed the Zacks Consensus Estimate of \$593 million.

Adjusted EBITDA tumbled 78% year over year to \$32 million.

Operational Highlights

Production in the quarter totaled 1,628,000 tons, down 10.5% year over year. Total sales volume was 2,406,000 tons, down 7.5% year over year.

Average realized price for methanol was \$211 per ton in the quarter, down 35.3% from \$326 in the prior-year quarter.

Financials

For the reported quarter, cash flow from operating activities was \$186 million, up 58.9% year over year. The company had cash and cash equivalents of \$783 million, up 243.4% year over year.

Outlook

Methanex is seeing signs of improving methanol demand with global economic activity starting to recover and oil pricing stabilizing in recent weeks. Notably, it stated that it cannot accurately forecast the short-term outlook due to uncertainties regarding the duration and extent of the coronavirus pandemic, and the low oil price environment.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	-13.61%
EPS Surprise	20.00%
Quarterly EPS	-0.84
Annual EPS (TTM)	-0.88

Recent News

Methanex Amends \$1.1B Credit Facilities, Boosts Flexibility

Methanex, on **Jun 3 , 2020**, 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.

Valuation

Methanex's shares are down 43.7% in the year-to-date period and down 29.9% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 5.9% and up 0.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 8.9% and 12.5%, respectively.

The S&P 500 index is up 8.2% in the year-to-date period and up 21% in the past year.

The stock is currently trading at 8.59X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 8.52X for the Zacks sub-industry, 10.99X for the Zacks sector and 13.27X 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 8.29X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$23 price target reflects 1.11X 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	8.59	8.52	10.99	13.27
	5-Year High	28.26	13.12	18.4	13.27
	5-Year Low	4.26	5.25	6.55	8.25
	5-Year Median	8.29	7.5	10.43	10.92
P/B TTM	Current	1.05	1.89	2.16	4.71
	5-Year High	3.68	2.82	3.07	4.71
	5-Year Low	0.45	0.87	1.22	2.83
	5-Year Median	1.96	1.75	2.19	3.76
P/S TTM	Current	0.59	1.36	2.81	3.86
	5-Year High	2.36	3.9	3.43	3.86
	5-Year Low	0.22	0.68	1.44	2.43
	5-Year Median	1.38	1.23	2.67	3.23

As of 08/27/2020

Industry Analysis Zacks Industry Rank: Top 48% (122 out of 252)



Top Peers

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

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	MEOH	X Industry	S&P 500	ALB	CBT	TKYMY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	D	A	A
Market Cap	1.65 B	2.57 B	23.67 B	9.69 B	2.15 B	1.66 B
# of Analysts	2	3	14	10	6	1
Dividend Yield	0.69%	1.79%	1.64%	1.69%	3.68%	1.96%
Value Score	A	-	-	C	B	A
Cash/Price	0.49	0.12	0.07	0.08	0.07	0.43
EV/EBITDA	6.12	8.19	13.33	14.49	6.81	4.31
PEG Ratio	NA	3.30	3.05	3.25	10.14	NA
Price/Book (P/B)	1.05	1.86	3.18	2.30	2.06	0.96
Price/Cash Flow (P/CF)	3.99	6.66	12.81	11.29	5.77	4.40
P/E (F1)	NA	19.84	21.68	26.10	20.28	8.17
Price/Sales (P/S)	0.64	0.90	2.50	2.87	0.77	0.58
Earnings Yield	-10.69%	4.66%	4.43%	3.83%	4.92%	12.24%
Debt/Equity	1.73	0.60	0.74	0.74	1.12	0.51
Cash Flow (\$/share)	5.45	3.41	6.94	8.07	6.58	2.71
Growth Score	D	-	-	F	A	A
Hist. EPS Growth (3-5 yrs)	18.27%	8.03%	10.41%	9.61%	5.99%	NA
Proj. EPS Growth (F1/F0)	-348.92%	-22.40%	-4.94%	-42.20%	-52.09%	-11.52%
Curr. Cash Flow Growth	-48.22%	-8.95%	5.22%	6.86%	-22.87%	-6.84%
Hist. Cash Flow Growth (3-5 yrs)	-6.33%	6.32%	8.50%	14.46%	-2.25%	NA
Current Ratio	2.12	1.89	1.35	1.61	1.99	2.29
Debt/Capital	63.43%	37.80%	43.86%	42.68%	52.74%	33.70%
Net Margin	-1.66%	3.96%	10.25%	12.99%	2.41%	6.54%
Return on Equity	-4.07%	11.10%	14.66%	13.33%	12.99%	13.88%
Sales/Assets	0.47	0.75	0.50	0.36	0.91	0.82
Proj. Sales Growth (F1/F0)	-14.37%	-5.09%	-1.43%	-15.40%	-19.11%	-7.71%
Momentum Score	C	-	-	D	D	D
Daily Price Chg	-3.73%	-0.31%	0.43%	-0.84%	-1.30%	0.00%
1 Week Price Chg	-2.27%	-2.53%	-1.45%	-2.87%	-5.44%	-4.71%
4 Week Price Chg	17.61%	3.73%	3.75%	9.80%	2.54%	5.20%
12 Week Price Chg	2.12%	5.61%	3.95%	13.95%	-6.38%	8.45%
52 Week Price Chg	-31.88%	3.94%	2.75%	50.65%	-3.72%	14.71%
20 Day Average Volume	294,878	69,868	1,887,168	1,132,687	259,080	60
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	14.52%	0.15%	0.79%	4.78%	-3.10%	0.00%
(F1) EPS Est 12 week change	-0.22%	2.66%	3.43%	3.22%	-5.15%	0.00%
(Q1) EPS Est Mthly Chg	10.23%	0.61%	0.00%	17.82%	6.31%	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	C
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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