Methanex Corporation (MEOH)

$16.37 (As of 04/29/20)

Price Target (6-12 Months): **$17.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/04/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: A | Growth: F | Momentum: F	**4-Sell** VGM:D

Summary

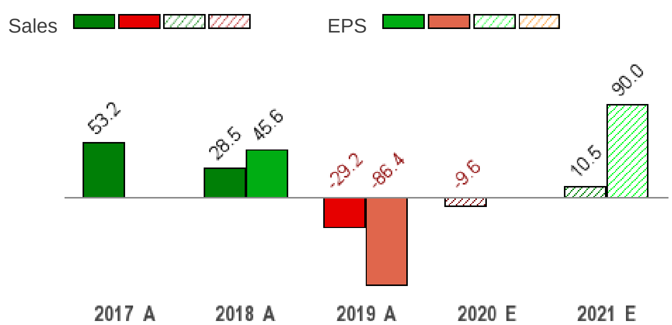
Earnings estimates for Methanex for the first quarter of 2020 have been decreasing over the past month. Demand fundamentals for methanol remain healthy despite the global economic weakness. The company is seeing strong demand in energy-related applications. Moreover, its Geismar 3 plant is expected to deliver strong returns on significant capital and operating cost advantages. Further, Methanex remains committed to boost shareholder returns. However, Methanex is exposed to a challenging methanol pricing environment. Fears surrounding global economic growth and trade tensions contributed to the volatility in pricing in 2019. Lower methanol prices are expected to remain a headwind in 2020. Moreover, production outages are affecting the company's operations. Methanex has also underperformed the industry it belongs to in the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$55.24 - $9.10**
20 Day Average Volume (sh)	**800,432**
Market Cap	**$1.2 B**
YTD Price Change	**-57.6%**
Beta	**2.18**
Dividend / Div Yld	**$1.44 / 8.8%**
Industry	**Chemical - Diversified**
Zacks Industry Rank	**Bottom 29% (179 out of 253)**
Last EPS Surprise	**-50.0%**
Last Sales Surprise	**6.1%**
EPS F1 Est- 4 week change	**-282.5%**
Expected Report Date	**05/05/2020**
Earnings ESP	**57.1%**
P/E TTM	**17.6**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**0.5**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					2,780 E
2020					2,516 E
2019	733 A	734 A	650 A	659 A	2,784 A

EPS Estimates

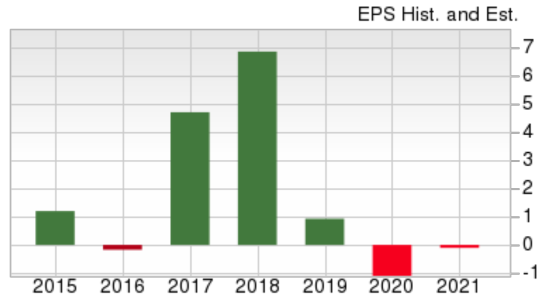
	Q1	Q2	Q3	Q4	Annual*
2021					-$0.11 E
2020	$0.07 E	-$0.61 E	-$0.42 E	-$0.14 E	-$1.10 E
2019	$0.73 A	$0.34 A	-$0.27 A	$0.13 A	$0.93 A

*Quarterly figures may not add up to annual.

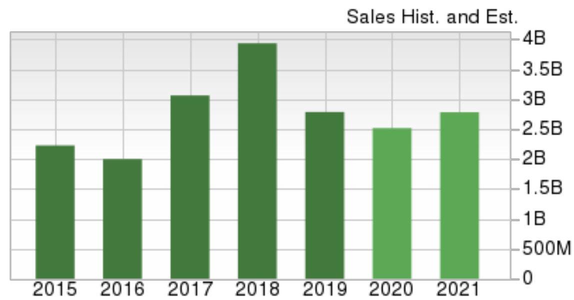
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/29/2020. The reports text is as of 04/30/2020.

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 should gain from healthy demand fundamentals for methanol. Its Geismar 3 plant is also expected to deliver strong returns. Methanex is also committed to boost shareholder returns.

- Demand fundamentals for methanol remain healthy despite the global economic weakness and a few near-term challenges. Overall methanol demand grew 3% in 2019. While energy-related demand expanded 7% year over year, traditional demand was flat year over year. 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 grow roughly 3-4% moving ahead.

- 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 CO_2 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 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 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.

Reasons To Sell:

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

- Methanex has underperformed the industry it belongs to in the past year. The company's shares dipped 69.6% in this period compared with the industry's decline of 32%. 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 36% year over year) hurt the company's bottom line in fourth-quarter 2019. 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. The company expects planned maintenance capital expenses for 2020 to be roughly $150 million.

- 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 2019. Moreover, demand for methanol is expected to be impacted in China in the first quarter of 2020 due to shutdowns (resulting from the extended Chinese New Year holiday) and disruptions associated with the outbreak of coronavirus.

- The company's high debt level is a concern. At the end of the fourth quarter of 2019, its long-term debt was $2,359 million, higher than $2,310 million in the sequentially prior quarter. Its debt-to-total capital stood at 59.5% as of Dec 31, 2019, higher than its industry's 42.5%. As such, the company appears to have a higher default risk.

Last Earnings Report

Methanex's Earnings Miss, Revenues Beat Estimates in Q4

Quarter Ending	12/2019
Report Date	Jan 29, 2020
Sales Surprise	6.07%
EPS Surprise	-50.00%
Quarterly EPS	0.13
Annual EPS (TTM)	0.93

Methanex posted profits (attributable to shareholders) of $9 million or 12 cents per share in the fourth quarter of 2019, down from $161 million or $1.68 per share in the year-ago quarter.

Adjusted earnings per share (barring one-time items) in the reported quarter were 13 cents, which missed the Zacks Consensus Estimate of 26 cents.

Revenues declined 32.6% year over year to $658.7 million in the quarter. However, it surpassed the Zacks Consensus Estimate of $621 million.

Adjusted EBITDA tumbled 30.9% year over year to $136 million. The results were impacted by lower average realized methanol prices.

Operational Highlights

Production in the quarter totaled 2,124,000 tons, up 12.7% year over year. Total sales volume was 2,986,000 tons, up 8.5% year over year.

Average realized price for methanol was $256 per ton in the quarter, down 36.2% from $401 in the prior-year quarter.

2019 Highlights

For 2019, revenues declined 29.2% year over year to $2,784 million. The company recorded adjusted net income of $71 million or 93 cents per share, down from $556 million or $6.86 in the year-ago quarter.

Financials

For the reported quarter, cash flow from operating activities was $114 million, down 47.7% year over year. The company had cash and cash equivalents of $417 million, up 62.9% year over year.

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

Outlook

The company anticipates its Geismar 3 project 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.

The company will also remain committed to execute its Louisiana growth projects and return excess cash to shareholders through dividends and share buybacks.

Recent News

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.

Methanex anticipates spending roughly $100 million in the first quarter of 2020 and another $200 million between Apr 1, 2020, and Sep 30, 2020, on the Geismar 3 project, much of which is the expenditure that has been incurred or committed during the first quarter of 2020. Notably, the new amount is around $500 million lower over the next 18 months compared with $800 million projected to be spent over the same time frame. Construction activities, and the procurement of bulk materials and non-critical equipment will be discontinued until market conditions allow for a restart of the Geismar 3 project.

The company also provided an update on certain measures it is taking to bolster its financial position.

It is minimizing other near-term capital expenditure by roughly $25 million by delaying scheduled maintenance operations to retain cash and support balance sheet strength. The flexible cost structure of Methanex along with expected lower logistic costs is expected to minimize operating costs in the current environment.

Methanex has fully drawn on its revolving credit facility of $300 million and has also drawn $136 million of its $800-million construction credit facility for the Geismar 3 project to enhance its cash position and retain financial flexibility.

Methanex Sees Coronavirus to Hurt Demand, Cuts Production - Mar 16, 2020

Methanex idled its Trinidad-based Titan facility effective Mar 16. The company will also idle its Chile IV plant starting from Apr 1. Further, the company stated that the changes are being made for an indefinite period.

The company expects that methanol demand might get affected in second-quarter 2020, considering that manufacturing activities have been reducing in countries that are witnessing significant COVID-19 outbreaks.

Consequently, the company is lowering production in the methanol facilities where it has flexibility in its gas agreements. It may be noted that Methanex does not expect this change in production to make a major impact on its cash flows in the current price environment.

The company is undertaking steps to strengthen balance sheet amid a challenging commodity price environment and uncertainty in the global economy. Methanex is also evaluating all capital and operating spending, including its Geismar 3 project.

The company has considerable liquidity of around $700 million, including cash in hand and an undrawn committed revolving credit facility. It also has an undrawn construction facility for the Geismar 3 project worth $800 million.

Valuation

Methanex's shares are down 69.6% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 32% and 17% over the past year, respectively.

The S&P 500 index is down 2.5% in the past year.

The stock is currently trading at 5.32X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 6.97X for the Zacks sub-industry, 8.81X for the Zacks sector and 10.45X 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 8.67X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $17 price target reflects 0.8X 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	5.32	6.97	8.81	10.45
	5-Year High	28.26	13.36	18.31	12.87
	5-Year Low	4.26	5.43	6.5	8.27
	5-Year Median	8.67	7.58	10.54	10.78
P/B TTM	Current	0.77	1.45	1.75	3.78
	5-Year High	3.68	3.55	3.57	4.55
	5-Year Low	0.45	0.89	1.22	2.84
	5-Year Median	2.07	1.8	2.17	3.64
P/S TTM	Current	0.38	1.07	2.09	3.16
	5-Year High	2.36	3.95	3.41	3.67
	5-Year Low	0.22	0.72	1.45	2.42
	5-Year Median	1.48	1.25	2.61	3.18

As of 04/29/2020

Industry Analysis **Zacks Industry Rank:** Bottom 29% (179 out of 253)

Top Peers

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

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)	4	-	-	4	4	3
VGM Score	D	-	-	A	D	A
Market Cap	1.25 B	2.52 B	20.82 B	6.88 B	1.98 B	1.37 B
# of Analysts	2	3	14	10	6	1
Dividend Yield	8.80%	2.37%	2.07%	2.38%	4.00%	2.35%
Value Score	A	-	-	C	D	A
Cash/Price	0.40	0.10	0.06	0.09	0.10	NA
EV/EBITDA	5.41	7.68	12.12	10.94	6.28	NA
PEG Ratio	NA	2.46	2.51	1.52	2.84	NA
Price/Book (P/B)	0.77	1.58	2.74	1.68	1.72	0.91
Price/Cash Flow (P/CF)	3.01	5.64	11.23	8.01	5.31	3.37
P/E (F1)	NA	15.88	19.26	14.47	14.47	7.07
Price/Sales (P/S)	0.45	0.83	2.16	1.92	0.61	0.47
Earnings Yield	-6.72%	5.98%	5.03%	6.91%	6.92%	14.14%
Debt/Equity	1.45	0.52	0.72	0.70	0.95	NA
Cash Flow ($/share)	5.45	3.41	7.01	8.07	6.58	2.91
Growth Score	F	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	27.32%	9.94%	10.88%	8.83%	10.54%	NA
Proj. EPS Growth (F1/F0)	-217.74%	-15.61%	-6.94%	-25.99%	-38.19%	-18.24%
Curr. Cash Flow Growth	-48.22%	-7.54%	5.92%	6.86%	-22.87%	NA
Hist. Cash Flow Growth (3-5 yrs)	-6.33%	6.20%	8.55%	14.46%	-2.25%	NA
Current Ratio	1.90	1.87	1.23	1.58	2.08	NA
Debt/Capital	59.13%	35.68%	43.90%	41.15%	48.73%	NA
Net Margin	3.15%	5.03%	11.15%	14.86%	3.98%	NA
Return on Equity	4.18%	11.88%	16.47%	16.12%	18.47%	NA
Sales/Assets	0.54	0.82	0.54	0.42	1.03	NA
Proj. Sales Growth (F1/F0)	-9.38%	-5.59%	-1.52%	-7.46%	-15.71%	-11.95%
Momentum Score	F	-	-	A	F	B
Daily Price Chg	12.66%	3.75%	2.91%	0.56%	6.07%	0.00%
1 Week Price Chg	3.79%	0.65%	-1.74%	0.10%	1.54%	2.27%
4 Week Price Chg	42.35%	21.44%	21.33%	17.92%	31.97%	14.70%
12 Week Price Chg	-53.61%	-18.06%	-16.28%	-26.16%	-18.77%	-22.05%
52 Week Price Chg	-69.59%	-26.36%	-7.57%	-12.69%	-22.98%	-18.08%
20 Day Average Volume	800,432	112,260	2,658,107	1,299,314	339,481	251
(F1) EPS Est 1 week change	-67.18%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-282.50%	-4.59%	-6.32%	-2.17%	-21.83%	-17.75%
(F1) EPS Est 12 week change	-150.69%	-21.88%	-12.93%	-6.41%	-36.26%	-0.71%
(Q1) EPS Est Mthly Chg	-266.67%	-14.27%	-11.84%	-0.46%	-44.86%	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.

Value Score	A
Growth Score	F
Momentum Score	F
VGM Score	D

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.

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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