

## REX American Resources Corp.

NYSE: REX

**Analyst:** Benjamin Lunaud

**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.



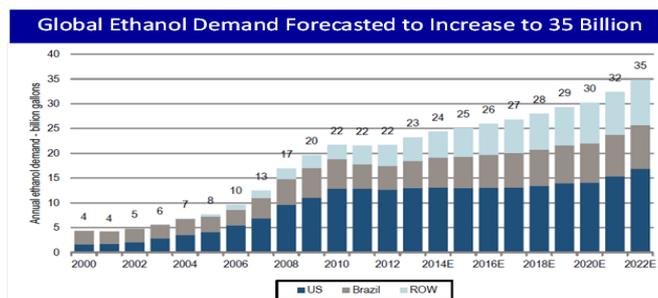
## Thesis

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



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

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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

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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

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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	Peers' Median	\$657.65	8.6x	1.3x	10%	51%	6.9x	3.42					
		52-week high	\$110.65	52-week low	\$51.12	rex	\$493.63	2.4x	1.5x	23%	8%	45.0x	7.21					
		5y Beta	1.52	6-month volatility	51.28%													

Management				Performance							
Title	Comp. FY2012	Comp. FY2013	Comp. FY2014	Peers		Industry		All U.S. firms			
				Last	10y Med.	Last	10y Med.	Last	10y Med.		
Rose, Stuart	\$ 154,500.00	\$ 1,154,500.00	\$ -	50.4%	1.9%	2.34%	2.34%	11.700%	12.68%	11.03%	11.85%
Rizvi, Zafar	\$ 199,270.00	\$ 1,199,270.00	\$ -	19.9%	2.2%	1.57%	1.99%	15.44%	15.66%	13.64%	13.67%
Bruggeman, Douglas	\$ 275,900.00	\$ 863,515.00	\$ -	3.15	1.00	3.00	1.97	4.76	5.05	1.72	2.02
Kress, Edward	\$ -	\$ -	\$ -	26.98%	21.30%	4.52%	4.49%	15.74%	10.62%	23.11%	18.48%
				27.81%	21.30%	4.52%	4.49%	23.12%	14.46%	32.95%	30.26%

Current Capital Structure		Past Earning Surprises			Last Guidance (Invalid Identifier)		Next earnings date 3/26/2015		Last Earning Call Transcript: www.rexamerican.com	
		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

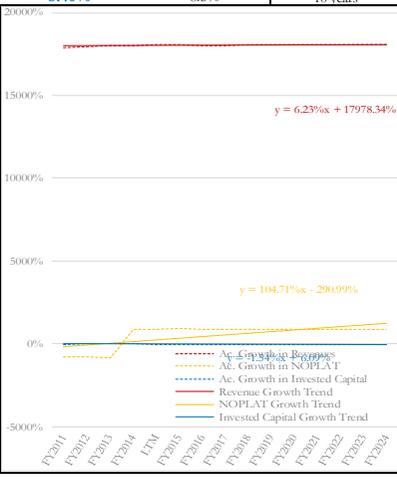
LT convergence estimates: weights are either implied from the stability of each time-series (i.e., median/[max-min]), or estimated based on the "uniqueness" of its competitive power (i.e., buyers power, suppliers power, competitive rivalry, threat of substitution, and threat of new entries).

	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	\$34.4	\$34.4	\$33.8	\$33.6	\$33.3	\$33.0	\$33.0
Invested capital	\$177.1	\$182.8	\$183.3	\$183.2	\$183.1	\$183.0	\$182.7	\$182.7	\$182.6	\$182.5	\$182.5
ROIC	50.4%	23.3%	18.8%	18.8%	18.7%	18.5%	18.5%	18.4%	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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