



## Bulls See Upside in Renewable Energy Despite Nasty Sell-Off

**Ticker/Price:** REGI (\$10.50)

### Analysis:

**Renewable Energy Group (REGI)** down 20% seeing 1000 January \$12.50 calls bought \$1.05 to \$1.25 and volume up to 1900X after the opening hour, a name that also has 1,500 January \$17.50 calls bought and 1,500 of the \$20/\$25 call spreads bought in open interest. REGI reported a much deeper operating loss than expected while revenues were a modest miss, citing a challenging margin environment due to uncertainty around both the BTC and small refinery exemptions. The Company notes ""Within this context, our underlying performance was strong with a 15.0% increase in gallons sold and a 2.0% increase in gallons produced. We continue to believe that the BTC will be reinstated, which will reward our strong operational performance." REGI has a \$490M market cap and focused on providing cleaner, lower carbon intensity products. It is trading 9.6X EV/EBITDA after EBITDA rose 1260% in FY18. REGI shares traded above \$30 last year and now near \$10.50 have pulled back sharply to a base from 2017/2018. REGI is in an industry that is currently a tiny portion of overall clean energy investment with ample room for growth. REGI is North America's largest advanced biofuel producer serving the growing demand for cleaner diesel fuels, which offer 50-90% lower emissions. It is also seeing margin expansion with lower cost feedstock, and demand for global distillates expected to ramp due to IMO 2020. California is a major driver of growing demand and more states are discussing low carbon fuel standards. The Biofuel market was valued at USD 168 billion in 2016, is expected to reach USD 218.7 billion in 2022 and is anticipated to grow at a CAGR of 4.5% between 2017 and 2022. Analysts have an average target of \$28.25 and short interest at 13.8% of the float has been trending lower with shares. Roth Capital raised to Buy on 6/24 with a \$22 target believing there are solid odds for the probable reinstatement of the \$1/gallon biodiesel tax credit and would support \$500M incremental cash on the company's balance sheet. REGI will present at the Canaccord Conference today, the BWS Financial Conf. on 8-13, and the Seaport Conf. on 8-28. Canaccord reiterated a \$24 target this morning and BWS Financial back on 4-24 started shares Buy with a \$31 target noting company is an alternative fuel refiner with the ability to generate free cash flow that the Street has yet to fully appreciate.

### Hawk Vision:



**Hawk's Perspective:** REGI is an intriguing long-term own at these levels trading cheap to its cash level and could see some mega tailwinds from a regime change next Election cycle.

**Confidence Ranking:** \$\$