

Mossberg's Investor Digest

Best Idea Profile:

Dresser-Rand Group Inc. (NYSE:DRC)

DESCRIPTION:

Dresser-Rand Group products and services are used for a wide range of applications, including oil and gas production, high-pressure field injection and enhanced oil recovery, pipelines, refinery processes, natural gas processing, and petrochemical production. Beyond oil and gas, it serves the environmental markets that use renewable energy, reduce carbon footprint, and recover and/or increase energy efficiency. It has 8,000 employees, 13 manufacturing facilities in seven countries, and 49 service centers, covering more than 150 countries. Dresser-Rand has the largest installed base in the U.S. and a 100-year-plus history of operations. It has principal offices in Paris, France and Houston, Texas.

KEY INVESTMENT CONSIDERATIONS:

Global Demand Increasing – Global primary energy demand is expected to grow by more than a third through 2035. Fossil fuels continue to meet the bulk of the world's energy needs. Investments in infrastructure are driving increased bookings in all segments of oil and gas: upstream, midstream, downstream and environmental. Dresser-Rand in particular has a great deal of room for growth given it has expanded the market it serves. In 2005 its addressable market was the \$2.5 billion traditional oil and gas market. In 2012 it has expanded its addressable market to also include additional markets that result in a potential market of \$22 billion. This evolution into a more aggressive company with new products, expanded services and aftermarket services has widened the company's opportunities.

Flexible and Profitable Model – Dresser-Rand has a flexible manufacturing model as it can increase capacity without significantly increasing its footprint. Approximately 75% of its operating income is tied to its installed based, resulting in an extremely dependable high-margin aftermarket business. This also contributes to its strong relative performance in both up and down cycles in the industry.

Strong End Markets – One-third of revenues come from North American, and one-quarter from Europe. By business segment, 48% of revenues are almost equally split between new units and aftermarket parts and services. These products and services help clients reduce project costs and cycle time in order to operate more efficiently or be more competitive and reduce the environmental footprint.

Strong 2013 – Dresser-Rand will announce its full-year 2013 results in mid March. It expects it will be a record year with eight-year compound annual growth in revenue of more than 13% and operating income of more than 17%. Demand is solid with new unit bookings at their highest level in more than a decade. It is experiencing expansion in its new unit margins and increased free cash flow. The aftermarket revenues have grown 10% compounded annually since 2000 with 2013 bookings expected to be greater than \$1.6 billion. However, the company did release information adjusting expectations. It put out a release on February 17 regarding plans to suspend an operation in Spain because of a new Spanish regulation related to tariffs. It also updated guidance based on "two items previously . . . included in its guidance for the fourth quarter that did not occur. First, it did not sell the three photovoltaic power plants. Second, the Company was unable to recognize revenue in the fourth quarter on its shipment of equipment for a pipeline project in Central Asia due to pending contractual and administrative matters. The impact of these two items is approximately \$19 million of operating income."

VALUATION:

The stock took a large hit related to the adjusted guidance opening up a good opportunity to invest in the ongoing growth of this solid and profitable company.

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Investment Data (as of 2/28/14)

Recent Price	\$54.30
52-Week Range	\$51.46 - \$67.38
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	76 M
Average Trading Volume (3 mos)	892k
Market Capitalization	\$4.2 B
Cash	\$174 M
Long-term Debt	\$1.3 B
Enterprise Value (EV)	\$5.3 B
Book Value	\$16.13
TTM Revenue	\$3.1 B
P/ Revenue	1.4 x
TTM EPS	\$2.82
P/ EPS	19.4 x
TTM EBITDA	\$465 M
EV/ EBITDA	11.4 x

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