

Evaluating Ethanol Companies

A comparison of a company's financial ratios to that of the industry average is a useful indication of how a company is being valued in comparison to its peers. Most of the standard financial ratios are based off of historical results such as: Price to Earnings (P/E) ratios, Price to Earnings to Growth (PEG) ratios, Total Enterprise Value to Last Twelve Months Revenue (TEV/Rev) ratio, and Total Enterprise Value to Last Twelve Months Earnings Before Interest, Taxes, Depreciation, and Amortization (TEV/EBITDA) ratio. Below we compare the ratios of the pure play¹ ethanol companies:

Chart 1

Pure play ethanol companies' financial ratios yield limited information as can be seen below.²

Pure Play Ethanol Companies	Stock Price (USD\$)	Market Cap (USD\$ mm)	Actual TEV (USD\$ mm)	TEV/LTM Total Rev	TEV/LTM EBITDA	P/Diluted EPS
Aventine Renewable Energy Holdings	\$ 17.16	719.2	603.6	0.4x	5.4x	12.3x
Green Plains Renewable Energy	\$ 19.90	119.5	97.9	NM	NM	63.2x
Pacific Ethanol, Inc.	\$ 13.30	539.5	693.1	2.4x	32.5x	NM
Panda Ethanol Inc.	\$ 9.00	279.6	404.8	NM	NM	NM
Renova Energy plc	\$ 1.49	41.0	40.6	2.0x	17.9x	31.4x
US BioEnergy Corp.	\$ 12.88	875.8	901.2	3.6x	19.9x	28.5x
Verasun Energy, Corp.	\$ 15.76	1,211.9	1,133.1	1.9x	7.2x	16.6x

Since the release of these stocks in late spring of 2006, stock prices of pure play ethanol companies have dropped to less than 45% of their value from a year ago. This drop is attributable to increased corn prices, decreased ethanol prices, and increased speculation as to the government subsidies and tariffs applied to the ethanol industry. Corn prices, ethanol prices, and government support are the main drivers of earnings and the related stock pricing.

Alternative Valuation Methodology

As most ethanol plants are being built by one of the few ethanol plant construction companies (Fagen, Poet, ICM), they will generally cost the same price, and run on similar technology. Construction costs and operating costs should therefore be similar for each company.

In order to compare an ethanol company to the industry average, a regression analysis of the total enterprise value against the current production capacities, future production capacities, and current amount of marketed ethanol of each ethanol company should show how the market is valuing the future production, and marketing of ethanol, compared to the current production of ethanol. Based on a regression analysis, the market is currently valuing future production capacity at approximately 30% of current capacity and valuing marketed gallons at approximately 9% of current capacity. Using these percentages, an effective gallon value was created equaling the sum of the current capacity, plus 30% of additional capacity, plus 9% of marketed gallons. Total enterprise value was then divided by this value to determine the total enterprise value to effective gallon multiple.

¹ Pure play ethanol companies are companies whose sole objective is the production and marketing of corn based ethanol.

² All stock price and financial information obtained from CapitalIQ. Stock Prices and Data in USD as of 6/1/2007.

Chart 2

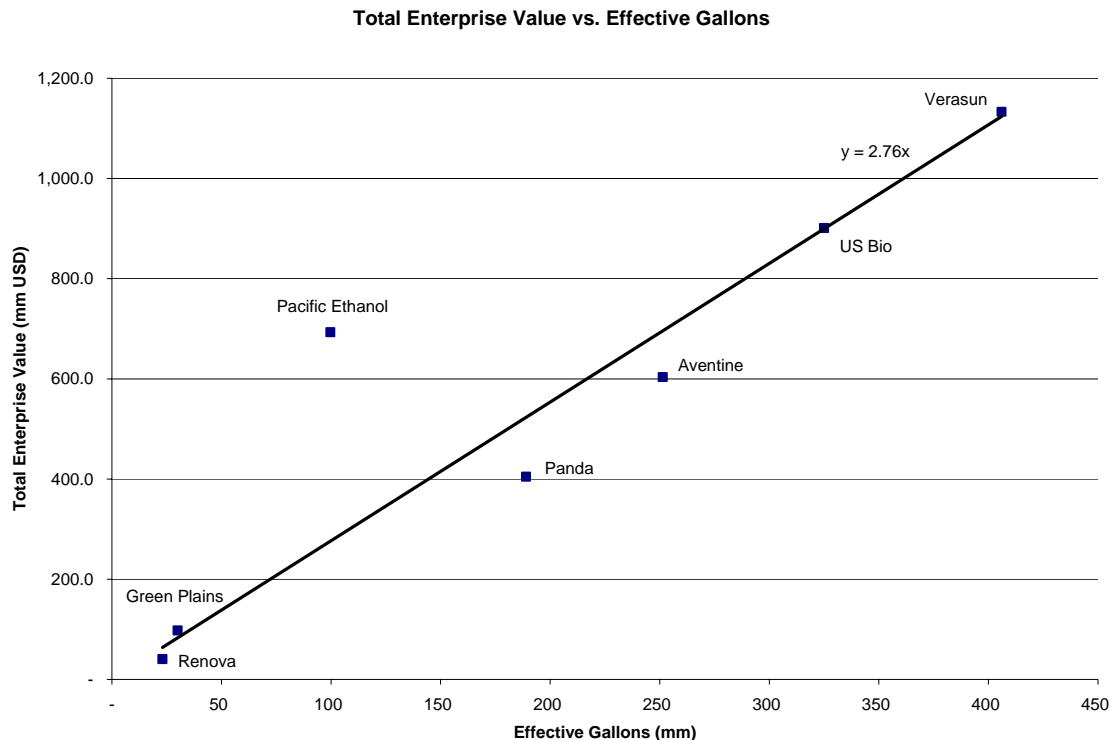
This chart shows the calculation of the total enterprise value to effective gallon multiple. The industry mean is 3.15x effective gallon value and the median is 2.77x effective gallon value.

Pure Play Ethanol Companies	Market Cap (USD\$ mm)	Actual TEV (USD\$ mm)	Current Name Plate Capacity (mm Gallons)	Capacity Under Development (mm Gallons)	Additional Gallons Marketed (mm Gallons)	Effective Gallons	TEV/ Effective Gallons
Aventine Renewable Energy Holdings	719.2	603.6	207	-	493	251	2.40x
Green Plains Renewable Energy	119.5	97.9	-	100	-	30	3.26x
Pacific Ethanol, Inc.	539.5	693.1	35	185	102	100	6.95x
Panda Ethanol Inc.	279.6	404.8	-	630	-	189	2.14x
Renova Energy plc	41.0	40.6	17	20	1	23	1.76x
US BioEnergy Corp.	875.8	901.2	250	250	-	325	2.77x
Verasun Energy, Corp.	1,211.9	1,133.1	340	220	-	406	2.79x

From this analysis, it appears that the companies, which are valued higher than the industry mean are: Pacific Ethanol and Green Plains Renewable Energy, while the remainder pure play companies are valued lower than the industry mean. Due to Pacific Ethanol being valued at such an outlier multiple compared to the industry, the industry mean may not be the best way to analyze the data. AgriCapital used a regression or trendline approach to confirm this assumption.

Graph 1

This graph shows the companies by effective gallon and total enterprise value. The line on the chart is the trendline, which estimates the industry average at 2.76x effective gallon value.



The trendline confirms the use of the industry median as a better measure. From this analysis, it appears that the companies, which are valued higher than the industry average are: Pacific Ethanol, Verasun Energy, and Green Plains Renewable Energy. It also appears that Aventine Renewable Energy, Panada Ethanol, and Renova Energy are valued lower than the industry

average. US BioEnergy is valued at the industry average. Below we give some interpretation as to why these companies are valued the way they are:

Aventine Renewable Energy

Aventine runs one of the largest ethanol marketing groups. Unfortunately, Aventine has currently lost one of its largest ethanol suppliers Verasun, who has decided to start its own marketing division. Aventine also has no additional plants in development. It looks like the company may be undervalued according to the trendline and the industry average as there is less potential for growth versus its peers.

Green Plains Renewable Energy

Green Plains' first 50mmg plant is expected to be on-line sometime this summer. With a significant portion of production coming online in the next few months, this may be the reason that Green Plain's valued higher than the industry average.

Pacific Ethanol

Pacific is the largest ethanol producer in California with a 35mmg plant and an additional 185mg planned (100mmg in California). Producing ethanol in California from in-state grown corn substantially decreases shipping costs to the Los Angeles, San Diego, and Sacramento areas. Currently, Pacific has a strong ethanol marketing program due to its location in California. Pacific also has a 42% stake in a 40mmg plant in Colorado. The market is currently putting a substantial premium on Pacific Ethanol's strategic locations.

Panda Ethanol

Panda's current plan is to build six 105mmg plants. The first plant is planned to open in late 2007, with the remaining opening dates not yet released. Investors may be skeptical that the plants will be built and operational soon, so they are currently valuing Panda lower than its peers.

Renova Energy

Being listed on the AIM market, might allow this little ethanol company to be overlooked. Renova has just completed a 12mmg expansion to bring their operations to 17mmg and also has a small marketing division. These factors may not be fully priced into the stock yet and the company may be undervalued. However, ground is not broken on the additional 20mmg facility, which may justify its value.

US BioEnergy

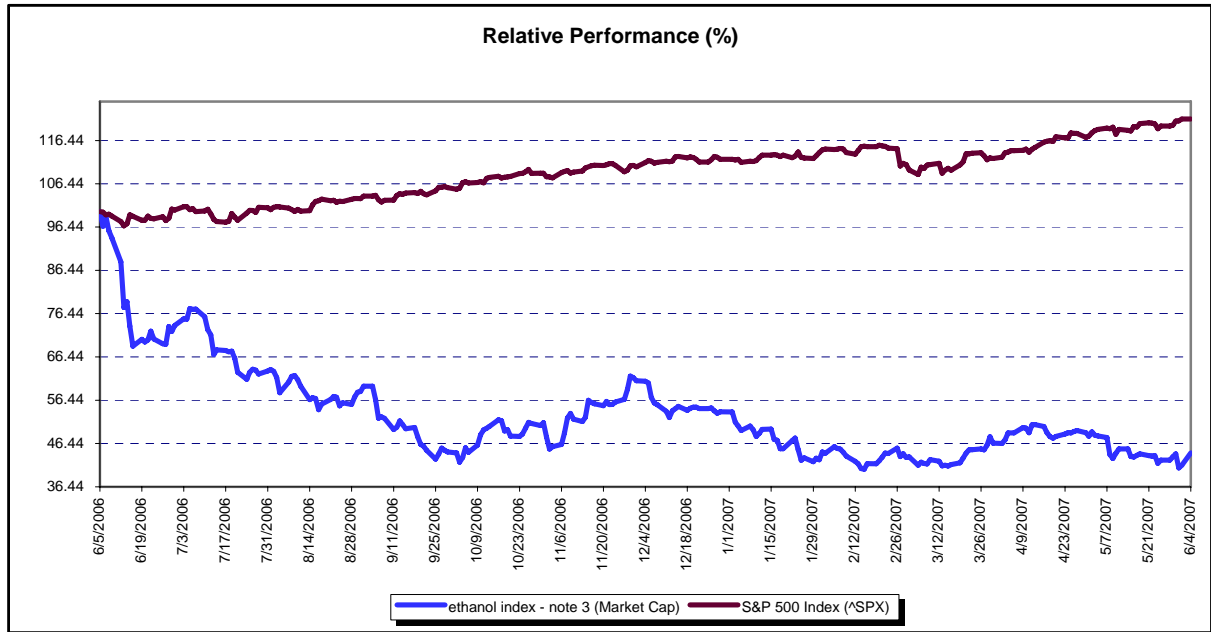
US BioEnergy is below the industry average price according to the mean, but is at the industry average per the trendline. US BioEnergy has a few plants online with more on the way. US BioEnergy also has an ethanol marketing joint venture with CHS Cooperative, which owns over 70% of the National Cooperative Refinery Association. CHS also has a stake in US BioEnergy. It is also worth mentioning that Ron Fagen of Fagen Inc. helped co-found US BioEnergy. It appears that US BioEnergy is currently valued at the industry average and may be appropriately valued.

Verasun Energy

Verasun Energy is located in South Dakota. Verasun is favorably priced as it has been in operation for more than a decade and has a significant amount of current production. Verasun went public to raise money for additional facilities, and has started a marketing group, which will provide an additional revenue source.

Graph 1

Performance of pure play ethanol stocks over the last twelve months.



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³ Ethanol Index includes Pure Play ethanol companies listed in chart 1. Index weighted by market capital. Data Provided by Capital IQ.