



**Rex American (REX-US): \$38.01**

Market Cap: \$660 mm

Enterprise Value: \$400 mm

EV/EBITDA: 9

P/E: 22

Rating: BUY

Upside: 50%

12-month perf (%): 26%

30-Day Average Daily Volume: 72k

Date: 11/1/2023

## **REX Background**

Rex American ('REX') is an ethanol producer with about 3% market share in the USA. REX is run by sound operators, having never lost money in the last decade despite volatile commodity cycles. REX owns ethanol plants alongside farmers, is next to two major railroad lines giving them access to more markets, and is next to grain elevators. As a result, REX usually pays below market prices for corn and can access the highest dollar value for their ethanol and byproducts. On top of this REX has state-of-the-art Fagen/ICM plants. REX has always maintained profitability regardless of the ethanol commodity cycle. REX is also one of the few ethanol producers that can take advantage of subsidies from the Inflation Reduction Act ('IRA'), potentially making their earnings power significantly greater in the future. This is a result of their capital structure, proximity to appropriate reservoirs, and being one of the earliest ethanol producers to begin permitting. We estimate REX has about 50% upside.

## **Opportunities**

- Carbon dioxide is one of the main byproducts of ethanol production. Normally, this gas is released to the atmosphere however the tax credits put forth by the IRA incentivize companies to capture and store CO<sub>2</sub>. The 45Q and 45Z tax credits from the IRA have fundamentally changed the outlook for ethanol producers who can take advantage of it. REX was one of the earliest players to file for permitting. It also has the capital structure to do these large scale projects. If REX gets the permit, we conservatively estimate that these credits are worth \$500mm discounted back to present value.
- REX has consistently demonstrated sound capital allocation with its buybacks, growth capex, and conservative investments. We believe management is best poised to take advantage of not only carbon sequestration, but tailwinds from E15 and Sustainable Aviation Fuels. These have the potential of more than doubling the demand for ethanol in the next seven years.

## **Valuation**

REX generates normalized FCF of \$35mm per year. Add onto this the \$250mm of cash and Treasuries it has and REX trades at around fair value. Taking into account the \$150mm of capital expenditures to expand its OneEarth facility to be able to sequester CO<sub>2</sub>, there is a wide range of outcomes. Conservatively, the carbon credits are worth about \$500mm discounted back to present value. Adding the extra earnings that REX will have from additional capacity will be another 5mm to REX's earnings power. Combined, we estimate fair value for REX is about \$1B or about 50% upside.

### **INVESTMENT DISCLAIMERS & INVESTMENT RISKS**

Past performance is not necessarily indicative of future results. All investments carry significant risk and all investment decisions of an individual remain the specific responsibility of that individual. There is no guarantee that our research, analysis, and forward-looking price targets will result in profits or that they will not result in a full loss or losses. All investors are advised to fully understand all risks associated with any kind of investing they choose to do.