Methanex (TSX:MS) Stock: Can it Gain 300% in the Next Year?

Description

What do you do when you control 13% in the market share of a material that has a wide variety of industrial uses, but demand has fallen off a cliff and doesn't look like its going back up anytime soon? If you are **Methanex** (TSX:MX)(NASDAQ:MEOH), you simply hang in there.

Methanex gained 32% between May 4, when I wrote about it, and June 1. After that, the stock dropped 25% and is now trading around the same price it was on May 4. The drop was not unexpected. Towards the end of June, I had written that 2020 seems to be a year of accumulation for the stock.

Methanol prices are depressed, and so is the stock price for Methanex. It has been hovering in the $24-$27 range for over 40 days now. The company had said that it expected its second-quarter numbers to be worse than its Q1 numbers.

The company reported its Q2 results, and it lived up to its depressed expectations. Methanex recorded a net loss of $65 million compared to a net income of $23 million for Q1. Adjusted EBITDA was $32 million compared to $138 million in Q1. The lower numbers were due to lower prices for methanol and lower sales.

China holds as the rest falter

Prior to COVID-19, annual methanol demand was expected to increase by three million tonnes, or 3-4%. However, compared to the fourth quarter of 2019, methanol demand has dropped by 12% in the June quarter. Compared to Q1, global methanol demand fell by 5%.

Lower manufacturing activity, particularly in the construction and automotive sector, which are traditionally strong buyers, was a major reason for the decline in demand. Demand for energy-related applications also fell because of reduced transport and lower fuel demand.

China was a blip in Q2 with methanol demand increasing by 4%, as manufacturing activity improved and ground transport rose that lead to an increase in fuel consumption. Outside of China, methanol demand declined 19% compared to Q1.

What next for Methanex?

Methanex has responded by suspending operations at its Titan plant in Trinidad and Chile IV plant. It has also deferred around $500 million in capital spending on the Geismar 3 project for up to 18 months. Dividends will take a hit, as the company reduced payouts by approximately $100 million.

The company has also cut its 2020 maintenance capital spending by $30 million. Methanex continues to optimize costs and added a further $8 million in Q2 savings compared to Q1. The savings are largely due to the fact that 60% of its natural gas supply is linked to methanol pricing, and if methanol prices are lower, so are the operating costs.

In what is probably the most encouraging sign that there could be a rebound in methanol prices, John Floren, president and CEO of Methanex, said, “We have begun to see some early signs of improving methanol demand with global economic activity beginning to recover and with oil pricing stabilizing in recent weeks.” Methanex had refused to give any outlook on methanol pricing in the last four months.

Analysts have given Methanex a price target of $72; that’s upside of around 300% from current levels. However, the fact that Geismar 3 has been put on hold for 18 months indicates that recovery is still some way off. I would recommend buys on every dip and wait for the world economy to start consuming again.

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araghunath