

REX American Resources Corp.

NYSE: REX

Analyst: Benjamin Linaud

Sector: Energy

BUY

Price Target: \$77

Key Statistics as of 3/19/2015

Market Price:	\$58.65
Industry:	Renewable Energy
Market Cap:	\$ 469.4 M
52-Week Range:	\$51.12-110.65
Beta:	3.06

Thesis Points:

- Change in commodity prices should lead to a higher stock price
- New technologies allow reduced costs
- REX should continue to outperform its competitors
- Multiples and the share repurchase program show that REX is undervalued

Company Description:

REX American Resources Corporation, through its subsidiaries, produces and sells ethanol. The company operates in two segments, Alternative Energy and Real Estate. The Alternative Energy segment is engaged in the production of ethanol, dried and modified distillers grains, and non-food grade corn oil. Its dry distiller grains with solubles are used as proteins in animal feed. The Real Estate segment is involved in leasing real estate properties. The company was formerly known as REX Stores Corporation and changed its name to REX American Resources Corporation in 2010. The company was founded in 1980 and is based in Dayton, Ohio.



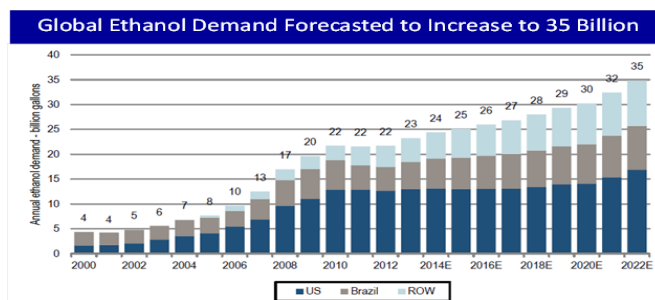
Thesis

Rex American Resources lost almost half of its value in less than seven months and is now undervalued. The stock has been oversold because of low oil prices as it is a substitute for ethanol. A possible increase in oil prices would increase REX's return to investors making the company a possible long term investment opportunity. An increase in ethanol prices (lowest price in 5 year) will increase the company's revenues. REX has been investing in new technologies allowing costs reduction; margins should increase, therefore increasing the value of the company. In addition, insiders' ownership is 16%, meaning that they are involved in REX American Resources and have an incentive to lead the stock price to increase. Recent shares repurchase from the company as an investment is a proof that the company believes that the stock is undervalued.

Industry Overview

Demand for ethanol is increasing through the years as it has a positive impact on the US economy and on the environment. The ethanol industry produced approximately 14.3 billion gallons in 2014, thereby reducing the U.S. reliance on foreign oil. As a consequence, it helps the U.S. balance of trade and helps the U.S. to move towards energy independence. There are several national benefits; government payments to corn growers have fallen from almost \$9 billion in 2006 to less than \$2 billion in 2013, a decrease of 78%. Ethanol production generates higher tax so more revenues for the U.S. The production added over \$53 billion to the U.S. GDP and increased household income by almost \$27 billion. Also, farm states are less impacted by challenged economic environments. Ethanol estimated to have supported over 379,000 jobs from agriculture to manufacturing to the service sector. On a life cycle basis, corn-based ethanol reduces greenhouse gas emissions (GHGs) by almost 34% compared to gasoline; 14.3 billion gallons of ethanol reduced GHG emissions by 39.6 million metric tons.

As a consequence, ethanol demands has been increasing and in expecting to do so. The graph on the top right corner shows that by 2018, Ethanol demand should increase from 24 billion gallons in 2014 to 28 billion gallons in 2018, a 17% increase. By 2022, the demand for ethanol should increase at a 5% annual rate.



Stock Price Catalyst

The increase in ethanol demand should lead to a higher ethanol price, meaning a substantial increase in revenue for REX. In addition, REX and other competitors decided to cut ethanol production for an undetermined period. There is already an excess ethanol production. The low ethanol price makes the production too costly for REX and its competitors, reducing their margins. A lower production will reduce REX costs, and increase ethanol prices at the same time. As a result, a higher demand and lower supply should increase ethanol price



which is at a 5 year low (graph above), increasing REX's revenues faster than expected. Also, by reducing its costs, the company will be able to increase its margins and create value to the company.

The graph below shows that oil prices and REX stock price are highly positively correlated. Indeed, oil is a



substitute for ethanol. REX has been oversold because

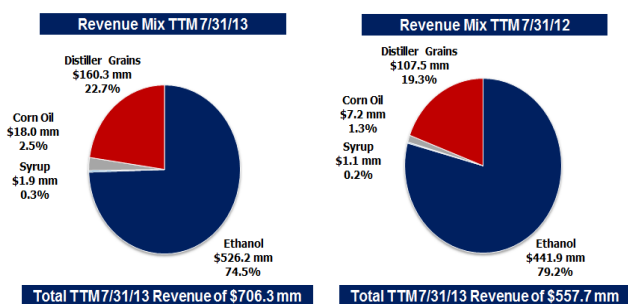
of the free fall in oil prices. However, REX performances are not impacted by the oil price. Despite a decrease in commodity prices, the company has been able to triple its net margins in the last quarter. A sustained fuel price increase (which is at its lowest level since 2009) would cause the market to reverse its sentiment and become bullish on the corn ethanol industry.

Finally, corn prices are at their lowest level since 2010. REX is able to generate revenue from distiller grains coming from ethanol production. These revenues allow the company to have roughly 30% of their production costs to come back. Therefore, a higher corn price would allow increased revenue from distiller grains, meaning a lower cost of production.

With these three commodity prices at 4-5 years low, REX has been able to increase its revenues, decrease its costs, and triple its net margin and EBITDA margin in a challenging market, outperforming its competitors. An increase in commodity prices should increase the company's margins even faster, as revenues are expected to grow by more than 200% (with existing commodity prices), and costs are expecting to be reduced.

Technology

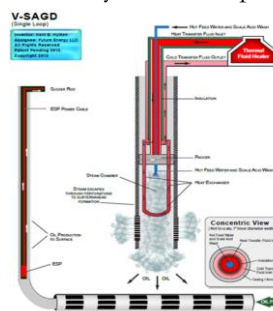
REX's investments in technology (providing a better efficiency in Ethanol production) allow the company to increase its return on investments and return on invested capital faster than its competitors. REX utilizes a state-of-the-art ethanol production technology. All plants are highly efficient Fagen, Inc. (Fagen is the largest, most respected green energy design-builder in the U.S. constructed) utilizing ICM, Inc. technology. This allows maximized ethanol plant returns by running plants efficiently, often above nameplate capacity. It allows avoiding waste in the production process by producing distillers grains as animal feed. Finally, it



allows the production of corn oil. The charts above show that revenue from distiller grains increased by 49% from 2012 to 2013 thanks to this technology.

Future investments are expected to generate even more returns. Most of the world's oil reserves are in the form of heavy oil in deposits at depths below 2,000 feet.

Current methods are limited by the heat losses on the surface and in the well bore as the steam is sent down the injection well. For any particular heavy oil reservoir and price of oil, there is a maximum depth of the reservoir that can be economically exploited. REX invested in patented technology with potential to steam oil at depths currently unattainable. New downhole steam generator technology seeks to create steam at depths below 2,000 feet to produce deep heavy oil. This represents a modest investment for a high potential return. REX has invested almost \$1.3M (through 10/31/14) for 60% equity stake in technology developer, to secure patents, and to pursue commercialization of the downhole steam generation technology. This technology should reduce their costs of production, meaning a possible increase in margins for REX.



REX vs competitors

REX main competitors are Pacific Ethanol, inc (PEIX) and Green Plains, inc (GPPE). REX is doing better than its competitors and its industry average over the last few years. REX has some competitive advantages: it has advanced technologies; is align with farmers, farm cooperatives and farming communities as co-investors and owners of ethanol production facilities. This facilitates access to grain supply and allows local community support. REX plants are in the best locations, are close to rail access and feedstock. So REX is expected to substantially outperform its industry.

Even if their competitor's margins have been dramatically impacted by low ethanol prices, REX's net margins and EBITDA margin have nearly triple in the last quarter. EBITDA margin is 22.7% in the first quarter of 2014 compared to 10% for PEIX and GPPE. LTM EBITA 1 year growth was 263% for REX compared to a median of 73.36% for its overall competitors. Net income margins grew by 500% from 2014 to 2015, significantly more than the competitors' median of 89.72% over the same period. The company's last ROIC was 50.4%, higher than the peers' ROIC of

2.34%. Concerning the debt, REX has a negative net debt of \$131 million and a TIE of 45x, more than 6 times its peers'.

Overall, REX did better than its industry average over the last few years in term of debt management, liquidity and profitability.

Undervalued

REX lost almost half of its value in less than 7 months and recently underperformed its competitors' stock prices. Concerning the last quarter, REX sales declined from \$166.2 million to \$138.5 million, a decrease of 17%, reflecting lower ethanol and drilled distiller grain pricing. However, gross profit for the quarter doubled from \$18 million to \$36.5 million. REX just completed its best quarter in earning per shares with a record of \$2.86. Also, REX reported record third quarter net income of \$23.3 million. By having competitive advantages and performing better than its peers in a challenging environment, REX should beat analyst estimates expectations for the next quarters.

By looking at multiples and doing relative valuation, we can conclude that REX is undervalued compared to its peers. REX P/E ratio is 6.08x compared to 17.74x for the industry average. The median P/E is 9.82x for its peers. NTM EPS is \$8.69, as a consequence, the target price of REX is $8.69 \times 9.82 = \$85$. Then, if REX returns to its P/E historical median of 9.4x, the company target price would be $9.4 \times \$8.69 = \82 . Finally by being conservative and considering no increase in margins, NTM EBITDA would be \$134 million. The median NTM EV/EBITDA is 6.12x: as a result, the implied enterprise value is $\$134 \times 6.12 = \820 million. By adding the cash (\$164.3 million) and deducting the debt (\$33.5 million), the implied equity value is \$950.88. Therefore, the target price is \$118.86.

REX is substantially undervalued compared to its peers.

Ownership and share repurchases

Insiders have 17% ownership in the company. This is an important percentage meaning that they have a high incentive to increase the share price. Also, the company announced in their last earning calls that they were allowed to purchase an additional 500,000 shares, bringing the total authorization to 601,096 shares. This represents an investment for the company and proves that REX considers that its stock is undervalued. At the

announcement of the stock repurchase, the price was at \$65.

Conclusion

As a result, REX's the 1 year target price is \$77 per share, a potential upside of 31%. Revenue is the most important driver of value creation for the years to come. ROIC is expected to grow as well with the capital invested in new technologies. REX has been outperforming its competitors despite low commodity prices. An increase of commodity prices could generate substantial additional revenue for the company. REX is mainly focused on reinvesting its free cash flows in the company and investing in new plants. The stock price of \$58.65 per share is considered undervalued. The recommendation is a **buy**.

REX American Resources Corporation **rex** **NAME HERE** **Current Price: 61.68** **Lower Bound Intrinsic Value: \$77** **Lower Bound 1y-Target: \$76.5** **Dividend Yield: 0%** **24.03%**

General Info		Market Data		Symbol		NAME		Peers		EBITDA Margin		Total Debt/TEV		EBIT/Int. Exp.		Altman Z			
Sector	Energy	Enterprise value	\$406.81	Symbol	NasdaqCM:PEIX	NAME	Market Cap	TEV/EBITDA	P/B	EBITDA Margin	Total Debt/TEV	EBIT/Int. Exp.	Altman Z						
Industry	Oil, Gas and Consumable Fuels	Market Capitalization	\$933.35	Symbol	NasdaqGS:GPPE	NAME	\$269.40	2.4x	1.2x	10%	16%	9.8x	4.92						
Description: REX American Resources Corporation, through its subsidiaries, produces and sells ethanol. The company operates in two segments, Alternative Energy and Real Estate. The Alternative Energy segment is engaged in the production of ethanol, dried and modified distillers grains, and non-food grade corn oil. Its dry distiller grains with solubles are used as proteins in animal feed. The Real Estate segment is involved in leasing real estate properties. The company was formerly known as REX Stores Corporation and changed its name to REX American Resources Corporation in 2010. The company was founded in 1980 and is based in Dayton, Ohio.		Daily volume	0.85851	Symbol	NasdaqGM:AMTX	NAME	\$1,045.91	3.9x	1.3x	10%	52%	6.9x	3.42						
		Shares outstanding	8.00	Symbol	RTS-ORFE	NAME	\$81.63	5.6x	NM	14%	50%	1.5x	2.47						
		Diluted shares outstanding	8.16	Symbol	SASE:2380	NAME	\$205.60	17.4x	1.3x	12%	2194%	23,358.5x	1.55						
		% shares held by institutions	77.0%	Symbol	WSE:PKN	NAME	\$20,323.20	11.7x	2.1x	6%	52%								
		% shares held by insiders	15.8%	Symbol		NAME	\$23,951.71	13.4x	1.3x	2%	34%	1.6x	3.44						
		Short interest	19.1%	Days to cover short interest	9.36														
		52-week high	\$110.65	52-week low	\$51.12														
		5y Beta	1.52	Peers' Median	1.52														
		6-month volatility	51.28%	rex	51.28%														

Management				Performance			
Title	Comp. FY2012	Comp. FY2013	Comp. FY2014	rex	Industry	All U.S. firms	
Rose, Stuart	\$ 154,500.00	\$ 1,154,500.00	\$ -	Last	Last	Last	
Rizvi, Zafar	\$ 199,270.00	\$ 1,199,270.00	\$ -	10y Med.	10y Med.	10y Med.	
Bruggeman, Douglas	\$ 275,900.00	\$ 863,515.00	\$ -	50.4%	1.9%	2.34%	11.700%
Kress, Edward	\$ -	\$ -	\$ -	19.9%	2.2%	1.57%	15.44%
				EBITDA Margin	1.99%	1.99%	15.66%
				Imputed Rev./Invested cap.	3.15	1.00	3.00
				Excess Cash/Total Cash	26.98%	21.30%	4.52%
				Total Cash /Rev.	27.81%	21.30%	4.49%

Current Capital Structure		Past Earning Surprises			Last Guidance (Invalid Identifier)		Next earnings date		Last Earning Call Transcript:	
		Revenue	EBITDA	Norm. EPS						
Total debt/market cap	8.23%	-1.6%	0.0%	8.0%						
Cost of Borrowing	4.23%	1.9%	0.0%	20.2%						
Interest Coverage	45.02	0.9%	0.0%	19.3%						
Debt Rating	BBB	-2.2%	0.0%	17.3%						
5y Beta	2.17	-4.5%	0.0%	14.4%						
WACC (based on market value weights)	7.4%									

Continuing Period Assumptions			
Money market rate as of today	0.49%	Risk-Free rate	2.6%
Annual increase (decrease) in interest rates	0.10%	Op. Cash/Rev.	0.00%
Yield Spread acceleration	1.2	Op. Cash/Cash	0.0%
Marginal Tax Rate	37.5%	LT Growth	3.2%
		LT Op. Costs/Rev	96.0%
		LT WACC	8.5%
		LT Term ROIC	10.8%
		Growth in PPE	Equals to Maintenance

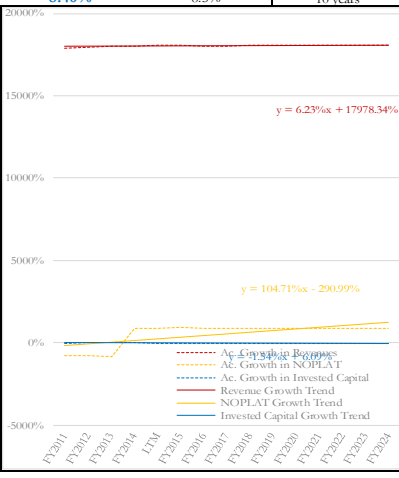
LT convergence estimates: weights are either implied from the stability of each time-series (i.e., median/[max-min]), or estimated based on the "uniqueness" of its competitive power (i.e., buyers power, suppliers power, competitive rivalry, threat of substitution, and threat of new entries).

	Rev./Capital		LT Imputed Growth		LT Op. Costs/Rev.		Unlevered Beta		Multiples (10Y Historical Median Value)		TEV/UCF		Capitalization
	Last	10y Median	Last	10y Median	Last	10y Median	Last	10y Median	TEV/Rev.	TEV/EBITDA	TEV/EBITA	TEV/UCF	Operating Leases
rex	3.15	1.00	1.9%	3.2%	90.4%	96.28%	1.27	0.79	0.9x	14.1x	21.6x	4.3x	100%
Peers	3.00	1.97	-14.4%	10.6%	95.9%	95.35%	0.84	0.87	0.6x	12.2x	26.5x	16.0x	Straightline
Primary Industry	4.76	5.05	4.4%	4.6%	92.1%	92.25%	1.13	0.92	1.7x	12.2x	17.0x	24.7x	10 years
Industry	3.85	5.54	2.4%	2.2%	58.5%	61.04%	0.91	0.91	4.2x	11.8x	17.6x	30.9x	R&D Exp.
Industry Group	3.22	4.46	3.0%	2.9%	62.1%	64.02%	0.96	1.00	3.6x	11.3x	17.3x	33.6x	100%
Sector	3.22	4.46	3.0%	2.9%	64.02%	64.02%	0.96	1.00	3.6x	11.3x	17.3x	33.6x	Straightline
All U.S. Firms	1.72	2.02	6.6%	6.0%	80.4%	81.20%	0.98	0.95	2.4x	11.3x	15.4x	26.8x	10 years
GDP	N/A	N/A	3.9%	3.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Expl./Drilling Exp.
rex long-run estimate	1.97		3.20%		96.00%		0.87		0.6x	11.8x	17.0x	16.0x	Straightline

Explicit Period Assumptions												
	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	to ∞
Growth	1.4%	239.0%	-40.0%	3.0%	3.6%	3.1%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
Op.Costs/Rev.	90.4%	89.6%	88.7%	88.5%	88.5%	88.7%	88.9%	89.1%	89.3%	89.6%	89.8%	96.0%
WACC	7.38%	7.49%	7.59%	7.69%	7.80%	7.90%	8.00%	8.10%	8.20%	8.30%	8.40%	8.5%

Valuation											
	LTM	LTM+1Y	LTM+2Y	LTM+3Y	LTM+4Y	LTM+5Y	LTM+6Y	LTM+7Y	LTM+8Y	LTM+9Y	
NOPLAT	\$106.6	\$41.8	\$34.4	\$34.4	\$34.3	\$33.8	\$33.6	\$33.3	\$33.3	\$33.0	\$33.0
Invested capital	\$177.1	\$182.8	\$183.3	\$183.2	\$183.1	\$183.0	\$182.7	\$182.6	\$182.6	\$182.5	\$182.5
ROIC	50.4%	23.3%	18.8%	18.8%	18.7%	18.5%	18.4%	18.2%	18.2%	18.1%	18.1%
UCF	\$140.73	\$47.68	\$33.91	\$34.51	\$34.37	\$34.17	\$33.96	\$33.73	\$33.47	\$33.17	\$33.17
EVA	\$57.98	\$28.62	\$20.41	\$20.14	\$19.82	\$19.45	\$19.06	\$18.65	\$18.21	\$17.74	\$17.74
Terminal value											\$490.83
Enterprise value (mid-year adj.)	\$548.70	\$529.53	\$516.77	\$518.87	\$520.95	\$523.82	\$527.61	\$532.41	\$538.35	\$545.31	\$545.31
Total Debt	\$33.50	\$33.50	\$33.50	\$33.50	\$33.50	\$33.50	\$33.50	\$33.50	\$33.50	\$33.50	\$33.50
Minority Interest	\$43.95	\$43.95	\$43.95	\$43.95	\$43.95	\$43.95	\$43.95	\$43.95	\$43.95	\$43.95	\$43.95
Preferred Equity	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Capitalized Operating leases	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
PV of Unfunded Pension Plan Liabilities	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dilutive impact of options,warrants, and converts	\$2.84	\$2.82	\$2.79	\$2.76	\$2.73	\$2.69	\$2.66	\$2.63	\$2.60	\$2.57	\$2.57
Other claims on operating assets	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Non-operating cash and LT investments	\$164.27	\$160.58	\$191.05	\$222.06	\$253.20	\$284.60	\$316.33	\$348.45	\$380.97	\$413.92	\$413.92
Equity value	\$632.68	\$609.84	\$627.58	\$660.72	\$693.97	\$728.27	\$763.83	\$799.78	\$839.28	\$879.21	\$879.21
Shares outstanding	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00
Price per share as of 3/19/2015	\$77.97	\$77.25	\$79.98	\$84.13	\$88.33	\$92.93	\$97.18	\$101.87	\$106.74	\$109.86	\$109.86

Monte Carlo Simulation Assumptions					Monte Carlo Simulation Results		
	Base	Stdev	Min	Max	Intrinsic Value		1y-Target
Revenue Variation	0%	10.0%	N/A	N/A	Mean est.	\$77.97	\$77.25
Op. Costs Variation	0%	10.0%	N/A	N/A	σ(e)	\$0.32	\$0.25
Market Risk Premium	5.5%	N/A	5.0%	7.0%	3 σ(e) adjusted price	\$77.01	\$76.50
Long term Growth	3.20%	N/A	2.2%	10.6%	Current Price	\$61.68	
Terminal Value	0%	10.0%	N/A	N/A	Analysts' median est.		\$104.50



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