

# Mossberg's Investor Digest

## Best Idea Profile:

## ENGlobal Corporation (Nasdaq:ENG)

### DESCRIPTION:

Headquartered in Houston; ENGlobal Corporation is a leading provider of engineering and professional services principally to the energy sector. The company has four reporting segments: Engineering, Construction, Automation and Land. The Engineering segment focuses primarily on providing its services to the upstream, midstream and downstream segments of the oil and gas industry, utilities and alternative energy developers. The Construction segment focuses on energy infrastructure projects in the US by offering personnel and services primarily in the area of inspection, but also in the areas of construction, construction management, process plant turnaround management, plant asset mgmt., commissioning and start-up. The Automation segment provides services related to the design, fabrication, and implementation of process distributed control and analyzer systems, advanced automation, information technology and heat tracing projects. ENG's Land segment provides land management, right-of-way, environmental compliance, legislative affairs support and gov't regulatory compliance services primarily to pipeline, utility and other owner/operators of infrastructure facilities throughout the US and Canada. ENGlobal has 2,300 full-time employees in 17 offices and 496k sq. ft. of office space along with manufacturing fabrication space strategically located in Texas, Louisiana, Oklahoma, Colorado, Alabama, Illinois, and Calgary, Alberta, Canada.

### KEY INVESTMENT CONSIDERATIONS:

**Cyclical Bottom** – ENG has weathered the worst of the recession and is now seeing improvement across several operational metrics such as bi-weekly billable man hours and utilization. These metrics improved during each month of 3Q10. Significantly, the company also reported net income for the first time since 2Q09. Prior to the recession the company delivered 25%+ return on equity, and should be able to return to previous levels as economic conditions improve.

**Account Resolution** - ENG was involved in a dispute with a large Ethanol refit job it had done in Louisiana. In Aug '09 the customer filed for Bankruptcy protection and an additional \$7.2 million adjustment to ENG's bad debt expense was taken during 3Q10. Significantly, \$(0.16) of the \$(0.19) loss for the same quarter was related to the pre-tax charge for bad debt. This should conclude this recession related matter for the company.

**A Proven Operator** – With a combination of organic growth and a series of strategic acquisitions, revenue grew from \$89MM in '02 to \$344MM in '09, a growth rate of approximately 21%. ENG has accomplished this growth by expanding its engineering and professional service capabilities, and geographic presence.

**Company Buyback and Insider Purchases** – During the 3Q10, ENG bought back 651,470 shares at an average price of \$2.40 per share and nearly 1 million shares, or 4% of the total outstanding, since initiating a buyback plan. In addition, insiders have bought stock regularly between \$2 to \$3 per share during the past year.

### VALUATION:

ENGlobal is an oil service company coming off of a cyclical bottom. With acquisitions and organic growth opportunities, improving utilization and operating leverage, the company has ability to surprise the current consensus Street estimate of \$0.29 for 2011. At the peak of the last cycle the company earned \$0.50 to \$0.60 per share and delivered returns in excess of 25%. As the company restores profitability and returns, a multiple of 20x to 30x earnings should be warranted, which would yield a price easily north of \$7 to \$8.

#### (NASDAQ:ENG)

Investment Data (as of 1/14/11)

<b>Recent Price</b>	<b>\$4.18</b>
52-Week Range	2.03 - 4.33
Fiscal Year End	Dec
Shares Outstanding	27MM
Average Trading Volume (3 mos)	79k
Market Capitalization	111MM
Cash & LT Investments	4.7MM
Long Term Debt	12.8MM
Enterprise Value (EV)	119MM
LT Debt/ Equity	0.2x
BV/ Share	\$2.45
TTM Revenue	\$310MM
P/ Revenue	0.3x
2011 EPS (estimate)	0.29
P/ EPS	14
TTM EBITDA	(\$13MM)
EV/ EBITDA	nmf

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