The Long Arm of Methanex's Methanol

Description

By Cameron Conway

Vancouver-based **Methanex** (TSX: MX), incorporated in 1992, has become a global leader in the production, sales, and shipping of one key and little known chemical: methanol.

This 1,000-employee-strong company has become the world's largest supplier of methanol to major international markets in Asia Pacific, North America, Europe, and Latin America.

Methanex reaches these markets through its production facilities located in Canada, New Zealand, Chile, Egypt, and Trinidad. Combined, these facilities currently produce around 9.5 million tonnes of methanol a year.

But what is methanol?

First off, methanol should not be confused with those little blue rocks from *Breaking Bad*. It is essentially a liquefied form of renewable and non-renewable fossil fuels. Methanex produces its methanol with natural gas, creating what people more educated than me would call CH3OH or methyl alcohol.

Methanol is used in many different ways. It can be converted to formaldehyde and made into recyclable plastic bottles, plywood, and paint. It can be used as a chemical solvent, as a pipeline antifreeze (very popular in the oil sands), or even as high-performance race fuel. Recently it has become a key ingredient in certain formulations of biodiesel. But for most of us here in Canada, we would know methanol as the active ingredient that keeps our windshield washer fluid from freezing.

Growth within Methanex

In order to meet growing international demand, Methanex recently announced the relocation of two of its idle Chilean facilities to Geismar, Louisiana, a move made to take advantage of lower natural gas prices in the United States. This relocation is expected to cost $54 million in capital expenditures, andin turn add an additional 2 million tones of potential production a year by 2016.

Further, on Oct. 4, Methanex produced its first batch of methanol from its reactivated Waitara Valley facility in New Zealand. Along with expansions at the Montuni, New Zealand facility, this increases production capabilities by another 0.9 million tonnes per year.

Not overlooking Canada, upgrades to the Medicine Hat Facility have increased production capacity by 100,000 tonnes a year. These expansions, plus future facilities in Texas and Azerbaijan, add up to *a lot* of methanol being produced each and every year.

With global demand reaching 54 million tones per year, Methanex has increased its production capacity to nearly 10 million tones a year.

The risk

With strong growth and expansion — not to mention a dominant market share — Methanex appears to be a strong company. But like most commodity-based companies, the price to produce can be both a benefit and a burden. The cost of natural gas is the crux of the company's growth. It can contribute to a loss of $68 million as it did in 2012, or it can add to a current net income of $115 million, as it's done for the first half of 2013.

There could be a macro trend in the company's favour, given the recent marketing pushes in both B.C. and the U.S. for the use of natural gas, combined with a growing consumer desire to move away from conventional gas and diesel fuels. The company will remain tied to commodity prices, but with methanol becoming a key ingredient in the future of fuels, Methanex stands at the forefront to benefit from the increases in demand.

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TICKERS GLOBAL

1. TSX:MX (Methanex Corporation)

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