I Missed Out on Massive Upside From This Energy Company: Should Investors Buy in Now?

Description

I just took a look at a stock I have not looked into for a couple of years: **Methanex Corp.** (TSX:MX) and I was absolutely shocked by what I saw. You see, I bought this company's stock a couple of years ago during the commodity collapse for somewhere around $37. I thought I was quite the genius when I sold the stock for a whopping $40 after collecting the dividend for a few months, especially when the stock collapsed into the $30 range once again after I sold it. I didn't look at it again until I sat down to take a look at it once again recently.

When I popped the ticker into Google search, I was shocked. The stock had gone from the $30s to the $100 range. I quickly discovered that at $100, the company is trading at a price to earnings ratio of 16 times earnings. What was the reason for this price increase, especially when other Canadian energy-related companies have hardly budged, and is this company worth buying at this level?

Methanex is a global leader in the production of methyl alcohol, or methanol, with 14% of total market share. The chemical is a clean-burning, biodegradable fuel that's water soluble. The company has operations in such countries as Chile and China. International demand for this clean alternative energy source has grown as countries strive to get pollution under control. Demand for the methanol has grown around 4% year-over-year globally in 2018, giving the company a huge boost to its earnings and profitability as the commodity's price increased in response to demand.

The company is using its cash to return capital to shareholders through dividends and share buybacks. Methanex currently pays a dividend of 1.7% on a quarterly basis. The company's cash flow generation has permitted multiple dividend increases over the years, with the latest being a hike of 10% in January of this year. The company intends to continue with regular dividend increases as cash flow generation allows. The investor-friendly company has also returned a significant amount of capital to shareholders through share buybacks and has reduced its outstanding float by 17% since 2013.

The company continues to generate strong cash flow. Much of its profitability comes from methanol prices, which have continued to increase. The average realized price for methanol in the second quarter of 2018 was US$405 per ton as compared to US$327 per ton in the second quarter of 2017. If demand continues to be strong in the coming quarters, Methanex should experience continued earnings strength. Also, since methanol is priced in U.S. dollars, the currency strength has provided an added boost to Methanex's profitability.

Looking at these numbers, the company's share buybacks and dividends, and the quality of theproduct make me wish I had held onto my $37 shares. At these prices, I have a hard time paying up fora commodity company that has had a great run. The company appears very well run, and if its projectsof methanol adoption in China and other places is correct, there could be further upside for thecompany. But commodity companies make me nervous. If I were to re-enter a position, it would only beafter a significant pullback. However, if you managed to buy low as I did but hang onto your shares,don't sell them anytime soon.

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