



## A SMART CYCLICAL PICK WITH GREAT UPSIDE

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London Value Investing Club

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DIMITRIOS KOUTSOUBOS

# SMART SAND

- Frac Sand for Shale Oil & Gas
- “Northern White” in Wisconsin
- 1 Mine, 1 Product
- **Capacity:** 5.5 million tons



Seeking Alpha<sup>α</sup>

## Smart Sand: A Smart Cyclical Pick With Great Upside

Jan. 29, 2020 12:04 PM ET | 27 comments | 4 Likes | About: Smart Sand, Inc. (SND)



**Dimitrios Koutsoubos** ✉

Long/short equity, value, long-term horizon, portfolio strategy

[Investorblog.gr](https://investorblog.gr) 🔗

### Summary

- Extremely undervalued, operating in the cyclically depressed industry of frac sand.
- Its sole product, the “Northern White” sand, faces competition from local sands.
- Low-debt, low-cost, for surviving the downturn.
- Astonishing returns when things reverse.

# ENORMOUS UPSIDE?



- IPO at \$11, stock at \$1.88 (-83%)
- Collapse of Production & Price of “Northern White”
- Most of the mines in Wisconsin are projected to close



# THE PROBLEM

- Transportation is very Expensive
- Replaced by Local Sand in Permian
- New mines + Slowdown in Drilling Activity
- “Northern White” felt it most
- All producers report ugly results
- **Smart Sand:** 100% exposure to “Northern White”

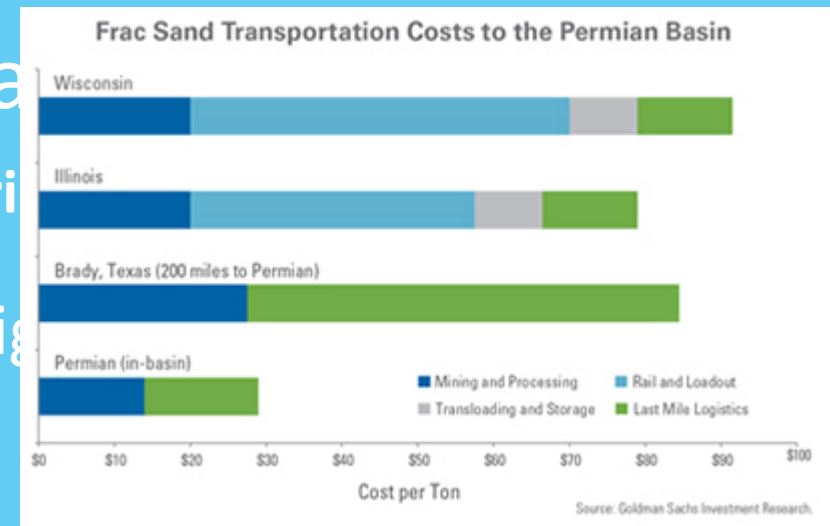
# THE OPPORTUNITY

- Cyclical Industry

▪ La

Pri

▪ Dig



# CYCLICALITY CAN BE YOUR FRIEND

## Similar to Turnarounds

- **Awful results**, Stock price hit hard
- Reversal + Huge Discount = **Enormous Upside** (multi-baggers)

**But,**

- Most Turnarounds won't turn around.
- Cyclical: conditions alternate (summer, winter)

## Cyclicals

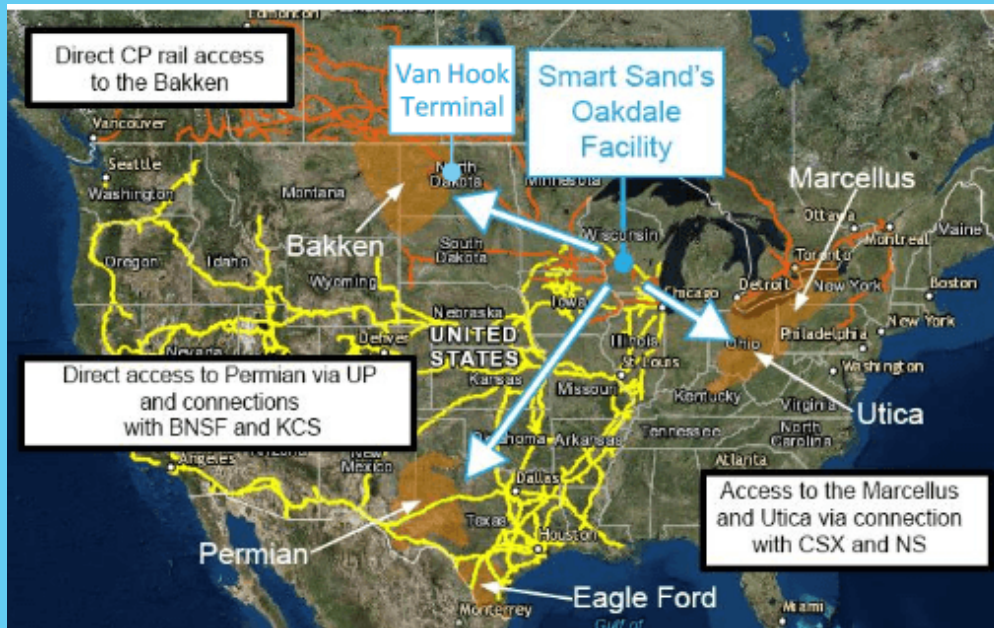
- More ugly and scary
- Reversal, a matter of time
- Higher Success rate

**Patience, strong stomach**

peak low-cost, low-debt companies

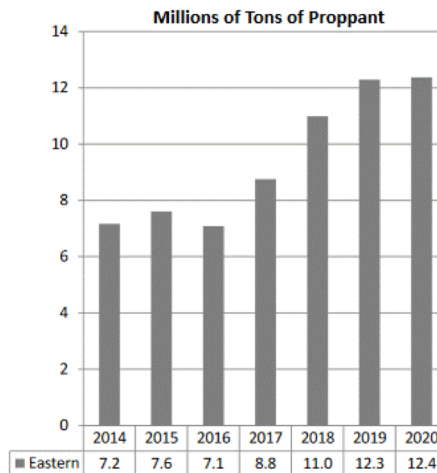
# IS SMART SAND LOW-COST

## Low-cost in a shrunk market

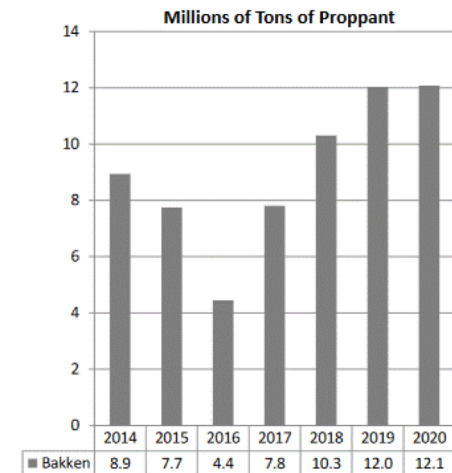


## Can still serve Bakken & Utica/Marcellus

**Eastern U.S. Demand projected to increase slightly in 2020**



**Bakken Demand projected to increase slightly in 2020**



# HOW MUCH CAN SMART SAND EARN?

- Revenue per ton includes Transportation
- Contracts
- Shortfall Payments
- Impairments

	9M 2019	2018	2017	2016	2015	2014
<b>Revenue (in million \$)</b>	<b>185.4</b>	<b>212.5</b>	<b>137.2</b>	<b>59.2</b>	<b>47.7</b>	<b>68.2</b>
Sand Revenue	86.7	143.1	80.2	31.6	31.8	62.6
Logistics Revenue	61.1	62.9	55.8	6.7	5.8	5.6
Shortfall Revenue	37.7	6.0	1.2	20.9	11.1	0.0
<b>Sand Revenue per ton</b>	<b>43.3</b>	<b>47.8</b>	<b>32.7</b>	<b>38.3</b>	<b>42.3</b>	<b>49.9</b>
<b>Tons Sold (in million)</b>	<b>2.0</b>	<b>3.0</b>	<b>2.4</b>	<b>0.8</b>	<b>0.8</b>	<b>1.3</b>
<b>Revenue (excl. shortfall) (in million \$)</b>	<b>147.7</b>	<b>206.5</b>	<b>136.0</b>	<b>38.3</b>	<b>36.6</b>	<b>68.2</b>
<b>Cost of Sales (excl. depr)</b>	<b>103.7</b>	<b>128.6</b>	<b>93.0</b>	<b>20.5</b>	<b>16.1</b>	<b>26.5</b>
<b>Contribution Margin (excl. shortfall revenue)</b>	<b>44.1</b>	<b>77.9</b>	<b>43.0</b>	<b>17.8</b>	<b>20.5</b>	<b>41.7</b>
<b>Contribution Margin (as reported)</b>	<b>81.7</b>	<b>83.9</b>	<b>44.2</b>	<b>38.7</b>	<b>31.6</b>	<b>41.7</b>
<b>Contribution Margin per ton (excl. shortfall revenue)</b>	<b>22.0</b>	<b>26.0</b>	<b>17.6</b>	<b>21.6</b>	<b>27.3</b>	<b>33.2</b>
<b>Operating Income (as reported) (in million \$)</b>	<b>39.6</b>	<b>25.9</b>	<b>18.7</b>	<b>20.4</b>	<b>16.6</b>	<b>25.8</b>
<b>Operating Income (exc. Shortfall revenue, impairments)</b>	<b>9.5</b>	<b>37.7</b>	<b>17.5</b>	<b>-0.5</b>	<b>5.5</b>	<b>25.8</b>
<b>Impairments</b>	<b>7.6</b>	<b>17.8</b>				

# SCENARIOS & VALUATION

## THE GOOD SCENARIO

- 4.5 million tons
- Cont. Margin: \$24 per ton
- Net Income: \$54 million

at 12.5x earnings

**\$672 million**

20%

## THE MAIN SCENARIO

- 3.0 million tons
- Cont. Margin: \$20 per ton
- Net Income: \$16 million

at 12.5x earnings

**\$198 million**

40%

**\$236 million** or **\$5.72** per share

## THE BAD SCENARIO

- 2.0 million tons
- Cont. Margin: \$17 per ton
- Net Income: **-\$6 million**

at 0.5x tangible book

**\$116 million**

20%

## "THE DEATH" SCENARIO



20%

**204%**

Upside Potential

Current Price: \$1.88

Current Capitalization: \$78 million



# INTERESTING FACTS

- U.S. Well pending litigation
- Significant Investments
  - Capacity: from 3.5 to 5.5 tons (\$49 million)
  - Smart Systems (\$30 million)
  - Van Hook Terminal (\$15.5 million)
- **Transportation biggest cost =>**  
Sand Producer: leverage to exploit shortage of sand

# IN FEW WORDS

- Extremely Undervalued
- Operating in the **Cyclically Depressed** frac sand industry
- Low Debt, Low Cost

— 204% upside, \$5.72 per share —

- Astonishing Returns when things reverse
- Evaluation of Earnings is tricky  
Impairments, Shortfall, Logistics, Contracts

# THANK YOU!

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