

March 3rd, 2017

Hudson Technologies Inc.: HDSN

Analyst: Mateo Valdivieso

Sector: Industrials

Industry: Commercial Services and Supplies

Company Description: Hudson Technologies Inc. operates as a refrigerant services company in the United States and internationally. The company sells reclaimed and virgin refrigerants, and industrial gases; and provides refrigerant management services, which primarily include reclamation of refrigerants and laboratory testing. It also separates crossed refrigerants; and provides re-usable cylinder refurbishment and hydrostatic testing services. In addition, the company provides Refrigerant Side services consisting of system decontamination to remove moisture, oils, and other contaminants, as well as refrigerant recovery and reclamation services. The company serves commercial, industrial, and governmental customers, as well as refrigerant wholesalers, distributors, contractors, and refrigeration equipment manufacturers; and customers in petrochemical, pharmaceutical, industrial power, manufacturing, commercial facility and property management, and maritime industries.

LONG

Current Price: \$7.13
 Target Price: \$11.41
 Market Cap: 295.7m
 Beta: .83



Thesis:

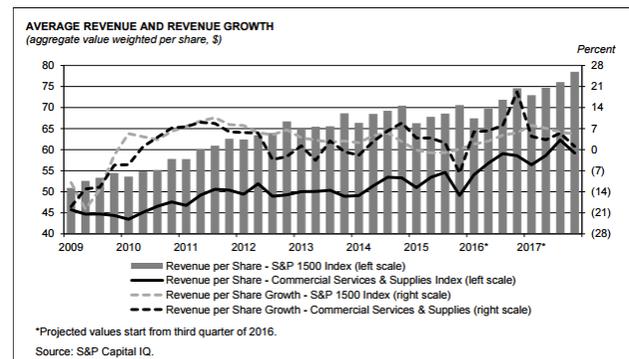
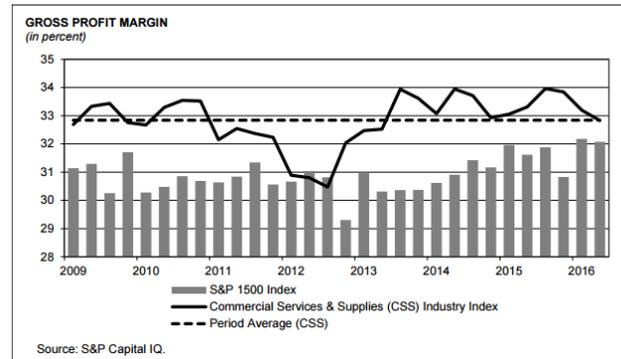
- Hudson Technologies is a growth company that continues to show record revenues, increased gross margins and improved profitability for the year and have over all been outperforming its competitors.
- Management team is focused on growth potential due to phase outs of R-22 and future phase downs of HFCs which will begin in 2019. The phase out of R-22 can see HDSN become producers with 100% R-22 supply being served as by reclaimed R-22.
- Management plans to continue evaluating strategic M&A opportunities that will help and support its future growth.

Catalysts:

- Increasing R-22 price as well as demand
- EPA predicts after market demand for R-22 a 50 million pounds by 2020.
- Department of Defense contract with Maximum value of \$400m to be executed in second half of 2017

Industry Outlook

The commercial services & supplies industry are levered in regards to the overall economy. The key factors of revenue creation are population growth, strong job and housing markets but also the growth of GDP. The growth rate for revenue per share in the commercial services & supplies industry has been growing inadequately in comparison with the S&P 1500 index. In 2016 according to Fidelity reports Industry average was around 9.9% which outperformed the forecasted 3.8% for S&P 1500. The expected revenue growth for the industry in 2017 is set to be 3.6% compared to the S&P 1500 6.6% estimate. When looking at HDSN revenue growth of 32.21% there is a substantial difference to the growth of the commercial services & supplies industry. Gross profit margins for the industry have been around 33% when looking at the S&P 1500 index as compared to the industry the gross profit margin is around 32% during the 3rd quarter whereas HDSN 3rd quarter gross profit was around 34.47% which still is slightly better than the industry and S&P 1500.



Acquisition:

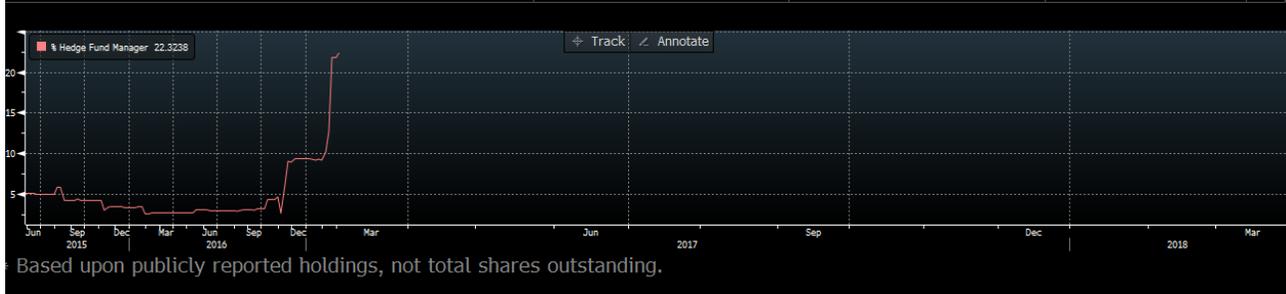
HDSN acquired polar technologies in a way to expand their customer base geographic presence and there reclamation capacity. HDSN believes that Polar is the fourth largest reclaimer in the industry which has recently proved to be a difference maker in obtaining Department of Defense contract that has an estimated maximum value over the term agreement of \$400 million. This acquisition was a strategic move by HDSN due to Polar strong presence in the west coast and in Puerto Rico. The acquisition has seem to be a profitable one as Revenues in Q4 in 2014 increased 69% to 8.1 million as compared to 4.8 million. HDSN will continue to evaluate strategic M&A opportunities that will help support long term growth that will create value for the company as demand for reclaimed refrigerants increase.

DoD Contract:

In middle of July HDSN was awarded as a prime contractor by the United States defense logistics agency, a 5 year contract including a 5 year renewal option with an estimated value of \$400 million over the term of the agreement. The amount is for management of supply of refrigerants, compressed gases, cylinders and related items to U.S. Military commands and installations, federal civilian agencies and foreign militaries. A key aspect in closing the deal as mentioned before was the Polar acquisition as it gave them complementary capabilities for the bid. The DoD contract has high potential of contributing to future revenue and earnings growth. However amount of revenue that is to come can only be determined by order levels, that being said the effect to be seen from this will come within the next quarters. Not only has this contract have potential to give value and growth for HDSN but it creates exposure to other government contracts where they could take advantage as prime contractors.

Ownership:

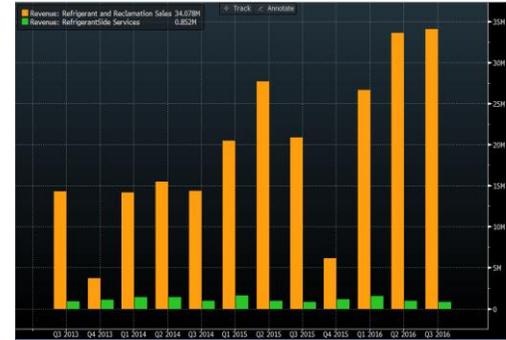
Ownership Type	02/26/17	Curr ↑	Change
11) Investment Advisor	60.66	59.80	-0.86
12) Hedge Fund Manager	21.84	22.32	+0.48
13) Individual	15.55	15.89	+0.34
14) Pension Fund	1.72	1.75	+0.03
15) Brokerage	0.19	0.19	0.00
16) Bank	0.03	0.03	0.00
17) Insurance Company	0.00	0.00	0.00



The above table provided via Bloomberg shows the ownership for Hudson Technologies. Hedge fund managers hold around 22%, which is quite high percentage. This is a sign of reassurance because there is potential to for value creation. I would also like to point out that between December 2016 until now there has been an increase in interests from hedge funds of about 48 basis points is also positive.

R-22 Market Opportunity :

R-22 is a hydrochlorofluorocarbon (HCFC) which used as a refrigerant. However it contains compounds that are harmful for the ozone thus they have ozone depletion potential but also have a high global warming potential. In 2014 the EPA gave its finale rule on a production phase down schedule, which concluded that by the year 2020 there would be 0 pounds of R-22. However an aftermarket exist for this and is expected to continue for approximately 20 years. The EPA has projected after market demand to be approximately 50m pounds by 2020. Reclaimed R-22 are expected to fill the high aftermarket demand. Thus HDSN is at the for front already being a leading independent distributor selling all available refrigerants, to become a producer with majority of R-22 supply to be served by reclaimed R-22. The price of R-22 at Q1, 2016 was \$11/pound in Q3,2016 R-22 is \$18/pound. Thus with an increasing demand in R-22 by 2020 R-22 prices could skyrocket which would promote potential growth for HDSN in revenue and profit streams, which has been a key success factor on how the company has been performing.



Shows Revenue based on Refrigerant and Reclamation sales, Within the past year there has been substantial growth in the secotor that could increase with the demand of R-22 but also the price increase, which would boast revenues.

HDSN vs Competitors:

Using LFY numbers instead of historical we see that HDSN as provided by the table below that HDSN outperforms its competitors in profitability it has a higher ROIC as well as a higher Ebitda Margins. HDSN could improve in decreasing there debt. They have a greater WACC then there competitors, this is due to the recent acquisitions with Polar, as they try to decrease the acquisition debt there Kd will decrease. This will lead to a much higher ROIC/WACC in regards to competitors, meaning greater value creation then there competitors.

	WACC		Kd		Ke	
	Histor	LFY	Histor	LFY	Histor	LFY
HDSN	10.2%	13.1%	5.0%	8.9%	12.0%	15.1%
Competit	9.5%	8.9%	4.7%	4.8%	11.0%	11.0%

	ROC /WACC		ROIC		ROIC W/O GW		EBITA Margin	
	Histor	LFY	Histor	LFY	Histor	LFY	Histor	LFY
HDSN	0.34	1.17	6.3%	15.3%	6.3%	15.5%	5.7%	18.0%
Competit	0.94	0.68	8.8%	6.0%	15.5%	11%	14.3%	12.9%

Financial overview:

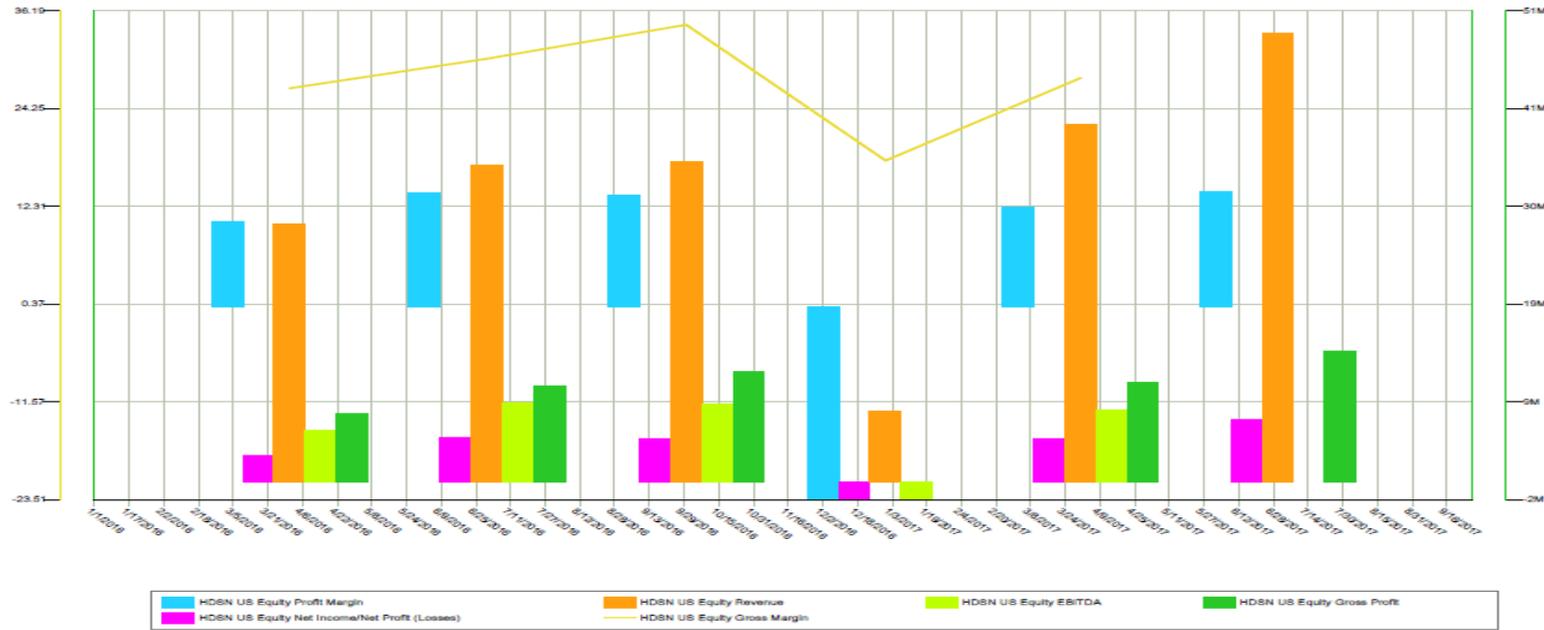
HDSN revenues were of \$105.5 million, a 32% increase compared to \$79.7 million in the comparable 2015 period. The increase is primarily related to a higher selling price of certain refrigerants and higher volumes of certain refrigerants sold. Gross margin increased to 29% for full year 2016 compared to 23% for 2015. Net income for 2016 was \$10.6 million, or \$0.31 per basic and \$0.30 per diluted share, compared to \$4.8 million or \$0.15 per basic and \$0.14 per diluted share in 2015. There will be continued growth in revenues as the price and demand of R-22 increases. Refrigerant and Reclamation sales are the prime drivers of revenue for HDSN, which represent %97.6 of total revenues. Gross Margins are predicted to increase by 30% relative to the progression of price increase which HSDN will be able to predict in the upcoming months as they get into season but are confident that prices will increase as they have already seen a substantial price increase of R-22 between Q1 and Q3 during 2016 fiscal year. Cash from operations supports organic growth, which has been due to the continued purchase of R-22. HDSN operating costs are in principal fixed costs, thus potential growth in revenue is evident.

Bloomberg

Graph Fundamentals

Date Range: 3/4/2016 - 3/4/2017

Periodicity: Quarterly



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Conclusion:

HDSN is a BUY, they are positioned well to capitalize on their reclamation business as refrigerants are being phased out also growing demand in aftermarkets for R-22 is essential in growth for HDSN. Their current DoD contract is a big game changer which is something to keep an eye out as its going to play a major role for the company's future. HDSN I feel like is an underfollowed stock because of its small market cap of 295.7m. It's also worth noting the 22% that hedge fund managers hold for this company, which is relatively high. I believe that they have strong financials and are at the forefront of the refrigerant business for being a small cap company, this is an excellent small cap growth opportunity.

Hudson Technologies Inc. (HDSN)

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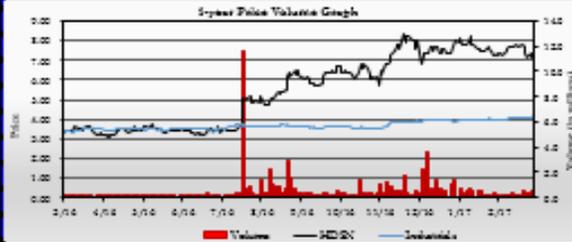
BULLISH

Analyst by
3/4/2017

Current Prices:
\$7.13
Dividend Yield:
0.0%

Intrinsic Value:
\$9.99
Target Price:
\$11.41

Target 1 year Return: 60.04%
Probability of Price Increase: 1



Description:
Hudson Technologies Inc. operates as a refrigerant services company in the United States and internationally.

General Information:
Sector: Industrials
Industry: Commercial Services and Supplies
Local Guidance: N/A
Next earnings date: N/A
Estimated Country Risk Premium: 5.25X
Effective Tax rate: 48X
Effective Operating Tax rate: 56X

Market Data

Market Capitalization	\$235.23
Daily volume (mil)	8.62
Shares outstanding (mil)	41.44
Diluted shares outstanding (mil)	35.42
X shares held by institutions	74X
X shares held by investment Managers	68X
X shares held by hedge funds	12X
X shares held by insiders	12.35X
Short interest	5.44X
Days to cover short interest	8.88
52 week high	\$8.58
52 week low	\$3.87
Levered Beta	0.35
Volatility	51.57X

Quarter ending

12/31/2015	15.25X
3/31/2016	1.75X
6/30/2016	-1.41X
9/30/2016	15.85X
12/31/2016	5.43X
Mean	3.15X
Standard error	3.6X

EBITDA

1194.27X
23.46X
25.23X
46.85X
287.62X
265.34X
225.3X

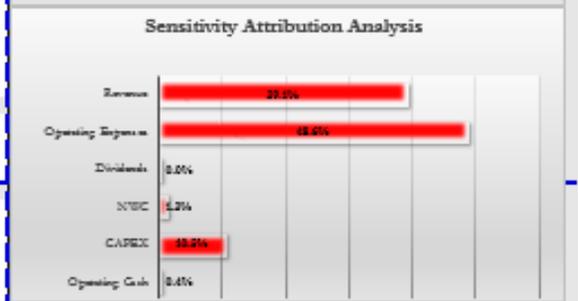


Management

Naqvi, Kevin	Chairman and Chief Executive
Calman, Brian	President, Chief Operating Officer
Harkin, Charles	Vice President of Sales and Marketing
Madsen, Stephen	Founder, Vice President of L
Krishnamoorti, Hal	Chief Financial Officer and Director of Global Energy Sr
Papay, Riggs	

Total compensation year

14.25X per annum over 5y
12.84X per annum over 5y
11.44X per annum over 5y
N/A
N/A
N/A



Profitability

ROIC	18.6X
HOPAT Margin	14X
Revenue/Invested Capital	1.57
ROE	23.4X
Adjusted margin	19X
Revenue/Adjusted Book Value	2.28

Invested Funds

Total Cash/Total Capital	27.4X
Estimated Operating Cash/Total Capital	3.4X
Market working Capital/Total Capital	51.7X
Inventory/Total Capital	22.4X

Capital Structure

Total Debt/Company Equity (LTM)	0.13
Cost of Existing Debt	5.19X
Estimated Cost of Future Borrowing	4.24X
CCPS Risk Rating	CCC
Unlevered Beta (LTM)	0.81
WACC	8.42X

EBITDA

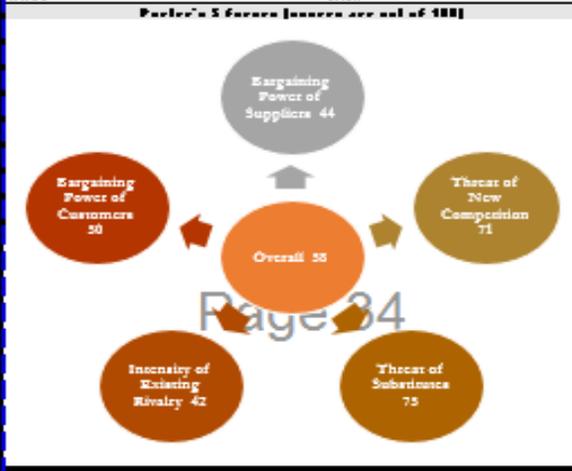
12.84X	5.34X
4.37X	18.3X
2.34	0.86
15.87X	12.88X
3.42X	3.3X
4.65	1.38

EBITDA

11.4X	6X
2.4X	N/A
19.2X	4X
12.1X	32X

EBITDA

1.24	0.58
5.22X	4.82X
4.25X	4.82X
CCC	0
0.38	0.55
3.28X	6.64X



Period

Base Year	32.5X
12/31/2017	28.8X
12/31/2018	35.8X
12/31/2019	31.6X
12/31/2020	28.4X
12/31/2021	24.7X
12/31/2022	21.5X
12/31/2023	17.8X
12/31/2024	14.4X
12/31/2025	10.3X
12/31/2026	7.5X
12/31/2027	4.9X

Valuation

HOPAT margin	15.5X
	12.7X
	12.7X
	12.2X
	11.8X
	11.5X
	10.8X
	10.3X
	9.8X
	9.2X
	8.6X
	8.0X

Period

Base Year	\$27.18
12/31/2017	\$51.88
12/31/2018	\$54.18
12/31/2019	\$54.18
12/31/2020	\$77.81
12/31/2021	\$83.83
12/31/2022	\$118.33
12/31/2023	\$144.82
12/31/2024	\$184.67
12/31/2025	\$223.53
12/31/2026	\$277.46

Period

Base Year	\$27.18
12/31/2017	\$51.88
12/31/2018	\$54.18
12/31/2019	\$54.18
12/31/2020	\$77.81
12/31/2021	\$83.83
12/31/2022	\$118.33
12/31/2023	\$144.82
12/31/2024	\$184.67
12/31/2025	\$223.53
12/31/2026	\$277.46

Not Claims

\$8.58
\$17.38
\$3.33
\$2.53
\$2.67
\$3.58
\$2.85
\$16.58
\$41.52
\$78.75
\$123.31

Price per share

\$3.33
\$11.45
\$10.58
\$13.58
\$15.81
\$16.47
\$18.83
\$13.84
\$21.72
\$23.78
\$25.75

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