Buy Alert: This TSX Stock Has Gained 100% Since March

Description

I have been writing about **Methanex** (TSX:MX)(NASDAQ:MEOH) throughout the pandemic. I first wrote about it on March 14, when it was trading around $14.5 levels. At the time, it had a dividend yield of over 9%. I wrote about it in May, June, and August as well.

The stock kept rising consistently and had doubled to $28, though the company had cut its dividend payout by 90%. The forward yield has now dropped to just 0.64%. All of my analyses always ended with a "buy" recommendation.

My reasons for staying bullish on Methanex are very clear. The company is the largest producer and supplier of methanol in the world. It has a global distribution network with a current production capacity of 8.1 million metric tons (MT). It produces and supplies methanol in North America, the Asia Pacific, Europe, and South America.

Methanol is used across industries. It is a major component of chemicals like acetic acid and formaldehyde, which are used as building blocks in products like adhesives, foams, plywood sub-floors, solvents, and windshield washer fluid. Demand for all these products has slowed down since the pandemic hit and methanol prices fell.

The company's results for the second quarter were hit, as it booked a loss of $65 million. The company took steps to increase liquidity with its dividend cut, which saved $100 million per year, and suspended operations at its Titan and Chile IV plants. It also delayed spending on its G3 facility until the pricing scenario improved.

Methanex stock should rise as demand stabilizes

Recent data suggests that demand for methanol is slowly picking up again, even as supply is limited. Argus Media, a commodity expert reported that demand for methanol in China is improving. China is the largest market for methanol and is a proxy for the world's industrial activity. Prices of methanol in the U.S. have gone up to 70¢/USG in September compared to 60¢/USG in August. Europe is also seeing a supply crunch, even as formaldehyde demand is go and production of wood-based products is increasing.

Ratings agency Fitch expects the methanol market has bottomed out. It noted, "Average realized price for Methanex fell to $256/ton in 4Q19 and then to $211/ton in 2Q20. Fitch believes that 2Q20 represented the bottoming out of pricing and utilization rates, with the coronavirus pandemic's impact on demand expected to subside over time."

Methanex is in a prime position to take advantage of economic activity getting back on track (however slow). It has a wide moat thanks to a robust supply chain and ample liquidity. It recently issued $700 million in unsecured debt and will use the proceeds to pay off $250 million of existing 5.25% unsecured notes that are due on March 1, 2022. The rest will be used for "maintenance capital expenditures, working capital or other general corporate purposes."

The stock is currently trading at $30.88, and analysts have given it a target of $72.18. This target has been steady since March when I first wrote on it. The next six months could see the company finally fulfill expectations.

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Date
2025/09/09
Date Created
2020/09/26
Author
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