

Mossberg's Investor Digest

Best Idea Profile:

Vertex Energy, Inc. (NASDAQ:VTNR)

DESCRIPTION:

Vertex Energy recycles used motor oil and other feedstocks and processes them into higher value products. It also acts as a broker of used oil to strategically control its used oil supply. Primarily it collects feedstock, such as used motor oil from Jiffy Lube, co-product from industrial chemical manufacturing plants, and unwanted petroleum co-products from oil refineries. It then refines and sells this product. Its vertical business units include Black Oil Division, which is a third party aggregator and logistics manager that supplies the feedstock to re-refineries. The Refining and Marketing Division purchases byproducts that come out of refineries and chemical plants that can be used as feedstock. Vertex offers its services in 13 states, most prominently including the Gulf Coast and Central Midwest regions. It is based in Houston, with 205 employees.

KEY INVESTMENT CONSIDERATIONS:

Big Business – Used motor oil recycling in the U.S. is almost a \$3 billion industry. With the increase in crude prices, as well as a conscious effort to lessen the negative environmental impact from the improper disposal of used motor oil, the market for used oil collectors, recyclers, and re-refiners has burgeoned. Used motor oil, industrial lubricants, or process oil, can be successfully recycled to a higher quality product. Roughly 70% of the used oil collected is sold as recycled fuel oil (RFO) and burned as an industrial fuel. But even industrial burners are switching to cheap natural gas, which creates a need for more re-refinement and processors like Vertex.

Recycling a Better Environment Choice – More than a billion gallons of used oil is generated annually, less than 35% of which is re-refined, with the rest burned or improperly disposed. Vertex's mission is to re-refine distressed hydrocarbon-based streams into viable commodity products that reduce dependency on foreign crude oil in a safe manner that complies with environmental regulations.

Higher Margin – Vertex developed and patented a used motor oil re-refining process technology called TCEP. TCEP technology generates a refined product from used motor oil. The impact of increasing contribution from TCEP has driven revenue growth at higher margins. It has allowed the company to more vertically integrate its business model.

Growth Opportunities – The business model can be scaled upward efficiently because of the company's internal feedstock collection and refining capabilities, as well as its ability to leverage third-party collectors and refineries. Its goal is to replicate its success into other geographic regions.

Significant Growth Trajectory – During the March quarter, revenue grew 42% on a 41% increase in volumes. With a recent acquisition, the company's has expanded it's a capacity by 80 million gallons to 110 million gallons of used motor oil. At capacity, this means the company is capable of producing nearly \$500 million in revenue, which is 3x its current run rate.

VALUATION:

The valuation has more than doubled since the beginning of the year. Despite the increase, shares still look attractive for long-term investors. Assuming management is able to fill its potential capacity, the company has \$0.70 to \$1.10 in earnings power, which would yield a high single digit earnings multiple. In addition, with the significant increase in market cap it is now investable for a much larger audience of potential institutional investors. For example, it was added to the Russell 3000 index last month. If the company continues to deliver on its growth trajectory, larger investors will notice and shares should appreciate.

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Investment Data (as of 7/31/14)

Recent Price	\$8.25
52-Week Range	\$2.35 - \$11.25
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	22.5 M
Average Trading Volume (3 mos)	440k
Market Capitalization	\$185 M
Cash	\$5 M
Long-term Debt	\$9 M
Enterprise Value (EV)	\$189 M
Book Value	\$1.80
TTM Revenue	\$176 M
P/ Revenue	1.1x
TTM EPS	\$0.37
P/ EPS	22.3
TTM EBITDA	\$7.7 M
EV/ EBITDA	24.5x

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