Bet on Growth and Savour a 3.6% Yield With This Bargain Stock

Description

Back in the summer, **Methanex** (TSX:MX)(NASDAQ:MEOH) was in quite a different position. Grinding along at a year-long low, investors were punishing materials stocks, as the recessionistas were out in full force.

Today, talk of a downturn has subsided somewhat, with investors easing out of low-risk assets and showing reaffirmed bullishness in the economy. However, then as now, Methanex was a play on growth with attractive fundamentals.

A cheap stock with high-growth potential

Having shed 32% in the last year, Methanex is a battered stock worth buying at today's prices. While it could be cheaper — Methanex trades at 34% over its 52-week low — the lower cost of methanol has eaten into the material stock's value. That doesn't mean that nobody is buying, though. Methanex stock has risen by 26.6% over the course of the last three months.

Methanol is a cyclical industry, and as such it requires a management team that is experienced enough to roll with the punches. Luckily, it has such a team, which is yet another buying point for this well-priced materials dividend stock. Despite having risen in price since the summer, Methanex still pays a tidy 3.6% dividend yield, and its industry is facing steep growth in the coming years.

Methanex is an interesting play, and a strong one, because of its diversified revenue streams. Spanning not only chemicals and fuel, the methanol producer also grants access to a wide range of other industries, such as clothing, plastics, and pharmaceuticals. Its position in the chemicals industry is also secure, with Methanex being one of the best wide moats on the TSX.

Methanex is betting on higher commodity prices

What makes those in the know especially bullish on Methanex is something quite specific. The Geismar 3 facility. The Louisiana-based plant will have a capacity of 1.8 million tonnes and is looking at a 2022 completion date. With a price tag of US$1.4 billion, the project is hardly small potatoes and shows that Methanex is bullish on higher methanol prices and determined to maintain its economic moat.

Methanex has seen its fair share of price volatility in the last 12 months, and what with lower methanol prices and a gloomy global manufacturing landscape, it might be hard to see this stock as a low-risk play. However, reassurance comes into play when you factor in all the various industries that Methanex serves as well as the international outlook for methanol plus the potential for an upturn in manufacturing.

While its latest quarter saw a decline in earnings that may have spooked some investors looking for low-risk buy-and-hold opportunities, this was largely due to the fall in methanol prices. For investors bullish on demand, an investment in Methanex should see steep capital appreciation as methanol prices rise again.

The bottom line

If other materials and commodities are represented in your dividend portfolio, adding a methanol producer will help reduce the risk of overexposure. If your basket of income stocks is light on energy, Methanex lends some exposure there, too. In short, while investors may be punishing the stock this week, it's a solid play for the long term, with the promise of capital gains and safe dividends.

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Date
2025/08/17
Date Created
2019/11/20
Author
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