This TSX Stock Is Too Cheap to Ignore

Description

During times of stress, you want to look to stocks that give you comfort. Market leaders generally manage to overcome an economic downturn better than most. I wrote about **Methanex** (TSX:MX)(NASDAQ:MEOH) in March, and stated that it was a good company that was heavily oversold. It was trading at $23 then. After the COVID-19 virus shook the world economy, the stock has managed to hold its own.

Based in Vancouver, Methanex is the world's largest producer and supplier of methanol to major international markets. The company has had a disappointing 12 months. Revenues have dropped drastically from $4.48 billion in 2018 to $3.28 billion in 2019 as methanol prices crashed worldwide. Methanex used to trade at $71.15 in May 2019. Today, its share price is just over $21. Methanex will announce its results on May 5, 2020, and investors should brace for another volatile quarter.

Uncertainty about the global economy is increasing thanks to the COVID-19 pandemic and the drop in oil prices. This has resulted in a drop in methanol prices and a disruption in supply chain execution for Methanex. The company has been taking measures to mitigate risks and ensure it rides out the pandemic prudently.

It is under no illusion about its growth prospects this year. On April 30, Methanex slashed its quarterly dividend to $0.0375 per share from $0.36. This represents a 90% cut in dividends. The company believes this move will strengthen its balance sheet and help it maintain decent liquidity. The dividend cut might generate $100 million in annual savings.

Methanex focuses on operational efficiency

Methanex has also started discussions with its bankers to obtain flexibility on financial terms for its existing $300 million revolving credit facility and $800 million non-revolving construction facility. The company's lead bank has agreed on some key parameters, with changes to be finalized in the second half of May. Clearly, Methanex doesn't expect business to be back to usual any time this quarter.

This follows the company's previous measures in March and early April when it decided to suspend operations at its Titan plant in Trinidad from March 16, 2020, and at the Chile IV plant from April 1, 2020, without an end date. Both plants represent around 19% of Methanex's annual operating capacity of 9.2 million tonnes.

Methanex has deferred around $500 million of capital spending that it had announced previously on its Geismar 3 methanol project. The project has been deferred for up to a period of 18 months.

John Floren, president and CEO of Methanex, said, "We are taking proactive steps today during these unprecedented times to further strengthen our balance sheet, while maintaining long-term value and financial flexibility. We believe that deferring major capital spending on our advantaged Geismar 3 project, and minimizing near-term spending, is a prudent decision in the current environment."

Data Bridge has forecast the global methanol market to reach $130.68 billion by 2026, up from $83.3 billion in 2018. This indicates a compound annual growth rate of 5.79% in the forecast period.

Methanex is part of a growing market. The stock is cheap and trading at a price-to-sales multiple of 0.5 and a price-to-book ratio of 1.24. Further, as COVID-19 slowly abates and methanol demand starts coming back, Methanex stock will zoom. It is a good company to accumulate in 2020.

CATEGORY

1. Coronavirus
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araghunath