



Argan (AGX--NAS): \$70.36
Market Cap: \$940 mm
Enterprise Value: \$740 mm
EV/EBITDA: 11x
P/E: 23x

Rating: NEUTRAL
Short Interest: 1.5%
12-month perf (%): 73%
30-Day Average Daily Volume: 97k
Date: 6/1/2024

Company Background

Argan, Inc. is a prominent engineering, procurement, and construction (EPC) company, primarily operating through its subsidiary, Gemma Power Systems, which specializes in designing and constructing natural gas power plants. Clients engage Argan, Inc. to deliver turnkey services, encompassing the entire process from design to procurement and construction of these plants. Currently, natural gas plants account for approximately 43% of the United States' energy production, a significant increase from 30% a decade ago. Despite the growth in natural gas usage, its future in the U.S. remains uncertain due to the rising adoption of renewable energy sources such as solar and wind. Although there might be a temporary increase in demand, we consider estimating the extent to which Argan, Inc. will benefit to be uncertain at the moment and prefer to wait for a more substantial margin of safety.

Challenges and Risks

- Renewable energy sources will supplant natural gas. This is more a question of when rather than if. If energy needs increase gradually, they will likely be met with renewable energy sources or newer technologies such as modular nuclear reactors. Solar energy is now more cost-effective than natural gas, and it is likely that it will continue to become cheaper.
- Regulation could further inhibit the expansion of natural gas plants, as it dictates where gas pipelines can and cannot be built. Without a pipeline, natural gas plants cannot function. The effects of this can be seen in states such as California and New York, where regulatory restrictions have impacted natural gas infrastructure development.

Valuation

Although AGX is managed by a capable and shareholder-aligned team, the future of natural gas demand is currently difficult to ascertain due to regulatory hurdles. AGX's business is closely linked to natural gas, which is why the company has been expanding into the renewable energy space. Demand for natural gas could potentially shift due to large-scale energy demands that cannot be met by new solar and wind capacity additions, political changes driven by Republicans, or trade wars. Given this future volatility, we believe there will likely be a more opportunistic moment to initiate a position in the future.

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.