

Mossberg's Investor Digest

Best Idea Profile:

Chart Industries, Inc. (NASDAQ:GTLS)

DESCRIPTION:

Chart Industries, Inc. is an independent global manufacturer of highly engineered equipment used in the production, storage and end-use of hydrocarbon and industrial gases. The majority of Chart's products are used throughout the liquid gas supply chain for purification, liquefaction, distribution, and storage applications. It operates through three primary divisions that are focused on its end users. The biomedical division focuses on users of cryogenic liquids and gases such as home respiratory and long-term care users of respiratory care products, as well as laboratory, medical, military and aerospace applications. The distribution and storage division helps gas customers distribute and store nitrogen, argon, oxygen, carbon dioxide and natural gas for industrial commercial, medical and scientific application. The energy and chemicals division sells cryogenic gas processing systems and heat exchangers. Chart has domestic operations located across the United States and an international presence in Asia, Australia and Europe, employing more than 5,000 people worldwide. Headquarters are in Garfield Heights, Ohio.

KEY INVESTMENT CONSIDERATIONS:

Growth of Natural Gas – Natural gas is poised to overtake coal as the world's second largest fuel source. Liquefied natural gas (LNG) is expected to take an increasing share of the overall gas supply, which feeds into Chart's core competencies. Chart provides a complete solution for liquefaction, distribution, storage and end use of LNG. Energy end-users represent over half of sales. Energy production, storage, and transportation will be a solid, although not necessarily smooth market for a long while. In late July management announced several contracts for its LNG liquefaction products and services; one is with Bechtel and another is with Black & Veatch. These contracts are indicative of the quality demand the company is experiencing. Together with another contract in the second quarter, this represents an excess of \$80 million of new LNG awards for the energy and chemical business. Demand for small to mid-scale liquefaction plants continues to grow and represents a cost-effective way to provide LNG as a fuel for transportation.

Widespread Footprint – Almost 60% of sales come from outside the U.S., with China a growing customer. The energy industry is the largest end-user of Chart's products, and bio-medical users make up a quarter. Chart's top ten customers represent about a third of

revenues. Chart's broad expertise provides a natural barrier to entry, and with its revenue growth outpacing the industry average, this dominance should continue.

China Opportunities – Chart's China sales in the first half of 2014 were disappointing, but as it was primarily a timing issue, growth in this area should emerge.

Price Overcorrection – The stock reached an all-time high in October 2013, after rising more than five-fold in three years. The stock experienced quite drastic correction, after management lowered the company's 2014 outlook, and multiple analysts downgraded the stock. This is a company in a solid, long-term business, with a great business model in an expanding business that is not going away anytime soon.

Outlook – Management's revised outlook as detailed in its last earnings call in July included sales for 2014 of approximately \$1.2 billion and diluted earnings per share in the range of \$2.85 to \$3.15. The next earnings call will be on October 30.

VALUATION:

Investors who can tolerate some of the lumpiness of the company's business results, and see to the future may be rewarded with steady improvement in the stock.

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Investment Data (as of 10/10/14)

| | |
|-----------------------------------|--------------------|
| Recent Price | \$43.43 |
| 52-Week Range | \$42.51 - \$130.80 |
| Fiscal Year End | Dec |
| Dividend | NA |
| Yield | NA |
| Shares Outstanding | 30.5 M |
| Average Trading Volume (3 mos) | 613k |
| Market Capitalization | \$1.3 B |
| Cash | \$142.7 M |
| Long-term Debt | \$273.1 M |
| Enterprise Value (EV) | \$1.5 B |
| Book Value | \$27.77 |
| TTM Revenue | \$1.2 B |
| P/ Revenue | 1.2x |
| TTM EPS | \$2.48 |
| P/ EPS | 17.5x |
| TTM EBITDA | \$178.1 M |
| EV/ EBITDA | 8.3x |

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