Methanex Corp. (TSX:MX) Could Grow Beyond All Expectations

Description

Banking and oil stocks are getting a lot of attention at the moment, and not all of it is positive. If you're starting to feel that your portfolio is under-diversified, it may be time to check out some materials stocks — especially ones that trade outside of NAFTA. Put simply, if your portfolio is a third, or even 50%, financials, it might be time to adjust the mix while times are still good. Here's one stock to consider that could beat its expected growth in earnings.

Don't let Methanex be the one that got away

While you'll find a fair amount of chatter about it in American investment circles, nobody really seems to be paying attention to **Methanex Corp.** (TSX:MX)(NASDAQ:MEOH) this side of the border at the moment. This is a little baffling, as Methanex is probably one of the best materials stocks to own on the TSX.

The biggest methanol supplier in North America, the Asia Pacific zone, Europe, and South America, Methanex is the Heisenberg of methyl alcohol. Take some carbon monoxide, hydrogenate it, and you have a high-octane fuel source for your materials portfolio — literally.

Value-wise, its current share price of $91.70 is a little steep, though. At 16.6 times earnings, it's about market-weight, though it's also 3.6 times the book value. With a dividend yield of 1.84%, expected to rise to 1.99% next year, it's worth watching for a dip.

Then again, what if there is no dip? Some stocks may prove to be gravity-defying and carry on accumulating thanks to an ever-expending market. Look at **Amazon.com, Inc.** (NASDAQ:AMZN), one of the stocks that perennial ex-paperboy Warren Buffett wishes he'd bought years ago. If you think Methanex looks good right now, perhaps you should side with the consensus among some vocal analysts and buy now. It might just be another Amazon.

Investing in Methanex is basically investing in global industry

As far as materials stock go, methanol is solid (actually, it's a liquid, but hey). Methanex's main chemical product, methanol, is used in anti-freeze, solvents, fuel, paint, and industrial processes. Can you see any of these products or sectors going out of fashion any time soon? Looking at this stock, it's important to see it as more than a ticker and consider how it operates in the real world.

Talking about real-world practicalities, Methanex can't be faulted on its track record. Its past 12-month earnings growth beat its five-year average by 148% to 6.5%, no doubt powering its share price climb, as investors migrated towards a successful stock. That one-year average also beat the Canadian chemicals industry average of 4.8% growth for the same period.

There is every chance that Methanex could go on to become one of the biggest stocks on the TSX and the NASDAQ, as the global economy rights itself. It has a high buyback ratio, which, among other things, may well indicate its own bullishness in itself. It's not alone in this — analysts are giving a moderate to strong buy signal.

The bottom line

Methanol isn't going anywhere as a commodity. There is, and will remain, a huge market for this product, from paint suppliers to solvent manufacturers, and Methanex is well placed to supply that market. It's also geographically diversified enough to remain stable throughout coming market turbulence.

Cautious investors should put it on their wish lists and consider buying if its share price drops to the $65 zone. Otherwise, buy now and don't let missing this potentially gravity-defying stock be your Warren Buffett/Amazon moment.

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