
# Methanex (TSX:MX) vs. Nutrien (TSX:NTR): 1 Materials Stock Wins After a Mad Summer

## Description

Today, I'm going to compare two close competitors in the materials and chemicals industry and see which one looks like the strongest buy. Not that long ago, the two stocks below weren't that dissimilar, but after a tough summer for the markets the pair has grown further apart in terms of valuation and outlook.



**Methanex** (TSX:MX)(NASDAQ:MEOH)

Methanex seems to have its industry cornered. This is a great defensive stock, with a market cap of $8 billion making it sizable enough to reassure all but the queasiest of investors. A one-year past earnings growth of 65.8% compares a little unfavourably with an industry average for the same 12 months of 104.7%, but smashes its own five-year average past earnings growth of just 2%.

At $97.81, Methanex is overvalued by $20 a share compared to its future cash flow value. This overvaluation wouldn't be apparent were to go by a P/E ratio of 16.5 times earnings alone. With a negative PEG denoting a lack of expected growth, a P/B of 4.1 times book rounds out a handful of multiples that do indeed suggest that this is an overpriced stock at present. Competitors include **Air Products and Chemicals** and **Valero Energy**, though value investors may be hard pressed to find comparable value, overheated as those variables might be.

Is it worth a punt, though growth investors looking at a 4.1% expected contraction in earnings over the next couple of years might say no. The rest of its data is similarly mixed: a decent return on equity of 26% last year and dividend yield of 1.76% (which could be higher, to be honest), contend with a high debt level of 85.8% of net worth. Inside selling has been quite high in the last 12 months, though the last few months have seen some inside buying.

**Nutrien** (TSX:NTR)(NYSE:NTR)

It's hardly a surprise to follow the methanol superstar with the wunderkind of agri chemicals; what is a surprise though is how much this stock has changed since earlier this year. While a high market cap is nothing new (Nutrien's is $43 billion), a one-year past earnings growth of 143.7% easily beats Methanex as well as the rest of the sector and totally sets fire to its own five-year average past earnings contraction of 40.3%.

However, this is not a cheap stock at the moment: overvalued by almost double its future cash flow value, Nutrien now has a very high P/E of 62.8 times earnings, making it look a bit like a FAANG stock. A PEG of four times growth is pretty high for the TSX, though a P/B of 1.4 times book suggests that you're not wasting too much money in terms of assets.

A 15.6% expected annual growth in earnings over the next one to three years may mark this stock out as a contender for your growth portfolio, while a dividend yield of 2.96% should satisfy some passive-income investors. Close competitors include the aforementioned Methanex and the U.S. industrial gases company **Praxair**, which would-be investors should check out for a comparison.

The return on equity was only 3% last year last year, suggesting that better use could have been made of the funds pumped into this stock, though there has been more inside buying than selling in the last 12-month period. A debt level of 50.9% of net worth could definitely be lower, though it is by no means the highest on the TSX.

**The bottom line**



This is a fine duo to slip straight into your portfolio. Though it may not look diversified, since both stocks are concerned with Canadian chemicals, the fact is that agricultural potash and industrial methanol are vastly different beasts. If you have to pick just one, I would suggest buying Nutrien, purely since food security is arguably a more immediate necessity in the emerging markets than non-agricultural industrial chemicals; a higher dividend yield and lower debt are sound financial arguments for this choice as well.

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