Executive Summary

Investment Recommendation
Treasa resources is currently rated as a BUY. TREC's target price is $14.38. With their current stock price at $8.68, we forecast their stock price to appreciate by 65.7%.

Potential monetization of AMAK Ownership
Treasa Resources (TREC) plans to divest the 33.4% of Al Masane Al Kobra (AMAK). A Saudi Arabian mining company that currently owns AMAK. AMAK’s year-to-date ETIBOD through the third quarter of 2018 was up $21 million from 2017 because of operations becoming more consistent, thus resulting in a higher generation of cash flow.

Manufacturing Transformation Plan (MTP) focus on safe, high quality, and productive work
TREC has implemented a manufacturing transformation plan which is being led by the company’s Chief Manufacturing Officer, John Treharn. The plan is put into place to help improve productivity and safety. A standard of simplified, efficient, and consistent work processes is being put into action in hopes of improving quality without compromising safety. The plan will slightly afted by forces to improve the efficiency across the board.

Unmatched Flexibility
TREC has been able to successfully change their company as the industry evolved. TREC has evolved from their petrochemical business own mining newly found minerals in Saudi Arabia. When they had the opportunity to expand into the hydrocarbon field, they ran with it and became a leader in producing high purity light hydrocarbons. TREC also provides a variety of customer processing through their specialty wax segment.

Weakness
- Fluctuation on Crude Oil Price
Currently, Crude Oils are low, government regulation and market competition could cause oil prices to increase and affect TREC revenue in a positive way. The EIA predicts that Brent crude oil’s revenue will increase by 113.56% based on the assumption that petroleum demand levels off, the gowen price at 2x annually, and annual energy consumption increases 4%
- New Management
TREC has had a recent turnover of all their management besides the Chief Sustainability Officer. This could cause concern to shareholders because of the uncertainty in the direction the company will go in and the fact that the majority of the new management has short tenures at previous jobs.
- US Economic Outlook
TREC is a cyclical firm; change in economic growth can affect TREC’s demand. High economic growth will increase demand and therefore improve TREC’s returns. TREC’s debt has greatly increased in the past few years, if a recession occurs TREC may not be able to meet its breakeven point.

Business Description
Headquartered in Sugar Land, Texas, Treasa Resources (TREC) was established in 1967 as Arabian American Development Company. The company was originally a Saudi Arabian mining company which is now Al Masane Al Kobra (AMAK). TREC holds 33.4% of AMAK. In 2014, TREC entered the petrochemical industry and changed its name to Treasa Resources. The name Treasa comes from the incorporation of trust, ecology, and the core of the earth. The CEO at the time, Nick Carter emphasized, “Treasa Resources connects natural resources that you can trust.” The company has two segments of operation: Saudi Hampton Resources (SHR) that concentrates in petrochemical production and Treasa Chemical (TC) which focuses on specialty wax production.

Competitive Positioning
Market Leader in High Purity Pentanes
SHR has market share of about 60% in the high purity pentane market with only one competitor, Phillips 66. High purity Light hydrocarbons are used for solvents, chemical intermediaries, and blowing agents for polystyrene. High Purity Light Hydrocarbons accounted for 82% of SHR’s revenue in 2017. IBS expects the petrochemical industry to grow at the production facilities. This trend will continue for the next few years, as demand is growing.

Factory Improvements Increase Capacity to Meet Future Demand
When the Advanced Reformer at SHR is complete, the facility’s design capacity should increase by 4,000 barrels per day. The purpose of the Advanced Reformer is to convert the byproducts of petrochemicals into higher quality products that can be sold at higher prices.

Porter’s Five Forces
Threat of Entry / Low
The chemical industry has many barriers of entry. Because of this, the threat of entry is low. Some of the barriers are the cost to construction and operating facilities, the cost of regulation (EPA, OSHA, etc.), and having to be in compliance with this industry face.
Threat of Substitutes / Medium
TREC’s customers are loyal even though there are many competitors in the industry. Although the chemical industry’s competitive, the switching cost for suppliers is high.
Relative Power of Buyers / High
EsenMohali and its affiliates accounted for about 20% of TREC’s sales revenue in 2016 and 2017. If Esen takes its business elsewhere, TREC could cause a significant blow to the firm’s bottom line.
Relative Power of Suppliers / High
TREC uses one supplier for its wax segment. This supplier is expecting an outage in Q1 2019, and TREC is trying to find a new source of wax. TREC’s dependence on this supplier has put the company in a compromising situation.
Threat of Strategy / High
This industry has many competitors. Companies in the chemical industry each produce mostly undifferentiated products, making the industry relatively less dense.