

Why Are Investors So Pessimistic on Uptrending Methanex?

Examining technical and sentiment indicators for Methanex Corporation (MEOH)

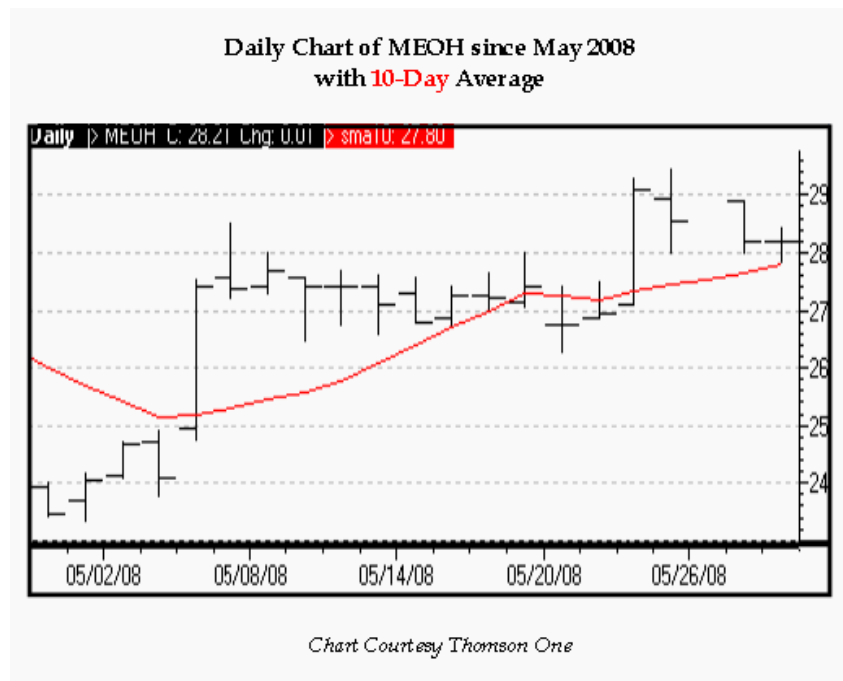
by Colleen S. King (cking@sir-inc.com) 5/28/2008 11:38 AM

Methanex Corporation is the world's largest producer and marketer of methanol, which is also known as methyl alcohol, carbinol, wood alcohol, or wood spirits. Historically the product was used in the ancient Egyptian embalming process. Methanol's chemical formula is CH_3OH , which is often abbreviated as MeOH (noteworthy enough as Methanex's creative ticker). Methanol is the simplest alcohol, which at room temperature is a polar liquid and is used as an antifreeze, solvent, fuel, and as a denaturant for ethyl alcohol.

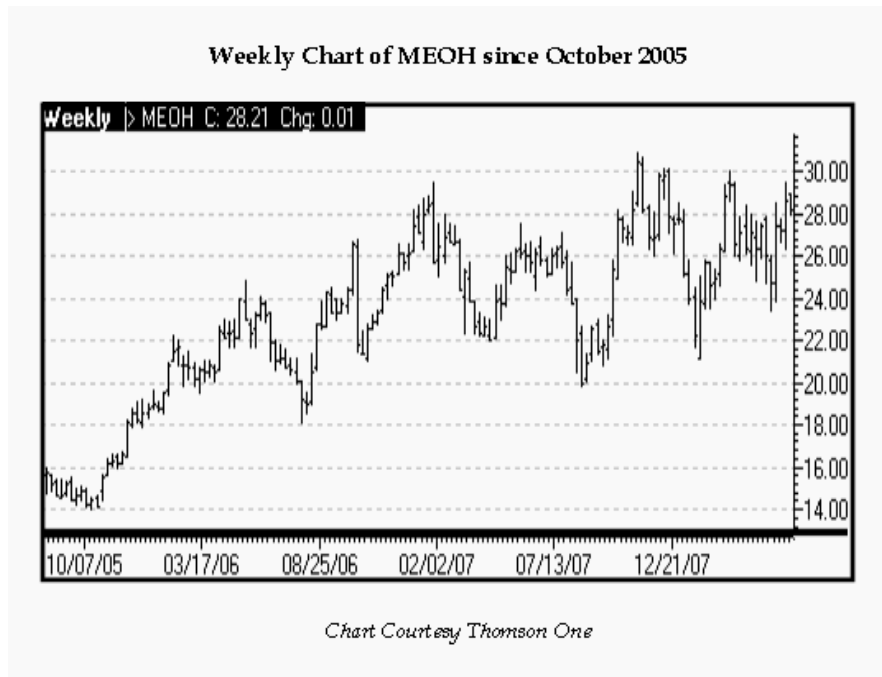
Today the product is most typically produced from the methane component in natural gas, rather than that of coal. Methanex produces about 5.8 million tons of methanol a year. In addition to being used directly as a fuel, methyl tertiary butyl ether (MTBE) can be made from it and MTBE can be used to enhance octane and create cleaner burning fuels. Methanol is also used to make adhesives, paints, foams, plastic bottles, acetic acid and formaldehyde.

The Canada-based company reported earnings in early May of \$65 million, or 67 cents per share. Additionally, the company announced that it would boost the quarterly dividend by 11%, starting with the dividend payable June 30. The company also revealed a plan to buy back up to 7,909,393 common shares, or 10% of its outstanding common stock. The raise in the dividend and the buyback plan is significant because it means that the company not only has enough extra capital, but it also feels as if it will continue to be in an excellent financial position.

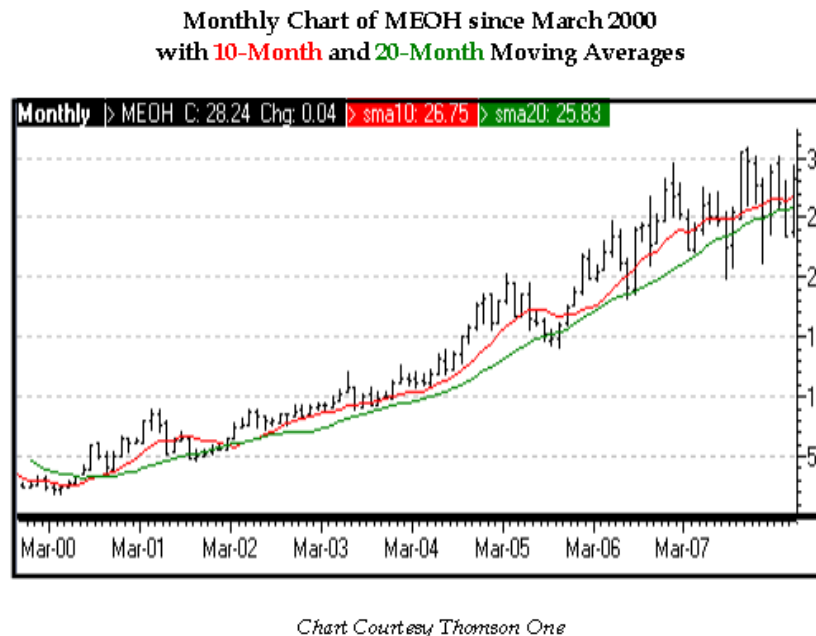
The stock has been in a nice uptrend. Since early this month, the equity has gained 20%. Furthermore, after hitting a near-term low in May at \$23.30, the stock has stair-stepped higher and is now resting on its 10-day moving average.



What's more, the company has grown 99% since October 2005. The shares may hit some resistance at the \$30 level. This area capped the security in December 2007 and March 2008.



Looking at the longer-term, the equity has grown 1,105% since April 2000. Moving along its 10-month moving average, the stock has also received support from its 20-month moving average.



Brokerage firms are starting to look at MEOH in a more positive light. In the last few weeks, 2 firms have upgraded its status. Canaccord Adams upgraded the stock from "sell" to "hold", while UBS changed its position from "neutral" to "buy". According to Zacks, 4 brokerage firms are recommending "hold", 1 is suggesting "strong sell" and 3 are advising "buy". Additionally, while UBS was upgrading MEOH to "buy", the brokerage firm raised its estimate for the company. UBS raised the target price

from \$28 to \$28.50. However, the consensus estimate for the 12-month price target is still \$24.23; the stock is currently trading at \$28.20.

Short-term option player sentiment is also pessimistic. The Schaeffer's put/call open interest ratio (SOIR) for MEOH stands at 3.12. This means there are more than 3 times as many puts as calls on options that expire in less than 3 months. What's more, this reading is higher than 88% of all the readings taken during the past year. In other words, option players have been more bearishly aligned only 12% of the time during the past 52 weeks.

Short sellers are also betting that the stock is going to start falling. These bears have sold short almost 5.2 million shares, accounting for 5.53% of the company's float. With the stock in a long-term uptrend, if these pessimistic investors begin to buy back their shares, it could take almost 7 days at the stock's average daily trading volume for these bets to unwind. This could leave ample potential for a short-covering rally and add more buying pressure to the shares.

Overall, despite the stock's uptrend, investors remain unconvinced of the stock's strength. From a contrarian view, the combination of growing prices and bearish sentiment has bullish implications.



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