

METHANEX

Basic Materials: Specialty Chemicals

MX | TSX

MEOH | NASDAQ

This report is published for educational purposes only by students competing in the CFA Investment Research Challenge.

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Through diversified production facilities and low cost natural gas inputs, Methanex will capitalize on increasing methanol industry demand.

Highlights

We initiate coverage of Methanex Corporation with a 12-month price target of C\$36.15, which represents a 10.9% premium to the closing stock price of C\$32.61. Methanex Corporation is the world's leading methanol producer, whose globally diversified production facilities are primed to capitalize on expected demand increases of 7% in 2013.

Methanex is highly leveraged to the price of methanol. Prices for methanol are supported by increased use in Chinese fuel-blending and industrial production which should support strong cash flow to the company.

Management commitment to increasing production capacity is a strong signal for continued industry leadership. Re-opening of Medicine Hat and Egypt facilities increases capacity for Methanex. The Chile-Louisiana plant relocation is an innovative repurpose of idle capacity while utilizing favourable natural gas prices as well as secured natural gas contracts in the U.S.

Main risks to target price: natural gas supply reliability for Egypt and Trinidad, slowing global economy, gas exploration project with ENAP in Chile, changing jurisdictional risks for environmental and trade regulations.

Forecast Summary

	2009	2010	2011	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)
Revenue	1,198.2	1,966.6	2,608.0	2,654.7	2,577.0	3,360.3	3,628.8	3,628.8	3,628.8
EBITDA	141.8	271.7	500.7	424.0	420.6	615.0	668.5	668.5	668.5
<i>EBITDA Margin</i>	11.8%	13.8%	19.3%	16.0%	16.3%	18.3%	18.4%	18.4%	18.4%
EPS	\$0.01	\$1.03	\$2.06	\$1.85	\$1.73	\$3.13	\$3.49	\$3.46	\$3.45
FCF	-235.1	36.3	322.1	160.6	-226.4	186.9	333.6	326.9	325.9

Methanex Daily Stock Price (TSX)



Source: TMX Money

Recommendation BUY

Price Target C\$36.15

Price (Jan 4th, 2012) C\$32.61

Div Yield 2.2%

Implied Return (1-yr) 13.1%

Key Financial Data

Market Cap	\$3.1b
P/E (ttm)	22.1x
EPS (ttm)	1.6
Payout Ratio	30.8%
Debt/Equity	0.629
ROA (2011)	7%
ROE (2011)	15%

Source: CapitalIQ, Bloomberg

Market Profile

BV/Share	\$15.05
Shares O/S	94.1m
Free Float	99.3%
Avg Mth Vol	180k

Source: CapitalIQ, Bloomberg

Beta (vs S&P500) 1.84

Beta (vs TSX) 1.40

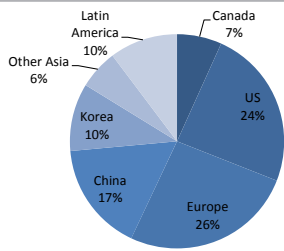
6-Month Return 13.2%

1Y Return 40.1%

5Y Return 29.9%

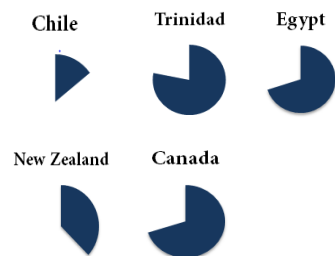
Source: CapitalIQ, Bloomberg

Figure 2 - Sales by Region (2011)



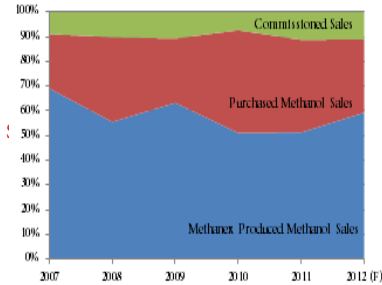
Source: Company Reports

Figure 3 - Plant Utilization Rates



Source: Company Reports

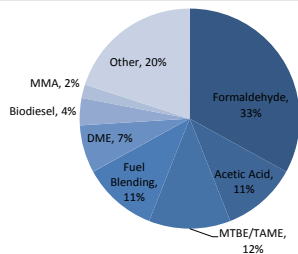
Figure 4 - Historical Sales Mix



Source: Company Reports, Team B



Figure 5 - Demand by Derivative



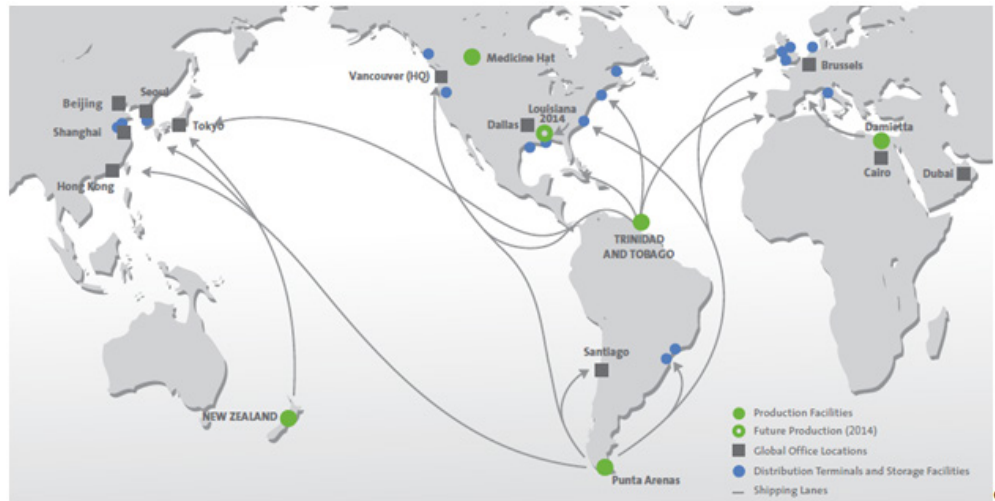
Source: Company Reports

Business Description

Methanex Corporation (TSX:MX; NASDAQ:MEOH), based in Vancouver, British Columbia, is the world's largest methanol supplier. The company manufactures, markets, and distributes methanol throughout North America, Latin America, Europe, the Middle East and Asia Pacific.

Methanex creates value for its global customers through a promise of reliable methanol supply and its Responsible Care production status. In 2011, Methanex maintained its industry leadership with 15% market share. The company operates plants in Chile, Trinidad, Egypt, New Zealand, Canada, and the United States (targeted start 2H 2014). Plants in Egypt and Trinidad (Atlas and Titan) are operated as joint ventures with Methanex holding interest of 60% and 63.1%, respectively.

Figure 1 - Methanex's Global Operation Network



Source: Company Reports

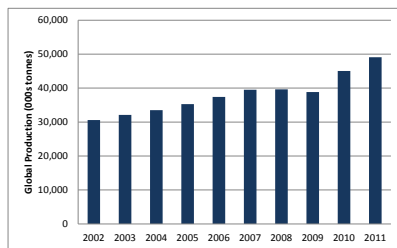
In addition to revenues from produced methanol (25% margin), Methanex increases sales through joint venture supply commissions (4%). Methanex purchases further methanol supply when demand outstrips their production facilities (0%). These sales methods allow Methanex to provide a reliable supply to worldwide clients.

Methanol is a light petrochemical with applications as a chemical feedstock in industrial and consumer goods as well as in the energy sector as a fuel additive. Methanol is produced from synthesis gas, typically derived from natural gas.

Recent News: January 1st, 2013 saw appointment of John Floren to President and CEO role as Bruce Atkinson retains a position on the Board of Directors. Methanex increases revolving credit facility to \$400 million and announces sale of \$350 million of 7 year notes (Dec 2012). Company restarts production of 2nd New Zealand (NZ) plant in July 2012 and secures further long term NZ gas supply contracts.

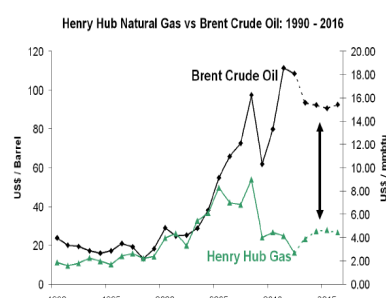


Figure 6 - Global Methanol Production



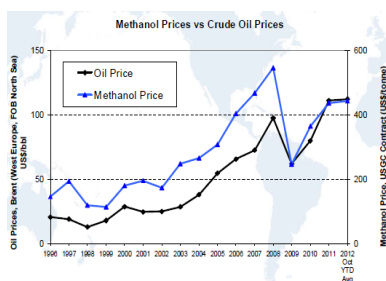
Source: Company Reports

Figure 7 - Crude Oil and Natural Gas Prices



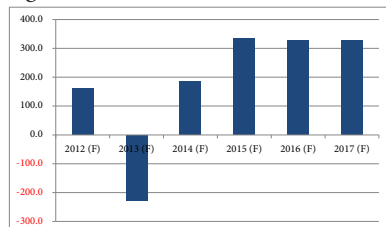
Source: Company Reports, CMAI

Figure 8 - Crude Oil and Methanol Prices



Source: Company Reports, CMAI

Figure 9 - FCF Estimates



Source: Team B

Investment Summary

We initiate coverage of Methanex with a one year price target of C\$36.15, a 10.9% premium from January 4th's close of C\$32.61. The increased production capacity and plant utilization rates should grow EBITDA at a CAGR of 7.5% over the next 4 years.

Increasing global demand for methanol, particularly as a fuel additive, acts as a catalyst to increase revenues for Methanex. Most notably, China's continued economic growth, estimated at 8.6% for 2013, and diverse demand for methanol, 7% increase forecast for the same period, highlight robust consumption trends. This increased demand, along with a retained decoupling of oil and natural gas prices, is expected to keep methanol margins high.

Low natural gas prices, particularly in North America, keep production costs favorable for Methanex as it grows its business. The decoupling of natural gas and crude oil prices creates an arbitrage opportunity for methanol, which is manufactured using natural gas but trades in lockstep with crude oil.

Methanex is investing significant CAPEX into production facilities to increase its global capacity. This increased production capability will allow the company to improve its sales mix towards a higher percentage of in-house manufactured methanol sales, reducing its reliance on purchased methanol from competitors. The improved sales mix will have a direct impact on increasing gross margins for Methanex.

Cash flow profile for the company remains positive despite significant CAPEX requirements for capacity expansion. In addition, the company has access to capital, through a recent increase in its revolving credit facility (US\$400 million) as well as a bond issuance (US\$350 million), to fund expansions at low interest rates.

Our valuation is based on a Discounted Cash Flow (DCF), competitor and historical multiples analysis. The DCF allows us to forecast production and incorporate risks we see with certain plant production rates (Appendix 1&2). Although no other competitor has a pure methanol production mix, there are still benefits to a comparables analysis, as certain chemical industry competitors face similar economic risks and geographic diversification. The longevity of Methanex's corporate strategy allows us to look at historic multiples trading ranges, to forecast future EV/EBITDA multiples for different economic conditions.

Risks to the target price include macroeconomic slowdown or recession, due to demand volatility of industrial and consumer goods, which methanol is the primary feedstock for. This risk is magnified by Methanex's singular product strategy. Operations in diverse foreign jurisdictions pose risks for the company related to changes of environmental or trade regulations as well as the ability to secure natural gas contracts in quantities necessary to reach production targets; although geographic production facility diversification is used to offset natural gas contract uncertainty.

See Methanex's historical price chart with news in Appendix 3.

Industry Analysis

Demand and Usage

Two-thirds of the global demand for methanol comes from production of formaldehyde and acetic acid. These compounds are used in the creation of building materials, foams, resins and paints. The demand for these goods is impacted by the health and growth rates of the regional construction industry.

The remaining one-third of demand is attributed to the energy sector where methanol has direct applications as a fuel additive, a fuel cell component (Direct Methanol Fuel Cells – DMFC) and as a gas for home heating and cooking. Consumption of methanol, as a fuel additive, is related to the interaction between crude oil and natural gas prices. In order to offset rising oil rates, fuel is blended with either ethanol (in the U.S. and Europe, mostly) or methanol (in the Chinese market).

A growing demand segment uses methanol as an input for the alternative plastics production process known as MTO (methanol-to-olefins).

Figure 10 - Crude to Natural Gas Ratio

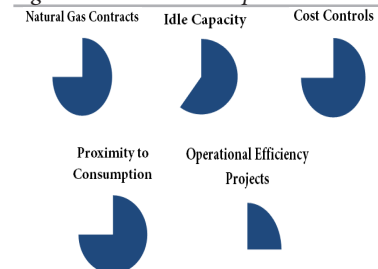


Source: US Energy Information Administration

Production and Costs

Methanol is most economically and widely produced from a feedstock of natural gas. However, coal is the most widely used input in China due to its availability, over natural gas, in the region. A high energy price environment, in terms of the relationship between crude oil, coal and natural gas, impacts the demand for methanol usage in energy derivatives and olefin production. Planned and unplanned production disruptions as well as the overall supply in the industry affects methanol spot market prices and realized returns. Economic volatility impacts the spot methanol price through consumption patterns of end use products.

Figure 11 - Methanex Report Card



Source: Team B

Key Success Factors for Methanol Producers

- Continued and reliable access to natural gas as a chemical input. Secured long term gas contracts hedged to methanol prices avoid production shutdowns and reduce input costs.
- Proper management of utilization levels to match fluctuating demand is critical as a new facility takes 4-5 years to come on-stream.
- As a commodity, cost controls in the methanol production process are important to ensure profit maximization.
- Proximity of production facilities to growing consumption markets. As much as 80% of methanol is transported between continents. Access to reliable and safe transportation methods (often by ocean shipping) is vital for distribution to global markets.
- Operational efficiency projects like debottlenecking are important for profit maximization and avoidance of service interruptions.

The main consumption markets for methanol are in Europe, the Far East and North America.

North American market – The U.S. and Canada have negative methanol trade balances. Regional capacity increased in 2012 with the re-opening of the Methanex Medicine Hat, Alberta facility. A plant relocation project is underway to redistribute a Methanex Chilean plant to Geismar, Louisiana. Production is scheduled to start in 2014. Competitors of Methanex have invested considerable financing into new production facilities in Texas, scheduled to come online 2013.

Methanol fuel blending was prohibited in the United States in 2007 due to the carcinogenic risks. The main North American consumption is for formaldehyde and acetic acid production, resulting in methanol industry exposure to the construction industry for paints, solvents and resin. The recent upswing of the U.S. housing market is a positive indicator for future methanol demand in the region (new home sales growth of 17% y.o.y. in August 2012).

Predictions for the continued divergence between oil and natural gas prices will increase natural gas consumption. Oil prices will remain high as supply is restricted by near term capacity. As natural gas remains cheap, a price arbitrage exists which the methanol industry is set to take advantage of. Companies, like Methanex, obtaining natural gas in the U.S. gas market will have a competitive cost advantage.

European market – New production facilities are expected in Azerbaijan in 2014 and Russia in 2015 in addition to the main supply from Trinidad and the Middle East.

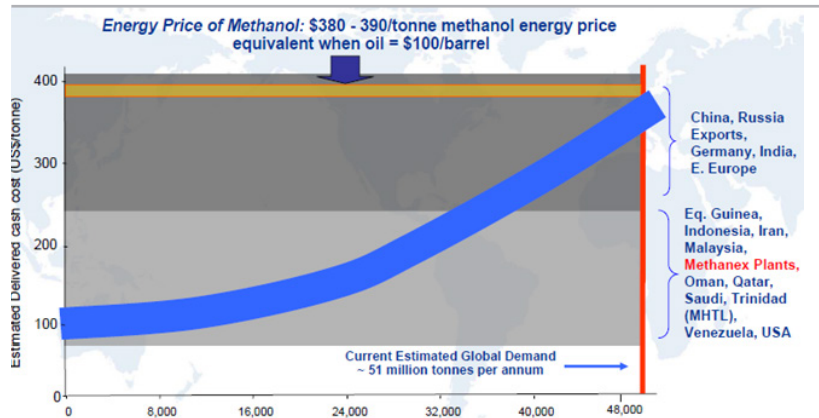
Recent trade sanction against Iranian petrochemical exports caused concern in the European consumption market. The absence of 500,000 tonnes of Iranian methanol in the 7 million tonnes European market has caused increased spot prices.

Although it remains the largest methanol consumption market, European GDP growth estimates of 1.3% do not imply imminent economic recovery. This will negatively impact the growth of methanol consumption in the region.

Chinese market – Although Chinese GDP growth estimates are no longer double digits, GDP growth of 8.6% is expected in 2013. With increased methanol usage, as a fuel additive, as well as initiation of research projects on the process of converting methanol-to-olefins, China demand is likely to spike causing China to become the largest consumer of methanol in coming years (Appendix 4). Even with extensive regional production from coal based inputs, China is a large importer of methanol from the Middle East, Japan, Malaysia, New Zealand and Chile.

Iranian trade sanctions have not had the same impact in China as in the European market. Chinese industry professionals have said that there is enough capacity from Iranian facilities, exempt from the sanctions, to provide a maintained level of supply to the Chinese market.

Figure 12 - Cost Curve of Methanol Industry



Source: Company Reports

Coal is prevalent as a feedstock for methanol production in China. Although the Chinese Ministry of Commerce recently announced plans to shift from government assisted pricing to a coal marketplace, coal prices are not expected to fluctuate from current low levels in the near future. As a result of coal inputs, production costs place Chinese manufactured methanol at the top of the industry cost curve. This allows competitors to access the Chinese market (Appendix 4).

Competitive Positioning

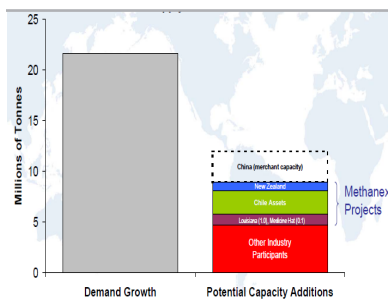
Cost Leader - Success in a chemical commodities industry is highly dependent on cost controls. Driving costs include:

Feedstock (natural gas or coal) costs: Methanex has local long-term gas contracts in all but its Canadian plant. Take-or-pay contracts have fixed and variable portions in order to hedge between natural gas and methanol price differences. These contracts enable Methanex’s goal of strong reliable service to world markets through their competitively diversified production locations

Due to its location on the cost curve, even if demand (currently forecasted to be higher than supply capacity) were to decrease, these cost controls would force out competitors higher up the cost curve while maintaining profitability for Methanex. Natural gas prices vary geographically. The geographic diversity of Methanex’s production allows for inexpensive procurement of natural gas, as a feedstock, while reducing dispersion between supply and demand markets.

Distribution network costs: Cost minimization in this arena is important for economic pricing within the market. Like its competitors, Methanex has a wholly owned subsidiary, Waterfront Shipping, which undertakes long term charter leases to transport methanol between its plants and its existing consumer demand markets.

Figure 13 - Methanol Supply and Demand Forecast 2013-2016



Source: Company Reports and CMAI

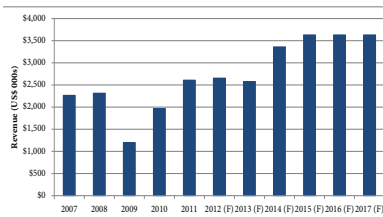
There is a risk in existing shipping capacity. During the recent restrictions in Argentinean natural gas feedstock, Methanex's Chilean plants experienced significant idle times and reduced output. As a result, Waterfront (Methanex) has excess shipping capacity which it must offset on the tanker spot market. With continued doldrums in the marine shipping industry, cost efficiencies are sacrificed.

Differentiation - With production facilities in Chile, Canada, the U.S. (2014), Trinidad, Egypt and New Zealand, Methanex has shorter supply chains to reach main markets in North America, Europe and China. Geographic diversity allows scheduled or unscheduled production disruptions in one plant to be offset with methanol supplied from its other facilities. This diverse production style is unique in the industry.

Appendix 5 shows a full SWOT and Porter's Five Forces analysis

Financial Analysis

Figure 14 - Historical and Projected Revenue



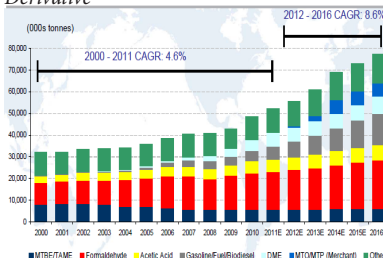
Source: Team B

Top Line Growth

Revenues are predicted to increase due increased production capacity from CAPEX projects. The Louisiana relocation project is ahead of schedule and the plant should be operational by 2014 with capacity of 1 million tonnes/year. A recently announced 10-year natural gas contract in New Zealand allows production to resume earlier than expected in 2013. Growing demand from Asian markets and high competitor production costs will support price levels of methanol in the range of US\$400-\$500/tonne.

Methanol in China accounts for 33% of global demand, which is expected to grow with fuel additive and MTO applications. Chinese production of methanol uses coal as feedstock, which costs significantly more than the natural gas inputs. As well as being more environmentally friendly, lower cost natural gas inputs allow Methanex to capitalize on the Chinese consumption market.

Figure 15 - Forecast Demand Growth by Derivative



Source: Company Reports, CMAI

Methanol Pricing

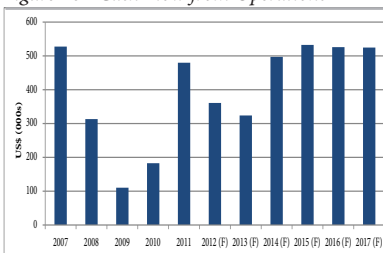
Methanol pricing is predicted to remain stable over the next few years despite growing demand and limited industry expansion projects. This is due to Chinese policy of controlling inflation, which includes subsidies for energy inputs. However the robust demand will help support the price of methanol above US\$400/tonne.

Contributing to the lack of industry expansion is the initial CAPEX requirements and the prices of feedstock in countries with high demand make investment unattractive. New projects that take advantage of low-cost feedstock regions would require an advanced, and costly, distribution network. The existing transportation network used by Methanex acts as a competitive advantage.

CAPEX Analysis

A decision is expected in 1H 2013 as to whether a second Chilean plant will be moved to the Geismar, Louisiana location. Debottlenecking projects are expected to increase capacity by 0.5M tonne/year at the Medicine Hat and New Zealand plants. We do not incorporate the additional value that would be created by moving a second plant from Chile to Louisiana with the second plant because of the uncertainty surrounding that decision.

Figure 16 - Cash Flow from Operations



Source: Team B

If Methanex decides to move or is able to increase production at its Chilean plants we would raise their income forecast. The starting up of an idle asset is a relatively cheap way to increase cash flow.

Cash Flow

Cash flow from operations has been positive since the company's inception which has helped to fund investment projects and return capital to shareholders. Negative cash flow forecasted for 2013 is the result of the Chile-Louisiana plant relocation project. As mentioned above, this is a high ROI project and seen as adding to company cash flows as early as 2014.

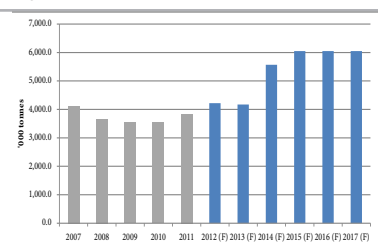
Methanex's cash flow from operations, current credit facility (revolving credit was increased to US\$400M recently) and cash holdings (US\$403M as of Sept 30/2012) make these investments in production facilities possible without drawing from capital markets.

Figure 17 - Valuation Summary (CAD)

	Value	Weight
DCF	\$37.05	75%
Peer Multiples	\$33.77	20%
Historical Multiples	\$32.12	5%
Final Share Value	\$36.15	

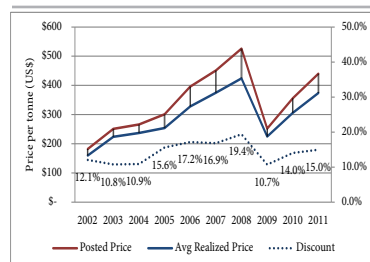
Source: Team B

Figure 18 - Production Schedule



Source: Company Reports, Team B

Figure 19 - MX's Methanol Price



Source: Company Reports, Team B

Figure 20 - Cost of Capital

WACC	
Debt	12.73%
Equity	87.27%
Cost of Debt	
YTM on Debt	3.28%
Tax Rate	23.06%
=	2.52%
Cost of Equity	
Risk Free Rate	1.66%
Risk Premium	6.00%
Unlevered Beta	1.53
=	10.85%
WACC	9.79%

Beta	
Levered Beta	1.84
Tax Rate	23.06%
D/E	0.26
Unlevered Beta	1.53

Source: Team B

VALUATION

We have valued Methanex based on discounted cash flows (DCF), peer multiple and historical multiple analysis. The DCF allows us to incorporate plant specific forecasts as well as to test sensitivities to various market conditions. Although there are no pure-play methanol producers, other specialty chemical companies are as diversified geographically and face similar economic risks as Methanex. The historical multiple analysis is possible due to Methanex's constant business strategy which allows us to analyze trends in key multiples over the past decade.

Discounted Cash Flows

We value Methanex at C\$37.05 based on the DCF. The cash flows are all presented in USD terms and the result of our DCF is determined by multiplying the value by the 0.99 CAD/USD exchange rate as of Jan 4th, 2013. Key drivers of the DCF are:

Plant Production: We forecast individual plant production (Appendix 1) based on past performance, management guidance and risks facing specific plants. Major production growth is from the Louisiana plant which is expected to begin mid-2014 with annual capacity of 1M tonnes.

We are doubtful of production reliability of Egypt in the future given the political transition occurring in the region. We are also concerned about the ability of Chile to secure natural gas from their suppliers and as a result do not foresee production increases for the foreseeable future. To accommodate for these risks we forecast production below historic levels.

Methanol Prices: We are being conservative in our price forecast for methanol because it weighs so heavily on the valuation of Methanex (see Sensitivity Analysis) and we want our forecast to consider downside risk scenarios.

There are two prices for methanol: 1) the price Methanex posts 2) the price Methanex receives after discounts to customers. The average discount from 2002-2011 was 14.3%. We are forecasting at a slightly higher rate of 15% as a moderate estimate.

We conservatively forecast prices to stay flat at \$439 (posted) and \$373 (realized). Although growing demand and tightening supply are present in the industry, the subsidies given to Chinese producers have the potential to support a price ceiling.

Margins: The three sales segments have varying gross margins. We estimate the cost of producing methanol at US\$230/tonne for Methanex based on company reports and presentations. Additional methanol is purchased on the open market for the purpose of meeting customer demand. Because this is not done as a trading or speculative activity, we do not forecast margins higher than 1%. The commissioned sales margin is estimated by analyzing previous years' segmented sales volume in relation to total gross profit margin.

CAPEX Forecast: We estimate CAPEX based on management guidance of the Louisiana relocation project and debottlenecking projects in the Medicine Hat and New Zealand plants. In perpetuity, we assume maintenance CAPEX will equal depreciation which is slightly higher than management forecasts.

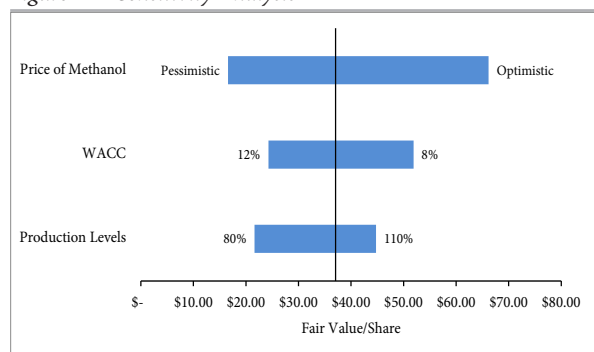
Cost of Capital: The WACC we calculate is 9.79%. We use the beta of MEOH (Methanex's NASDAQ symbol) vs the S&P500. We use this beta because Methanex: raises all of their bonds in USD, a significant portion of trading volume is on the NASDAQ and operating currency is in U.S. dollars. The S&P500 is also more representative of a market portfolio than the TSX which has a higher component of Basic Material stocks.

We estimate levered beta by regressing five years of monthly returns vs. the S&P500. Since 2008, the beta using this method has been between 1.72 and 2.05 (figure 22) so we are comfortable using a beta of 1.84.

DCF Conclusion and Analysis: Our fair value share is US\$37.42 which we convert to Canadian dollars at a rate of 0.99 USD/CAD for a final value of C\$37.05.

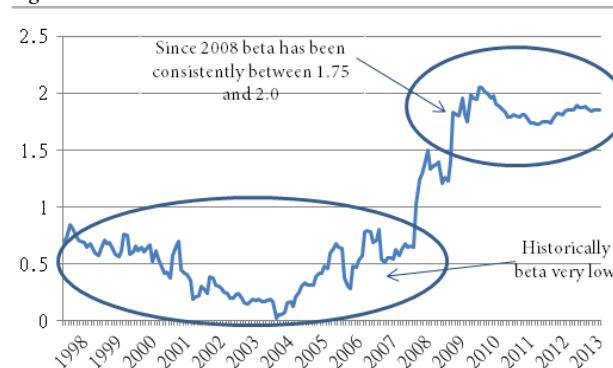
Cash flow for Methanex depends on their ability to produce as much methanol as possible. Methanex's total sales are a function of customer demand which is consistently greater than the amount of methanol produced by the company's plants. The greater the amount of demand Methanex can meet with produced methanol, the higher the margins will be as a function of shifting from purchased to produced goods. Management's commitment to grow production capacity is a very positive sign for future productivity.

Figure 21 - Sensitivity Analysis



Source: Team B

Figure 22- Historical Beta



Source: Team B

Methanex is very sensitive to the realized price of methanol and production levels but we feel our forecast is moderate. This allows us to form an opinion on share value even if prices and production levels are less than currently predicted by other industry analysts.

Multiple Analysis

We analyze and choose trading multiples based on a peer group of companies. Because there are no comparable pure-play peers, choosing appropriate comparables was done on the basis of (1) geographical diversification of revenue sources and (2) a similar economic risk profile.

Choosing the right multiple. We choose to value Methanex using EV/EBITDA. This method is the least subject to 'noise' from differences in depreciation policies and tax regimes faced by competitors.

Table 1 - Competitor Summary (USD)

	METHANEX	ALBEMARLE CORPORATION	BALCHEM CORPORATION	CELANESE CORPORATION	EASTMAN CHEMICAL COMPANY	PPG INDUSTRIES, INC.	THE DOW CHEMICAL COMPANY
Regions Served	North America, Asia, Europe, Latin America	Global	67% US, 37% 'Foreign'	North America, Asia, Europe	North America, Asia, Europe	North America, Asia, Europe	Global
# of Product Families	1	37	11	19	39	24	>100
Primary Markets	Energy, Industrial Production, Consumer Products	Pharma, Energy, Agrichemical, Household Products	Food, Pharma, Agriculture	Construction, Energy, Packaging	Food, Tobacco, Packaging	Industrial Production, Housing	Energy, Industrial Production, Pharma
EV	\$3,831M	\$6,106M	\$939M	\$9,403M	\$15,297M	\$23,385M	\$61,510M
Correlation with MEOH	1	0.275	0.747	0.776	0.756	0.691	0.748
Net Margins (2011)	7.70%	15.20%	13.30%	9.00%	9.30%	7.40%	4.00%
Beta	1.84	1.64	0.74	2.40	2.05	1.30	2.33

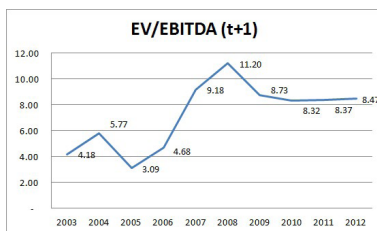
Table 2 - Similarity Analysis

	Similarity Score						Weighting	EV/EBITDA (2013)
	Geographic Diversification	Product Similarity	Net Margins	Beta	Correlation	Total		
Points Possible	20	30	20	15	15	100		
ALBEMARLE CORPORATION	18	20	10	14	2	64	16%	8.4
BALCHEM CORPORATION	7	20	12	6	6	51	13%	13.6
CELANESE CORPORATION	18	23	15	10	6	72	18%	7.1
EASTMAN CHEMICAL CO	18	23	15	12	6	74	19%	7.3
PPG INDUSTRIES, INC.	18	20	20	10	5	73	18%	10.5
DOW CHEMICAL COMPANY	15	20	12	10	6	63	16%	7.5

We ranked the competitors based on criteria we deemed relevant to determine appropriate weights.

From this analysis we get a forward EV/EBITDA multiple of 8.9x 2013 EBITDA. Using our forecast EBITDA of US\$420.6 and converting to CAD we get a fair value per share of C\$33.77.

Figure 23 - EV/EBITDA



Source: Team B

Historical Multiple Analysis

The 8.9x EV/EBITDA multiple we arrive at above is slightly higher than Methanex's historical levels. If the next year's EBITDA was known the range of EV/EBITDA since 2009 is 8.53x +/- 0.2 (Figure 23). Based on this history and using the same EBITDA from above we get a fair value per share of C\$32.12.

The problem with using Multiples

When we use a multiple that considers 2013's EBITDA it fails to take into account the growth that begins to happen in 2014 when the Louisiana plant comes online. The premium value the DCF provides over multiples that value the company by its next years earnings takes into account this growth. If we were to use an EV/EBITDA multiple heavily in our valuation we would have to add a premium to take into account future growth.

The current EV/EBITDA (ttm) is 8.5 which suggests the market is not pricing in growth from the Louisiana plant.

Leadership and Corporate Social Responsibility

Passing of the torch: As of 1st January 2013, Bruce Aitken stepped down as President and CEO of Methanex to make way for John Floren. This planned transition sees Bruce Aitken retaining a seat on the Board of Directors after eight years as President and CEO. Mr. Floren has been with Methanex in a variety of senior management roles since 2000 and has 27 years of experience in the chemical industry. During this transition, Methanex remains confident in their long term strategy of cost leadership and differentiation.

Responsible Care Program: Originally developed by the Canadian Chemical Producers' Association, Methanex has implemented the Responsible Care Program into all aspects of its global operations. The program is focused on upholding superior health and safety protocols as well as promising to do no harm to the environment.

The chemical nature of methanol has impacts on the environment in two main ways:

Toxicity: Methanol is a toxic, flammable compound which is harmful to human in levels as small as 30mL. Therefore safe handling of the product in the work environment is an important consideration.

Fossil fuel usage: The inputs, and the chemical reaction environment used to produce methanol, produce CO₂ as a by-product. In addition to the adverse environmental impacts, this by-product represents inefficiency in the production process which companies aim to reduce. As a result of implementing the Responsible Care program, Methanex was able to reduce CO₂ emissions by 31% between 1994 and 2011. Methanex also reduced its CO₂ emissions produced by their marine transportation business segment by nearly 22% between 2002 and 2011.

With the large health and safety risks associated with the chemical nature of methanol, from fires to bodily harm, Methanex's strong commitment to its Responsible Care program enable it to stand out from the competition.

Investment Risks to Target Price

Operational Risks

Execution Risk - Methanex is growing production and investing significant CAPEX into the business. Execution of these projects is essential for investible value to be created. The relocation project of a plant from Chile to Louisiana is the most notable of these projects. Cost overruns or expansion failures will have a negative impact on profitability.

Market Risks

Global Downturn/Recession - Methanol is a feedstock in many industrial products that perform cyclically with the market. A downturn in the global market will reduce methanol demand, putting negative pressure on price and limit profitability. It would also reduce the near term viability of expansion projects.

Commodity Price Risk - Natural gas is the primary feedstock component in the production of methanol. While natural gas is currently priced favorably, particularly in North America, a rise in natural gas price would increase the cost of production for Methanex. Hedging policies are used to mitigate this risk.

Currency Risk - As an international company, Methanex faces currency risks in day to day operations. Hedging policies are used to mitigate this risk.

External Policy Risks

Jurisdictional Risk - Methanex operates in high risks jurisdictions across the globe, most notably in Egypt. Political unrest within the country could affect production and reduce revenues. Recent escalation of protests in Egypt are concerning and need to be monitored in the coming weeks and months.

Countries within South America have had unpredictable policies affecting companies in the natural resource/chemical sectors in recent years. While Chile is relatively stable, it sources natural gas from Argentina, where supply has been unstable. This provides the motivation for moving the idle plant in Chile as discussed in the execution risk, but further difficulties in obtaining natural gas in Chile could continue to hurt production of its remaining three Chilean plants into the future. Sourcing feedstock in Trinidad poses a similar risk.

Appendix

Appendix 1 - Forecast Plant Production

Methanol Production By Plant ('000 Ts)												
Plant	Operating Capacity	2007	2008	2009	2010	2011	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)
Chile												
Chile I	882.0	613.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chile II	990.0	286.0	162.0	275.0	159.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chile III	1,088.0	619.0	926.0	667.0	776.0	554.0	500.0	300.0	200.0	200.0	200.0	200.0
Chile IV	840.0	323.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	3,800.0	1,841.0	1,088.0	942.0	935.0	554.0	500.0	300.0	200.0	200.0	200.0	200.0
Trinidad												
Titan (63.1% Interest)	900.0	861.0	871.0	764.0	891.0	711.0	800.0	800.0	800.0	800.0	800.0	800.0
Atlas (63.1% Interest)	1,150.0	982.0	1,134.0	1,015.0	884.0	891.0	890.0	890.0	890.0	890.0	890.0	890.0
	2,050.0	1,843.0	2,005.0	1,779.0	1,775.0	1,602.0	1,690.0	1,690.0	1,690.0	1,690.0	1,690.0	1,690.0
New Zealand												
Waitara Valley	900.0	435.0	390.0	0.0	0.0	0.0	0.0	0.0	870.0	870.0	870.0	870.0
Montuni I	850.0	0.0	0.0	0.0	0.0	0.0	350.0	700.0	830.0	830.0	830.0	830.0
Montuni II	850.0	0.0	180.0	822.0	830.0	830.0	830.0	830.0	830.0	830.0	830.0	830.0
	2,600.0	435.0	570.0	822.0	830.0	830.0	1,180.0	1,530.0	2,530.0	2,530.0	2,530.0	2,530.0
North America												
Medicine Hat	470.0	0.0	0.0	0.0	0.0	329.0	450.0	450.0	450.0	450.0	450.0	450.0
Louisiana	1,000.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	500.0	980.0	980.0	980.0
	1,470.0	0.0	0.0	0.0	0.0	329.0	450.0	450.0	950.0	1,430.0	1,430.0	1,430.0
Egypt												
Egypt (60% Interest)	760.0	0.0	0.0	0.0	0.0	532.0	400.0	200.0	200.0	200.0	200.0	200.0
		0.0	0.0	0.0	0.0	532.0	400.0	200.0	200.0	200.0	200.0	200.0
Total Production (attributable to N		4,119.0	3,663.0	3,543.0	3,540.0	3,847.0	4,220.0	4,170.0	5,570.0	6,050.0	6,050.0	6,050.0

Appendix 2 - Discounted Cash Flow - Forecast Financial Statements (US\$ 000s)

Income Statement												
	2007	2008	2009	2010	2011	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	
Revenue by Segment												
Produced Methanol*	1,566.2	1,285.5	758.2	1,004.7	1,337.3	1,574.1	1,555.4	2,077.6	2,256.7	2,256.7	2,256.7	
Purchased Methanol*	498.1	792.8	311.4	817.4	977.1	787.0	777.7	1,038.8	1,128.3	1,128.3	1,128.3	
Commission Sales*	202.2	235.9	128.5	144.5	293.6	293.6	243.9	243.9	243.9	243.9	243.9	
Total Revenue	2,266.5	2,314.2	1,198.2	1,966.6	2,608.0	2,654.7	2,577.0	3,360.3	3,628.8	3,628.8	3,628.8	
Cost Of Goods Sold	1,414.5	1,766.7	879.6	1,507.2	1,910.9	2,031.6	1,963.1	2,543.6	2,742.7	2,742.7	2,742.7	
Gross Profit	852.0	547.5	318.5	459.4	697.1	623.1	613.8	816.7	886.2	886.2	886.2	
<i>Gross Profit Margin</i>	37.6%	23.7%	26.6%	23.4%	26.7%	23.5%	23.8%	24.3%	24.4%	24.4%	24.4%	
SG&A*	199.7	183.7	176.7	187.7	196.4	199.1	193.3	201.6	217.7	217.7	217.7	
EBITDA	652.3	363.8	141.8	271.7	500.7	424.0	420.6	615.0	668.5	668.5	668.5	
<i>EBITDA Margin</i>	28.8%	15.7%	11.8%	13.8%	19.2%	16.0%	16.3%	18.3%	18.4%	18.4%	18.4%	
Depreciation & Amortization	112.4	107.1	117.6	137.2	156.7	151.7	163.3	190.3	198.7	198.7	198.7	
EBIT	539.9	256.7	24.2	134.5	344.1	272.2	257.3	424.7	469.8	469.8	469.8	
<i>EBIT Margin</i>	23.8%	11.1%	2.0%	6.8%	13.2%	10.3%	10.0%	12.6%	12.9%	12.9%	12.9%	
Interest Expense	(43.9)	(38.4)	(27.4)	(30.6)	(61.8)	(45.1)	(44.7)	(41.1)	(41.3)	(44.9)	(46.2)	
Interest and Investment Income	26.9	5.6	-	2.5	1.7	0	0	0	0	0	0	
Net Interest Expense	(17.0)	(32.8)	(27.4)	(28.2)	(60.1)	(45.1)	(44.7)	(41.1)	(41.3)	(44.9)	(46.2)	
Unusual Items	-	(28.4)	(0.4)	22.2	0	0	0	0	0	0	0	
Pre-Tax Income	522.9	195.5	(3.5)	128.5	283.9	227.2	212.6	383.6	428.5	424.9	423.5	
Income Tax Expense	147.2	26.7	(4.3)	34.5	55.9	52.4	49.0	88.5	98.8	98.0	97.7	
Earnings from Cont. Operations	375.7	168.8	0.7	94.0	228.0	174.8	163.6	295.2	329.7	326.9	325.9	
Minority Int. in Earnings	-	-	-	2.0	(26.7)	0	0	0	0	0	0	
Net Income	375.7	168.8	0.7	96.0	201.3	174.8	163.6	295.2	329.7	326.9	325.9	

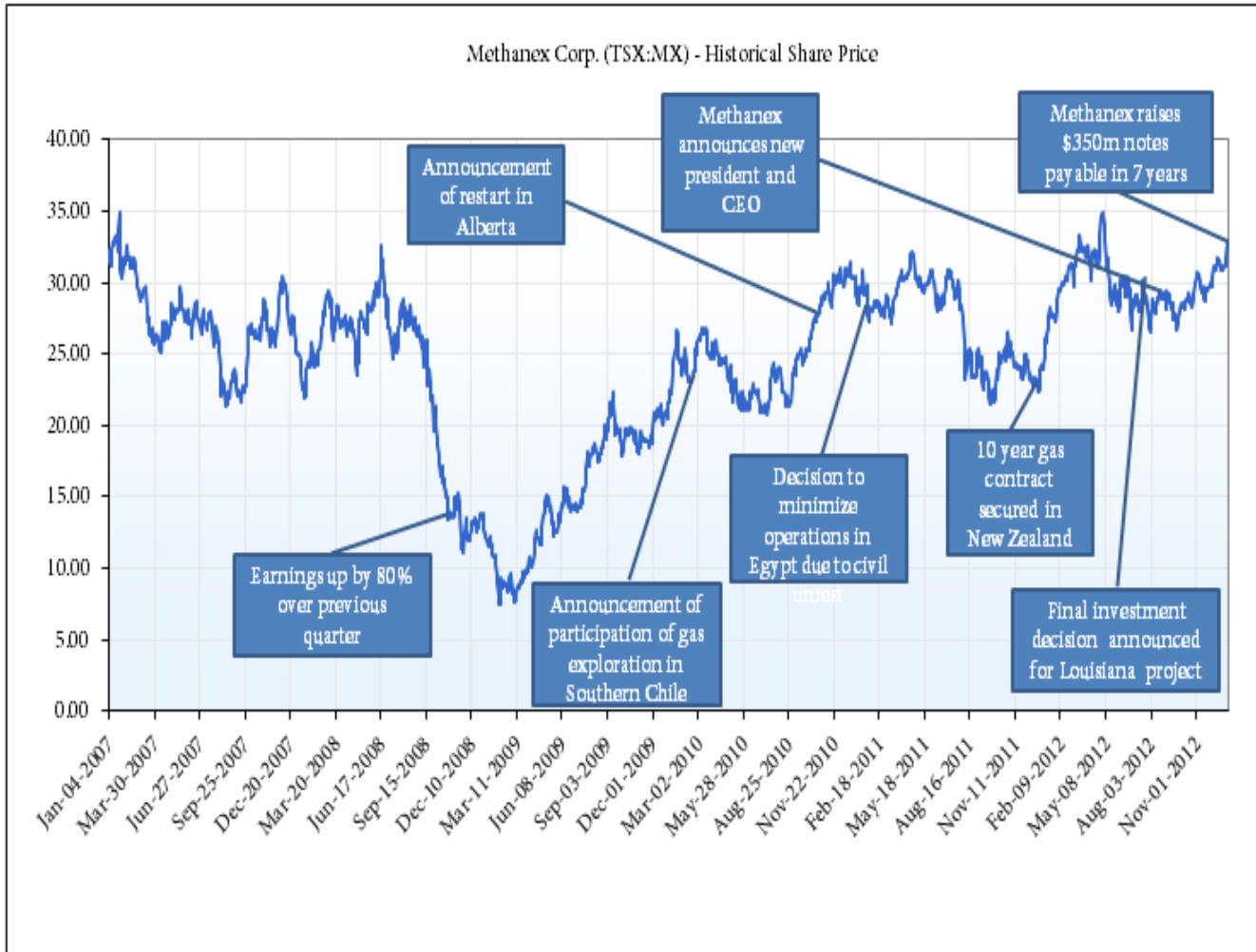
Appendix

Balance Sheet											
	2007	2008	2009	2010	2011	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)
ASSETS											
Cash And Equivalents	488.2	328.4	169.8	193.8	350.7	498.3	210.0	328.9	594.4	853.3	1,111.1
Total Cash & ST Investments	488.2	328.4	169.8	193.8	350.7	498.3	210.0	328.9	594.4	853.3	1,111.1
Accounts Receivable	369.3	141.7	191.0	257.9	310.6	330.6	320.9	418.4	451.9	451.9	451.9
Other Receivables	32.6	65.7	58.3	53.3	60.6	60.6	60.6	60.6	60.6	60.6	60.6
Notes Receivable	-	6.0	8.1	8.8	7.2	7.2	7.2	7.2	7.2	7.2	7.2
Total Receivables	401.8	213.4	257.4	320.0	378.4	398.4	388.7	486.3	519.7	519.7	519.7
Inventory	312.1	177.6	171.6	229.7	281.0	281.0	281.0	281.0	281.0	281.0	281.0
Prepaid Expense	20.9	16.8	23.9	26.9	24.5	24.5	24.5	24.5	24.5	24.5	24.5
Other Current Assets	-	-	-	-	-	-	-	-	-	-	-
Total Current Assets	1,223.1	736.3	622.7	770.4	1,034.6	1,202.12	904.19	1,120.59	1,419.58	1,678.45	1,936.31
Gross Property, Plant & Equipment	2,802.7	3,262.5	3,641.7	3,317.0	3,428.0	3,628.0	4,178.0	4,488.0	4,686.7	4,885.4	5,084.1
Accumulated Depreciation	(1,260.6)	(1,363.4)	(1,457.9)	(1,009.6)	(1,144.0)	(1,295.7)	(1,459.0)	(1,649.3)	(1,848.0)	(2,046.7)	(2,245.4)
Net Property, Plant & Equipment	1,542.1	1,899.1	2,183.8	2,307.4	2,284.0	2,332.3	2,719.0	2,838.7	2,838.7	2,838.7	2,838.7
Long-term Investments	0	42.1	0	0	0	0	0	0	0	0	0
Other Intangibles	34.7	27.1	19.1	11.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6
Loans Receivable Long-Term	13.7	30.6	38.0	17.1	10.9	10.9	10.9	10.9	10.9	10.9	10.9
Deferred Charges, Long-Term	10.1	15.3	9.7	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Other Long-Term Assets	46.2	48.5	50.2	32.5	54.5	54.5	54.5	54.5	54.5	54.5	54.5
Total Assets	2,869.9	2,799.0	2,923.4	3,140.7	3,393.6	3,609.4	3,698.2	4,034.2	4,333.2	4,592.1	4,850.0
LIABILITIES											
Accounts Payable	466.0	235.4	232.9	259.0	327.1	381.1	368.3	477.2	514.5	514.5	514.5
Curr. Port. of LT Debt	15.3	15.3	29.3	50.0	251.1	53.3	61.9	200.1	52.8	55.6	0
Curr. Port. of Cap. Leases	-	-	-	11.6	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Other Current Liabilities	17.0	8.0	9.4	9.7	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Total Current Liabilities	498.3	258.7	271.6	330.3	603.0	459.1	454.9	702.0	592.0	594.8	539.2
Long-Term Debt	582.0	766.7	918.2	897.0	652.1	898.9	890.2	752.0	899.4	896.5	952.1
Capital Leases	-	-	15.9	67.8	56.0	56.0	56.0	56.0	56.0	56.0	56.0
Deferred Tax Liability, Non-Current	338.6	299.2	300.5	295.4	302.3	302.3	302.3	302.3	302.3	302.3	302.3
Other Non-Current Liabilities	74.4	97.4	48.0	140.6	178.2	178.2	178.2	178.2	178.2	178.2	178.2
Total Liabilities	1,493.3	1,422.0	1,554.2	1,731.1	1,791.6	1,894.5	1,881.6	1,990.5	2,027.9	2,027.9	2,027.9
Common Stock	451.6	427.3	427.8	440.1	455.4	455.4	455.4	455.4	455.4	455.4	455.4
Additional Paid In Capital	16.0	22.7	27.0	25.4	22.3	22.3	22.3	22.3	22.3	22.3	22.3
Retained Earnings	876.3	862.5	806.2	813.8	943.0	1,055.9	1,157.5	1,384.7	1,646.3	1,905.2	2,163.1
Treasury Stock	-	-	-	-	-	-	-	-	-	-	-
Comprehensive Inc. and Other	(8.7)	(24.0)	(24.9)	(26.1)	(16.0)	(16.0)	(16.0)	(16.0)	(16.0)	(16.0)	(16.0)
Total Common Equity	1,335.4	1,288.4	1,236.1	1,253.2	1,404.7	1,517.6	1,619.2	1,846.4	2,108.1	2,366.9	2,624.8
Minority Interest	41.3	88.6	133.1	156.4	197.2	197.2	197.2	197.2	197.2	197.2	197.2
Total Equity	1,376.6	1,377.0	1,369.2	1,409.6	1,602.0	1,714.8	1,816.5	2,043.7	2,305.3	2,564.2	2,822.0
Total Liabilities And Equity	2,869.9	2,799.0	2,923.4	3,140.7	3,393.6	3,609.3	3,698.1	4,034.2	4,333.2	4,592.0	4,849.9

Appendix

Cash Flow Statement											
	2007	2008	2009	2010	2011	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)
Net Income	375.7	168.8	0.7	96.0	201.3	174.8	163.6	295.2	329.7	326.9	325.9
Depreciation & Amortization	104.8	99.5	109.6	129.7	152.7	151.7	163.3	190.3	198.7	198.7	198.7
Amort. of Goodwill and Intangibles	7.6	7.6	8.0	7.5	4.0						
Depreciation & Amort., Total	112.4	107.1	117.6	137.2	156.7	151.7	163.3	190.3	198.7	198.7	198.7
(Gain) Loss From Sale Of Assets	-	-	-	(22.2)	-	-	-	-	-	-	-
Asset Writedown & Restructuring Costs	-	-	-	-	-	-	-	-	-	-	-
Stock-Based Compensation	22.4	2.8	12.5	36.1	(4.9)	-	-	-	-	-	-
Other Operating Activities	(16.6)	(44.2)	(2.3)	56.1	91.2	-	-	-	-	-	-
Change in Other Net Operating Assets	33.4	78.4	(18.3)	(120.6)	35.4	34.0	(3.2)	11.4	3.9	-	-
Cash from Operations	527.3	312.9	110.3	182.5	479.7	360.5	323.6	496.9	532.3	525.6	524.6
Capital Expenditure	(278.2)	(520.9)	(345.4)	(146.3)	(157.6)	(200.0)	(550.0)	(310.0)	(198.7)	(198.7)	(198.7)
Sale of Property, Plant, and Equipment	-	-	-	31.8	-	-	-	-	-	-	-
Cash Acquisitions	-	-	-	-	-	-	-	-	-	-	-
Divestitures	-	-	-	-	-	-	-	-	-	-	-
Invest. in Marketable & Equity Secur.	-	-	-	-	-	-	-	-	-	-	-
Net (Inc.) Dec. in Loans Originated/Sold	-	-	(9.3)	20.2	7.6	-	-	-	-	-	-
Other Investing Activities	(2.2)	2.9	(25.7)	(3.1)	7.5	-	-	-	-	-	-
Cash from Investing	(280.4)	(518.0)	(380.3)	(97.4)	(142.6)	(200.0)	(550.0)	(310.0)	(198.7)	(198.7)	(198.7)
Short Term Debt Issued	-	-	-	-	-	-	-	-	-	-	-
Long-Term Debt Issued	131.6	204.0	151.4	67.5	2.7	300.0	53.3	61.9	200.1	52.8	55.6
Total Debt Issued	131.6	204.0	151.4	67.5	2.7	300.0	53.3	61.9	200.1	52.8	55.6
Short Term Debt Repaid	-	-	-	-	-	-	-	-	-	-	-
Long-Term Debt Repaid	(14.3)	(15.3)	(15.3)	(42.6)	(55.6)	(251.1)	(53.3)	(61.9)	(200.1)	(52.8)	(55.6)
Total Debt Repaid	(14.3)	(15.3)	(15.3)	(42.6)	(55.6)	(251.1)	(53.3)	(61.9)	(200.1)	(52.8)	(55.6)
Issuance of Common Stock	9.5	4.1	0.4	9.2	11.4	-	-	-	-	-	-
Repurchase of Common Stock	(204.7)	(149.9)	-	-	-	-	-	-	-	-	-
Common Dividends Paid	(55.0)	(56.8)	(57.1)	(57.2)	(61.9)	(61.9)	(61.9)	(68.0)	(68.0)	(68.0)	(68.0)
Total Dividends Paid	(55.0)	(56.8)	(57.1)	(57.2)	(61.9)	(61.9)	(61.9)	(68.0)	(68.0)	(68.0)	(68.0)
Special Dividend Paid	-	-	-	-	-	-	-	-	-	-	-
Other Financing Activities	19.3	59.2	32.0	(38.1)	(76.8)	-	-	-	-	-	-
Cash from Financing	(113.8)	45.3	111.4	(61.1)	(180.2)	(13.0)	(61.9)	(68.0)	(68.0)	(68.0)	(68.0)
Net Change in Cash	133.2	(159.8)	(158.6)	24.0	156.9	147.5	(288.3)	118.9	265.5	258.9	257.9

Appendix 3 - Methanex Stock Price Chart with News



Appendix 4 - Chinese MTO/MTP Projects

Project	Province	Status	Unit	Ethylene (kt)	Propylene (kt)	Start-up
Shenhua Ningxia Coal Industry Group	Ningxia	Online	MTP	0	500	2010
Shenhua Group (Baotou)	Inner Mongolia	Online	MTO	300	300	2010
Sinpec Zhongyuan Petrochemical	Henan	Online	MTO	100	100	2011
Datang International (Duolun)	Inner Mongolia	Online	MTP	0	460	2011
Ningbo Heyuan	Zhejiang	Under construction	MTO	200	400	2012
Zhejiang Xingxing New Energy Technology	Zhejiang	Not constructed yet	MTO	300	300	2012
Wison (Nanjing) Clean Energy	Jiangsu	Under construction	MTO	135	160	2013
Datang International (Yulin)	Shaanxi	Not constructed yet	MTP	0	600	2013
Huayun Coal and Power	Shanxi	Not constructed yet	MTO	100	112	2013

Source: ICIS

Appendix 5 - SWOT and Porter's Five Forces

