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Metalico: Spinning scrap into gold

Lynne Heitman | Aug 06, 2008 6:07am EDT | [Comment](#)

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WALL-E might be the biggest movie star since Nemo, but if someone doesn't keep a close eye on him, he too could be stolen and sold for scrap. They're doing it in Cherry Hill, N.J., Red Orbit, Texas, Farmingham, N.M., and Kingston, Jamaica. In New Castle on Tyne, a dwarf admitted to burgling a house for scrap metal because it was his only career option in a "tall man's world." Thieves across the globe have discovered what **Metalico, Inc. (AMEX:MEA)** has known all along: the market for scrap metal is huge and growing, both in the United States and abroad, where developing countries have demonstrated a voracious appetite for the raw materials fueling their economic growth.

Metalico, founded in 1997 and headquartered in Cranford, N.J., carries a market cap of about \$512 million. It has two decidedly unglamorous but increasingly profitable lines of business: recycling metal, and fabricating lead based products. Its recycling business buys ferrous and non-ferrous scrap metal, converts it into usable forms, and sells it to a diverse and global industrial base, including contractors in the U.S. Department of Defense. Its products are used in the roofing, plumbing, radiation shielding, electronic soldering, ammunition, and automotive industries, and increasingly in China, Southeast Asia, and India, regions that are busily building ports and railroads as a means of shipping their products back to the United States.

Metalico's lead fabrication business produces over one hundred different products and ranks as the largest in the United States. As a rapidly growing and acquisitive industry leader, Metalico is uniquely poised to take advantage of the perfect scrap metal storm: growing demand, rising prices, and a world increasingly on the lookout for eco-friendly alternatives to mining new minerals.

Results for the second quarter ended June 30, as reported last Thursday, were the best for any quarter in the company's history. Sales of \$295.1 million were up 342% over the same quarter in 2007, while income of \$8.1 million soared over the \$3.7 million earned in the same quarter of the prior year. If not for the effect of a so-called SFAS (Statement of Financial Accounting Standards) No. 150, the company earned \$15.9 million for the three-month period. An accounting charge for a non-cash, non-tax-affected item for warrants reduced fully diluted net income by \$7.8 million. Earnings per share came in at \$0.22 after the accounting charge, beating analyst projections even after many had upped their price targets after the first quarter from the \$17 range to \$20 and \$21.

With a strong balance sheet and access to growth capital, Metalico looks to continue its strategy of pushing into new territories and commodities through acquisition. The company made five major acquisitions in the twelve months ended in May, including purchasing the assets of the Snyder Group, a multi-yard fully integrated scrap metal recycling company. This final deal coincided with the completion of a private placement of \$100 million in convertible notes. About \$69 million of the proceeds (plus \$7 million in stock) were used for the Snyder purchase, leaving the balance for future acquisitions. Metalico's goal is to complete at least one more transaction by the end of 2008, should the right combination of timing, target, and opportunity present itself.

The Lead Fabricating segment, which had suffered in the previous quarter from sagging prices and elevated inventory levels, returned to an operating profit in the second quarter as the unit worked through its high cost inventory and returned to positive cash flow contribution.

Fluctuations in commodities prices are a concern with any company in the basic materials sector. Metalico's defense against this exposure has been diversification. In 2006, Metalico was not even in the business of recycling platinum group metals (PGMs). With the purchase of American CatCon in January 2008, PGM recycling became the company's largest source of non-ferrous revenue in the quarter and for the first half of 2008. Looking to bolster its participation in the 21st century gold rush, Metalico's strategy is to increase its presence in PGM recycling via internal growth and acquisition.

Metalico is poised to maintain the positive momentum into the third quarter and beyond as the ongoing integration of its recent acquisitions continues to add both revenue and operating efficiencies. Ferrous metal prices are expected to continue at near record levels, while demand in both the domestic and international markets shows no signs of softening. PGM prices have retreated from their record levels in the third quarter, but the company is confident in its strategy of growing this part of the business, which is expected to benefit throughout the remainder of 2008 from continued high demand and a production drop in South Africa.

With the stock currently trading at about \$14.25, down 24% from its most recent high in June, all indicators are that Metalico will continue to spin scrap into gold.

About the Author



Lynne Heitman has extensive business experience as both a management consultant and senior manager. She is also a

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MEA Fast Facts:

Metalico Inc (MEA) Jan 26 3:08 PM EST



Price Data

Last Price	2.7501	Last Trade	3:08
Change	▲ 0.1201	% Change	▲ 4.57%
Tick	-	Volume	353.88 k
Open	2.63	Previous Close	2.63
Day High	2.88	Day Low	2.63
Bid	2.75	Bid Size	500
Ask	2.77	Ask Size	100

Fundamental Data

52 Week High	18.85	EPS (TTM)	0.73
52 Week Low	1.15	PE Ratio	3.60
Ex-Div Date	N/A	Dividend	N/A
Yield	N/A	Shares	36.12 m
Market Cap	99.33 m	Exchange	AMX

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