

Mossberg's Investor Digest

Best Idea Profile:

CVR Energy, Inc. (NYSE:CVI)

DESCRIPTION:

Headquartered in Sugarland, Texas; CVR Energy, Inc. is an independent petroleum refiner and marketer of high value transportation fuels. The Company operates in two business segments: petroleum products and nitrogen fertilizer. The Petroleum division has a crude oil gathering system serving Kansas, Oklahoma, western Missouri, and southwestern Nebraska. This division also has a rack marketing division, a distribution system and a pipeline system in a number of states. The nitrogen fertilizer business consists of a nitrogen fertilizer facility in Coffeyville, Kansas that is the only operation in North America that uses a petroleum coke, or pet coke, gasification process to produce nitrogen fertilizer.

KEY INVESTMENT CONSIDERATIONS:

Strong Franchise – CVR operates a 115,000 bpd complex full coking medium-sour crude oil refinery in Coffeyville, Kansas. The Company's refinery's production capacity represents approximately 15% of its markets output. The Company's refinery has the capability to process blends of a variety of crude oil ranging from heavy sour to light sweet crude oil. The location of CVR's refinery provides it with a reliable supply of crude oil and a transportation cost advantage over its competitors.

Fertilizer Division – CVR is diversified through a 70% ownership in a fertilizer MLP CVR Partners (NYSE:UAN). Fertilizer demand is driven by population growth, decreasing amounts of farmland and a desire for protein in emerging markets. Nitrogen represents approximately 63% of fertilizer consumption and has stable demand because it must be applied annually. CVR is unique in that it uses low cost Petroleum Coke for feedstock instead of Natural Gas giving CVR a lower price advantage and less price volatility. For Q1FY2011 the Fertilizer division had \$57.4 mm in revenues. The business is very profitable and was 46% of CVR's adjusted EBITDA on a TTM basis.

Refinery Product Demand – Demand for Refined products has experienced substantial increases since FY2009. Yet refinery closings have gradually decreased refining capacity. CVR serves the Mid Continent Padd II district which continues to be undersupplied with refinery products. According to the Company, demand for refinery products is strengthening quite dramatically in CVR's market at this time.

Unique Logistics Infrastructure – CVR's platform of storage, pipeline and distribution facilities give it an advantage in delivering present and future petroleum products to its markets. Current estimates show that total Canadian oil production is expected to increase by 68% by 2025. With proximity to both Canadian production, US production and the refining hub of Cushing, Oklahoma, CVR is in a strong geographic position to serve its markets.

Complex Refining Operations – CVR's high complexity refinery allows it to take immediate advantage of Diesel and Gasoline crack differentials.

Financials – On April 13th 2011 CVR's Nitrogen Partnership completed an offering of 22.1 common units at a price of \$16 per unit. CVR has been paying down debt and has a flexible balance sheet that can accommodate future expansion. The Company currently has \$166 million in cash.

VALUATION:

Analyst estimates currently average \$2.87 for FY2011. This means that CVR has a forward Px/EPS ratio of only 8.4x for the current FY. The stock appears undervalued given the current state and long term trends of both of its businesses. A Px/Eps ratio of 11x would equate to a stock price of \$31.57.

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Investment Data (as of 6/30/11)

Recent Price	\$24.62
52-Week Range	\$6.71 - \$25.03
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	88MM
Average Trading Volume (3 mos)	2.4MM
Market Capitalization	\$2.2B
Cash	\$166MM
Long Term Debt	\$469MM
Enterprise Value (EV)	\$2.5B
BV/ Share	\$9.80
TTM Revenue	\$4.4B
P/ Revenue	0.5x
TTM EPS	\$0.79
P/ EPS	30x
TTM EBITDA	\$279MM
EV/ EBITDA	9x

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