

Gencor Industries. (GENC)

Raimondas Lencevicius

# Disclaimers

- I am not a registered investment advisor and I do not offer any investment advise
- No parts of this talk are suggestions to invest, not invest, buy or sell any kind of securities or other financial instruments

# Gencor - business

- Gencor Industries, Inc manufactures heavy machinery used in the production of highway construction materials, synthetic fuels, and environmental control equipment. The company manufactures and produces hot-mix asphalt plants used in the production of asphalt paving materials; asphalt plant equipment, which include hot mix storage silos, fabric filtration systems, cold feed bins, and other plant components; and a range of mobile batch plants, as well as trommel screens. It also offers combustion systems; and soil remediation machinery, as well as combustion systems for rotary dryers, kilns, fume and liquid incinerators, and fuel heaters. In addition, the company manufactures thermal fluid heat transfer systems and specialty storage tanks for industrial uses. Its thermal fluid heat transfer systems transfer heat for storage, heating, and pumping viscous materials, such as asphalt, chemicals, and heavy oils.

# Gencor - Misc thoughts

- What can go wrong?
  - Most revenues are dependent on federal or state highway repair/expansion funds. If states and federal government pull back even more, losses will continue.
- GENC was running synfuel business up to 2008 based on tax credits that expired in 2007-2008. Do not base any projections on numbers from that time.

# Strategic considerations

- Moat (*switching costs, habit, low cost*):
  - What are the moats? ?
  - What does it take to sustain the moats? ?
  - Bargaining power of suppliers/customers? Big?
- Is it a low risk business? No
- Is there high uncertainty? Yes
- How capital intensive is the business? Highly
- Future growth – unknown
- Are the revenues and cash flows of the business sustainable or overstated / understated due to boom or bust conditions? Unclear

# Management

- I don't usually do management analysis. Included for template completeness
- No dilution
- Can I trust management?
- Management shareholding (> 10%)
- Management incentives?
- Are the salaries too high?
- Is there heavy insider buying?
- Is there heavy insider selling?
- Do I like the management? (Operators, capital allocators, integrity)
- Profitable reinvestment
- What has management done with the cash?
- Where is Free Cash Flow invested? Share buybacks, dividends, reinvested, ROE & ROCE, incremental BV

## **Is it a good business?**

- Not after synfuel business disappeared

## **Is it a good business? Cash flow**

- Marginally positive cash flow from operations in 2009



# Is business cheap? - Graham investment considerations

- .71 P/Book (68M market cap, 96M book value)
- .77 P/NCAV (68M market cap, 88M NCAV)
- 1.03 P/net cash (68M market cap, Net cash = 73M Cash + short term investments - 7M liabilities = 66M)
- Altman Z score ( [http://en.wikipedia.org/wiki/Altman\\_Z-score](http://en.wikipedia.org/wiki/Altman_Z-score) )
  - $Z = 1.2T1 + 1.4T2 + 3.3T3 + .6T4 + .999T5 = 0.94 + 1.16 + 0 + 5.82 + .62 = 8.54$
  - $T1 = \text{Working Capital (Current Assets - Current Liabilities)} / \text{Total Assets} = (88M - 7M) / 104M = 0.78$
  - $T2 = \text{Retained Earnings} / \text{Total Assets} = 86M / 104M = 0.83$
  - $T3 = \text{Earnings Before Interest and Taxes} / \text{Total Assets} = 0 / 104M = 0$
  - $T4 = \text{Market Value of Equity} / \text{Book Value of Total Liabilities} = 68M / 7M = 9.7$
  - $T5 = \text{Sales} / \text{Total Assets} = 64M / 104M = 0.62$
- Note: **NCAV net-net for the last 2 years and counting.**