

Mossberg's Investor Digest

Best Idea Profile:

Syntroleum Corporation (NASDAQ:SYNM)

DESCRIPTION:

Headquartered in Tulsa, Oklahoma; Syntroleum Corporation commercializes technologies to produce synthetic liquid hydrocarbons. Operations are currently focused on the commercialization of proprietary processes to convert carbonaceous material (biomass, coal, natural gas and petroleum coke) into synthetic liquid hydrocarbons. Synthetic hydrocarbons produced by the Syntroleum® Process can be further processed using the Syntroleum Synfining® process into high quality liquid fuels, such as diesel, jet fuel (subject to certification), kerosene, naphtha, propane and other renewable chemical products.

KEY INVESTMENT CONSIDERATIONS:

Proprietary Advantage – The Syntroleum® Process produces synthetic liquid hydrocarbons that are substantially free of contaminants normally found in refined products made from crude oil. This gives the company a proprietary production edge over the competition.

Shale Gas Potential – A combination of high energy prices and shale gas developments are creating a sizeable and unique opportunity for Syntroleum. Talisman Energy recently sold Sasol Ltd a 50% working interest in a portion of its Montney shale play in N.E. British Columbia for total consideration of C\$1.05 billion. Sasol is currently operating gas-to-liquid (GTL) plants in both South Africa and Qatar. Sasol and Talisman plan to fund a feasibility study for a GTL facility in Western Canada, using joint venture lands as a secure feedstock of natural gas for a 48,000 barrel per day facility. Syntroleum is one of only 3 companies in the world that can build such a plant. Syntroleum is well positioned to benefit from any shale gas development-especially in North America.

Compelling Economics – Current energy prices are creating interest in Syntroleum's technologies from established potential partners. The GTL process creates 10-11 mcf gas per barrel of liquids. Feedstock costs are in the \$40-\$45 per barrel range vs. recent costs to refiners of nearly \$100 per barrel. Refiners generally have \$10-\$20 per barrel margins. Syntroleum can significantly expand gross margins for refiners which creates a compelling business proposition.

Financial Position and Assets – The company has \$10.4 million in cash and no debt. It also has \$41.4 million in investments and loans to Dynamics Fuels LLC, its joint venture with Tyson.

Bio-Synfining – The Company's Bio-Synfined™ fuel products can be used as finished products vs. additional blending that its competitors need while using traditional bio-diesel methods. Syntroleum also has a joint venture with Tyson foods, the largest producer of target grease and fat feedstock's in the world to construct multiple facilities in the U.S. for Bio-Synfining.

Geismar Plant – Dynamic Fuels LLC, Syntroleum's joint venture with Tyson, has built the only large scale biofuels plant in the U.S. (5,000 bpd) in Geismar, LA. The rail access, river access and proximity to refineries for companies like BP, Shell and Marathon make the location very advantageous. The plant is coming out of the commissioning phase and now should be increasing production in the latter half of FY2011. This plant has access to additional acreage and access to energy industry employees which also make it an ideal location to add a GTL plant.

VALUATION:

The monetization process for Syntroleum's technologies has just started. The company is receiving credible interest from new partners and its Geismar plant was running at only 67% of capacity during Q1FY2011. Either additional plant revenues or the announcement of a new contract could lead to a higher share price.

(Syntroleum Corporation: NASDAQ)

Investment Data (as of 5/27/11)

Recent Price	\$1.81
52-Week Range	\$1.48 - \$2.45
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	82MM
Average Trading Volume (3 mos)	500k
Market Capitalization	\$148MM
Cash	\$11MM
Long Term Debt	NA
Enterprise Value (EV)	\$137MM
BV/ Share	\$0.36
TTM Revenue	\$5MM
P/ Revenue	30x
TTM EPS	(\$0.18)
P/ EPS	NA
TTM EBITDA	(\$5MM)
EV/ EBITDA	NA

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