Methanex (TSX:MX) Stock Reports Underwhelming Earnings Estimates, But Should You Sell?

Description

Methanex (TSX:MX)(NASDAQ:MEOH) reported earnings that came below estimates on Thursday, though revenue was up year over year. Shares of Methanex stock came down slightly from the less-than-exciting results in morning trading.

What happened?

The $4.13 billion company reported adjusted EBITDA of US$264 million, below analyst estimates of US$278 million. Meanwhile, production was down 1.7%, and sales 2.6% from the previous quarter, but up 7.9% and 29% year over year, respectively.

Methanex stock reached a profit of $71 million compared to a loss of $88 million the year before. Furthermore, revenue climbed 85.5% year over year to reach $1.078 billion, beating analyst estimates of $1.036 billion.

So what?

Earnings per share fell 2% compared to a positive 18% surprise the quarter before. And that's where analysts became worried. Whereas before, the company seemed to hit a positive momentum, now it's not so clear. That being said, the company managed to beat revenue estimates for each of the last four quarters. But during that time, it beat earnings estimates only once.

The current situation seems to put Methanex stock in limbo. On the one hand, methanol prices are increasing, reaching multi-year highs. However, there is a lull in the action due to supply chain demands and businesses likely needing to re-think the higher prices.

Still, management is positive about the future of the methanol industry and the company in general. Methanex stock president and chief executive officer stated, "Our outlook for the methanol industry is positive, and we believe that new industry supply will be needed to meet growing methanol demand over the coming years."

Now what?

It doesn't seem to be all smoke from Methanex stock management. As earnings came out, the company announced the restart of its Chile IV plant, its Geismar 3 project, and the finalization of an agreement with Mitsui O.S.K.

In the agreement, Mitsui will provide a US$145 million minority interest of 40% in Methanex stock. This will create a strategic partnership that involves Methanex stock's waterfront shipping subsidiary.

That's a large chunk of change aimed to go towards the company's next earnings report. That's likely why Methanex stock didn't sink because of earnings but remained relatively stable. Furthermore, management believes the price environment and production will cause shares to continue rising.

Foolish takeaway

Shares of Methanex stock are down 5% year to date, coming down from a rise earlier last month. It's about half the share price of where it was in 2018 as well. Analysts peg Methanex stock at a fair value of $69 in the next year. That would give it a potential upside of 9% as of writing.

Add share buybacks, an EV/EBITDA of 10, and its dividend of 1.15%, and I would at least hold onto to Methanex stock for now.

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Date
2025/06/29
Date Created
2021/10/28
Author
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