

# Mossberg's Investor Digest

## Best Idea Profile:

GenCorp Inc. (NYSE:GY)

### DESCRIPTION:

GenCorp was established in 1915 as General Tire & Rubber. Having divested the tire business, GenCorp now operates in two distinct businesses: aerospace and defense, and real estate. The aerospace and defense business, under the name Aerojet, develops and manufactures aerospace propulsion systems; precision tactical weapon systems; and armament systems, including warhead and munitions applications. Its market includes military, civil, and commercial space customers. The end user for more than half of Aerojet's revenues in 2012 was the U.S. military. GenCorp's real estate segment owns 12,200 acres of land located along a key growth corridor in Sacramento, and is currently seeking, or has entitlement to 6,000 acres. GenCorp, located in Sacramento, California, employs more than 3,000 people.

### KEY INVESTMENT CONSIDERATIONS:

**Real Estate is Hidden Gem** – GenCorp amassed a huge holding in real estate in the 1950s to accommodate its needs at the time for testing its rocket systems. Of the 12,000 acres it owns in Sacramento, approximately half is in excess of its current operating needs and could be sold or developed. A building and remodeling moratorium was imposed on much of Sacramento because of concerns related to a questionable levee system in many parts of the city. The land toward the eastern foothills of Sacramento (where GenCorp's assets are) is not under thamoratorium and can be developed. Considering that Sacramento has been labeled the second hottest real estate market, GenCorp's land in that area is particularly attractive. Its land could be valued near \$350 million, which is significantly below the value carried on GenCorp's books.

**Rocket Business Insulated** – Many aspects of military spending are subject to scrutiny because of the U.S. government's expenditure reductions. However, the rocket business is likely to be the last cut from the budget, and therefore less likely to impact GenCorp. In addition, GenCorp sells to other governments worldwide and those in private space exploration. Current backlog provides some assuring visibility into future revenues and margins are good.

**Accretive Acquisition** – In July 2012 GenCorp announced its intent to acquire Pratt & Whitney Rocketdyne (PWR) from United Technologies for \$550 million. PWR propelled the first humans to the moon and

is currently the leading rocket propulsion company in the U.S. Expected to close by mid-year, the acquisition will approximately double GenCorp's EBITDA. Synergies will come from production efficiencies, spreading research and environmental costs, reduction in infrastructure and additional scale. These synergies will further add to EBITDA and management expects the acquisition will be accretive to earnings within the first year. GenCorp added substantial debt to the balance sheet to fund the PWR acquisition, which is reflected in the negative book value. However, if needed, GenCorp's real estate could provide the financial flexibility to reduce its debt.

**Better Investor Exposure** – Management has purposely been quiet of late, choosing not to conduct conference calls or extensive meetings. GenCorp's investor relations effort likely will expand after the close of the PWR acquisition.

### VALUATION:

The obscured value of GenCorp's real estate assets in Sacramento's burgeoning market, and the visibility of revenues from its rocket propulsion business make GY an attractive stock to hold. The promise of future performance exceeds the unlikely risk of unexpected costs from integration of the PWR acquisition or total meltdown of space flight.

#### GenCorp Inc. (NYSE:GY)

Investment Data (as of 4/26/13)

<b>Recent Price</b>	<b>\$13.06</b>
52-Week Range	\$5.69 - \$13.87
Fiscal Year End	Nov
Dividend	NA
Yield	NA
Shares Outstanding	60.5 M
Average Trading Volume (3 mos)	984k
Market Capitalization	\$794 M
Cash	\$141 M
Long-term Debt	\$708 M
Enterprise Value (EV)	\$1.3 B
Book Value	\$(6.43)
TTM Revenue	\$1.0 B
P/ Revenue	0.7
TTM EPS	\$(0.32)
P/ EPS	NA
TTM EBITDA	\$67.8 M
EV/ EBITDA	19.46

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.