

# Mossberg's Investor Digest

## Best Idea Profile:

### DESCRIPTION:

American Electric Technologies, provides power management software and electrical equipment that is used to distribute power, convert power and manage power so that it can be used by the energy industry to find, extract, transport, and process oil and gas. The Company differentiates its solutions with 65+ years of experience, a focus on energy industry applications, intellectual property and by providing customized and turnkey solutions for customers. The Company has international joint ventures in China, Brazil and Singapore, which are not consolidated in terms of reporting. AETI owns 40%, 49% and 41% of the ventures in China, Brazil and Singapore, respectively. The Company was founded in 1946, employs 700 people, and has its headquarters in Houston, TX.

### KEY INVESTMENT CONSIDERATIONS:

**Interesting way to play the energy renaissance in the U.S.** – With new drilling technologies, The U.S. has become the Saudi Arabia of natural gas and is rapidly becoming self-sufficient in supplying its own energy needs (the U.S. supplies 85% of its own energy). To support this renaissance, it is expected that \$6 billion to \$10 billion per year will be spent in the U.S. on midstream (pipeline & storage) gas and oil infrastructure for each year for the next 20 years. In addition, about \$71 billion of projects have been announced in the Gulf Coast alone related to petrochemical and \$20 billion is expected to be spent to build liquefied natural gas facilities to support the export of natural gas. These are very large and rapidly growing markets. AETI will be able to participate in the 1% to 2% of these markets, which is expected to be spent on power delivery systems.

**Secular growth in custom power solutions versus Standard Products** – Companies like AETI and POWL are benefiting from a change in industry dynamics in which increasingly customized solutions are taking share from standard solutions. Management gives an example of a recent customer that chose a customized solution over that of a standard solution. The standard solution would have required a re-design of a drilling rig platform, so AETI's customized solution won out over the standard solution from much larger competitor.

**New Management Team** - The new CEO, Charles Dauber, started with the Company in Sept. 2007 and became CEO in 2009. While he is the son of the Company's Chairman, he clearly earned his position based on merit and has been instrumental in positioning the company for significant growth. Prior to the joining AETI, he held several executive leadership roles in the

## American Electric Technologies (NASDAQ:AETI)

technology industry. Under Mr. Dauber's leadership the company has exited lower margin business and completely revamped sales and marketing efforts, including upgrading the sales force over the past few years.

**Attractive returns from a joint with the "Exxon" of China** – AETI has a joint venture (40% owned by AETI) with the China National Petroleum Company (the "Exxon" of China) that produces \$93 million in annual revenue. AETI's initial investment of \$2 million in cash has resulted in \$14 million inequity income and \$7 million in cash dividends back to AETI.

**Record revenue, record backlog with lots of runway for growth** – In the most recent quarter, the company reported a 50% increase in revenue, a 101% increase in backlog, and an 80% increase in profitability. According to management the current sales force is only reaching 20% of oil and gas customers in the U.S., which leaves significant opportunity for growth as the company continues to add to its sales and marketing efforts.

### VALUATION:

While the stock is trading near its 52-week high, and is up 80% this year, it still appears attractive from a long-term perspective. Over the next few years, the Company's business is well positioned to double in size. With pre-tax margins at 3% to 5%, the business is capable of producing \$0.75 to \$1.25 in pre-tax earnings.

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Investment Data (as of 11/29/13)

<b>Recent Price</b>	<b>\$9.33</b>
52-Week Range	\$4.51 - \$9.49
Fiscal Year End	December
Dividend	NA
Yield	NA
Shares Outstanding	8 M
Average Trading Volume (3 mos)	40k
Market Capitalization	\$75 M
Cash	\$4 M
Long-term Debt	\$0.5 M
Enterprise Value (EV)	\$71 M
Book Value	\$3.12
TTM Revenue	\$62 M
P/ Revenue	1.2x
TTM EPS	\$0.48
P/ EPS	19.4x
TTM EBITDA	\$2.9 M
EV/ EBITDA	24x

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