



The World's Largest Methanol Producer Is Now on Sale

Description

Methanex ([TSX:MX](#))([NASDAQ:MEOH](#)) is the world's largest producer of methanol. With a 14% market share, Methanex is nearly twice as large as its nearest competitor.

As with any commodity, scale matters. Methanex is one of the only companies with both a global production base and an international list of clientele. It also can afford a dedicated tanker fleet that allows it to respond to changing market conditions faster than any competitor.

The core market remains strong

Growing demand is great if you're one of the top 10 producers. Last year, these top producers controlled more than half of all global sales. If you're not in this select group, it's difficult to gain a cost or distribution advantage. Over the next decade, there's no reason to believe Methanex will lose its leading position. That means wherever the market goes, Methanex stock will follow.

From 2012 to 2017, demand for methanol rose by an average of 6% annually. Through 2020, this pace of growth is expected to remain similar at 5% annually. Today, global demand per year is around 78 million tonnes. By 2021, it should surpass 90 million tonnes.

While new capacity will offset some of this demand growth, available volumes are still expected to lag demand needs. While exogenous shocks like project delays or production outages may have short-term impacts, expect methanol pricing to remain close to its historical averages.

Expect more buybacks and dividends

Methanex's management boasts that the company has "solid cash generation capability at a broad range of methanol prices." The data shows that this is largely true.

Today, North American methanol prices are around \$432 per tonne. Prices could drop by more than 40%, and Methanex would still generate positive EBITDA and free cash flow.

At the current share price, the stock is trading at an impressive 12% free cash flow yield, assuming US\$400 per tonne prices. Where will the company put all that extra cash?

Since 2013, the company has repurchased 14% of its outstanding shares for roughly \$725 million. Methanex has already made a healthy profit from these buybacks.

Methanex has also shown a steadfast commitment to its dividend, which currently yields about 2.3%. Starting in 2010, the company has increased this payout every year. Management specifically notes “dividends and share buybacks” in its latest investor presentation, highlighting its “commitment to returning excess cash to shareholders.”

Importantly, the company is exiting a capital-intensive period and now has no major capital commitments beyond its projects in Chile. That means production could rise from 7.2 million tonnes last year to 9.4 million tonnes in the near future without impacting free cash flow generation.

Rising production and cash flow generation should bode well for additional share repurchases and dividend increases.

A bumpy ride provides opportunity

Wild swings are typical for any commodity stock, and Methanex is no different. Over the last decade, Methanex has fallen by more than 50% twice.

Recently, shares have seen pressure yet again. Over the last six months, the company’s stock is down by nearly 30%. However, Methanex’s competitive position hasn’t changed, while long-term market growth remains intact. Commodity stocks can be rough over the short term, but swings often provide limited-time buying opportunities.

The ride will likely be bumpy, but current prices look like a great entry point into Methanex stock.

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