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Cydsa 50% Return Surpasses Petrochemical Peers: Corporate Mexico

by Adam Williams
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(Bloomberg) -- Cydsa SA, the Mexican chemical producer that weathered this year's oil price plunge to gain more than 50 percent, is diving into new energy opportunities at home.

The maker of products ranging from refrigerant gases to acrylic yarn this week announced a joint venture with Petroleos Mexicanos to store liquefied petroleum gas in a salt cavern for the state-owned oil producer for 20 years, at a planned cost of about $130 million.

Cydsa, based in San Pedro Garza Garcia, has been positioning itself as a potential natural gas storage provider as Mexico's energy market opens to private investment for the first time in 76 years, Fernando Perez, an equity analyst in Mexico City for Corporativo GBM SA, said in a phone interview. Mexico's government plans to increase natural gas production by 40 percent by 2018 to reduce dependence on U.S. imports and lower the cost of power.

"There is expectation that Cydsa will continue to see opportunities come its way as the energy market opens," Rogelio Urrutia, portfolio manager at Actinver SA, said in a phone interview from Mexico City. "The stock isn't traded much, but unlike other chemical companies, it hasn't been impacted much by falling oil prices."

Brent crude, an international benchmark, reached a five-year low this week on added North American supply and reduced demand forecasts. The price collapse has eroded the advantage enjoyed by many North American chemical companies that use cheaper natural gas over international competitors. Oil fell 0.8 percent to $60.69 a barrel at 6:02 p.m. in London.

'Inflection Point'

Cydsa's performance this year has outpaced bigger companies including Dow Chemical Co. and LyondellBasell Industries NV. It has returned 185 percent since 2012, when the shares traded at about 10 pesos. The stock closed yesterday at 30.03 pesos in Mexico City. Net income rose to 109 million pesos in the third quarter, an 11 percent increase from a year earlier, while earnings before interest, taxes, depreciation and amortization climbed 18 percent.

Cydsa's first joint venture with Pemex could be an "inflection point" that increases the speed of the company's expanding gas-storage program, GBM's Perez and Andres Portilla wrote in a Dec. 15 research note. Cydsa didn't respond to e-mails and phone calls seeking comment.

The Pemex-venture salt cavern, located in Veracruz state on the Gulf of Mexico, will be the first developed for liquefied petroleum gas storage in Latin America. It will begin operation in 2016, pending approval from Mexico's Energy Regulatory Commission.

"Having underground storage allows Pemex to guarantee the availability of fuel to satisfy national demand effectively and at a low cost," Pemex said in a statement. The salt cavern reduces the need for spot imports at high costs and can also be used for crude, natural gas, ethanol and hydrogen storage.

Salt Caverns

The ability to provide storage for oil and gas companies creates a niche for Cydsa which could result in further joint ventures, Homero Elizondo, an analyst at Mexico City-based Interacciones, said in a phone interview.

Cydsa's subterranean storage unit has the capacity to store as much as 1.8 million barrels of liquefied petroleum gas and transport 120,000 barrels a day, according to a Dec. 15 Pemex statement. Salt caverns provide high withdrawal and deliverability rates and are capable of cycling through inventory at a much faster pace than other gas storage facilities, according to the U.S. Energy Information Administration's website.

The company has built two salt caverns and will complete two more within the next 16 months, requiring a total investment of $111 million, according to GBM.

"There was a lot of expectation for these projects," Perez said. "The company is already the salt leader in Mexico and is continuing to pursue projects to improve profitability."

Crude Advantage

Cydsa, which has plants in eight Mexican cities and distributes products to more than 30 countries, is the maker of the popular La Fina brand of salt.

With salt as the core revenue generator for the company, Cydsa has been shielded from the recent plunge in oil prices, according to Perez.

Mexico's largest petrochemical producers, Mexichem SAB and Alpek SAB, have fallen 19 percent and 35 percent, respectively, this year.

"None of Cydsa's products are derived from oil so there is little effect on the company as crude prices drop," said Perez. "Cydsa needs natural gas to produce salt, so the fall in oil prices actually reduces the company's costs."

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