

Mossberg's Investor Digest

Best Idea Profile:

Darling Ingredients Inc. (NYSE:DAR)

DESCRIPTION:

Darling Ingredients creates sustainable food, feed and fuel ingredients for a growing population. It has been an innovator in the development of biofuels using rendered fats and recycled cooking oils as feedstock. Food ingredients are sold worldwide to the pharmaceutical, food, and cosmetic industries. This segment's products include gelatin, food grade fats, casings and Heparin. The Feed ingredients division is Darling's largest segment, and it sells to feed and pet food manufacturers and produces fertilizers. The Fuel ingredient segment includes Diamond Green Diesel, a partnership with Valero Energy Corp. that addresses the growing demand for renewable energy by recycling animal fats and used cooking oils into renewable diesel. Darling is headquartered in Irving, Texas, and operates more than 200 locations on five continents. It recently changed its name from Darling International Inc.

KEY INVESTMENT CONSIDERATIONS:

Population Growth Driving Need for Innovation – Exponential world-wide population growth and even more rapid expansion of wealth in key growth areas such as Asia and Latin America has caused an explosion in the demand for food, feed and fuel, and therefore the search for sustainable means to meet these consumption needs.

Advantages of Diamond Green Diesel – This \$445 million joint venture with Valero can fulfill nearly 15% of the national biomass-based diesel mandate using the most economical feedstock available. It was started in 2013 and is nearing its first full year of operation. It is the nation's largest animal fat-to-renewable diesel facility. It is capable of producing 137 million gallons (9,300 barrels) annually. The plant is located adjacent to Valero's refinery, allowing Valero to market the diesel and distribute it via its pipelines.

Focused on Growth – A decade ago Darling was a commodity-only business. It has transformed itself and de-risked this commodity business through innovation and acquisitions. It made three key acquisitions in the last 12 months, one of which management describes as transformational in that it establishes a growth platform in emerging market countries. Darling expects to strengthen its current position through operational efficiencies, customer loyalty and product innovation. It is continually expanding its current operations into new markets and looking for strategic acquisitions.

Exposure to Weather and Materials Pricing – In its latest quarter the company did not achieve consensus financial expectations. This was primarily attributable to the feed business, which was affected by corn and fat prices, as well as the impact of extreme cold weather and natural gas curtailment in the Midwest and Canada. These impacts do not appear to be an issue in the current quarter. The first quarter was also impacted by non-operating costs associated with recent acquisitions. Therefore, the quality and transparency of earnings should return in the second quarter.

EBITDA Potential – In a recent presentation, management stated that it believes the company has \$700 million in EBITDA potential, including Diamond Green Diesel.

VALUATION:

There is a lot of non-operational noise around the company's financials that has made it more difficult to evaluate the potential of this focused and growing company. As this noise quiets, this stock should continue to garner attention.

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Investment Data (as of 5/27/14)

Recent Price	\$19.43
52-Week Range	\$23.95 - \$18.34
Fiscal Year End	Dec 28
Dividend	NA
Yield	NA
Shares Outstanding	164.6 M
Average Trading Volume (3mos)	1.2 M
Market Capitalization	\$3.2 B
Cash	\$143.4 M
Long-term Debt	\$2.4 B
Enterprise Value (EV)	\$5.5 B
Book Value	\$12.11
TTM Revenue	\$2.2 B
P/ Revenue	1.5x
TTM EPS	\$0.18
P/ EPS	108.6x
TTM EBITDA	\$337.1 M
EV/ EBITDA	16.3 x

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