



## Buy Alert: This TSX Stock Has Gained 32% Since May

### Description

When the markets tanked in March, almost all stocks crashed. Many of them have recovered. Some haven't. Stay away from the ones that haven't and take a closer look at the ones that have. Is the recovery just a bounce-back to the over-correction in March? Or is it actually sustainable for the longer term?

When I had written about **Methanex** ([TSX:MX](#)) ([NASDAQ:MEOH](#)) in May, I had told investors to pick up this stock because the stock was just [too cheap to ignore](#). Since then, the stock has soared a little over 32%. This is good news for investors who picked up Methanex stock in May. Now, however, the party is going to slow down drastically for Methanex.

In my earlier view, I said that 2020 could be a year of accumulation for Methanex as we wait for methanol demand to come up. Any increase in methanol demand will cause Methanex stock to rise. After all, the Vancouver-based company is the world's largest producer and supplier of methanol to major international markets. It controls around 13% of the world's methanol market.

### What next for investors?

However, methanol demand shows no signs of picking up, and it appears that the stock price has peaked for the time being. Expect the stock to move sideways until there is a significant movement in the methanol market.

Methanex already stated that it expected demand for methanol to be lower in the second quarter of 2020 and that its results for Q2 would be worse than Q1. There is a lot of uncertainty in the markets right now due to the pandemic and low oil prices.

Generally, methanol prices move in tandem with oil prices. Anyone expecting oil prices to rebound in a big way is living out a pipedream fantasy. According to a report by the International Energy Agency, the world has accumulated a lot of oil. [According to Bloomberg](#), enough oil has gone into storage across the world to drive every U.S. truck around the world five times. That's a lot of oil.

From all accounts, it seems that Q2 is going to be a very slow quarter for Methanex. One would be better served by deploying their resources in other stocks that show a better rate of return in the short term at least.

On June 3, 2020, Methanex announced that it had amended its \$300 million committed revolving credit facility and \$800 million non-revolving construction facility. These changes would help the company get financial relief and flexibility, thus enabling it to complete its Geismar 3 project.

While Methanex tried getting a partner for this project, they have been unsuccessful and had to resort to debt. This was one of the reasons that Fitch had downgraded Methanex's long-term IDR to BB with a negative outlook. Fitch also expects methanol prices to trough all through 2020-21 and recover thereafter.

I wouldn't advise people to wait for 18 months before taking a call on Methanex. Hold on until there is clarity on methanol prices and demand. The moment green shoots start sprouting, Methanex is a buy again.

## **CATEGORY**

1. Coronavirus
2. Investing

## **TICKERS GLOBAL**

1. NASDAQ:MEOH (Methanex Corporation)
2. TSX:MX (Methanex Corporation)

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