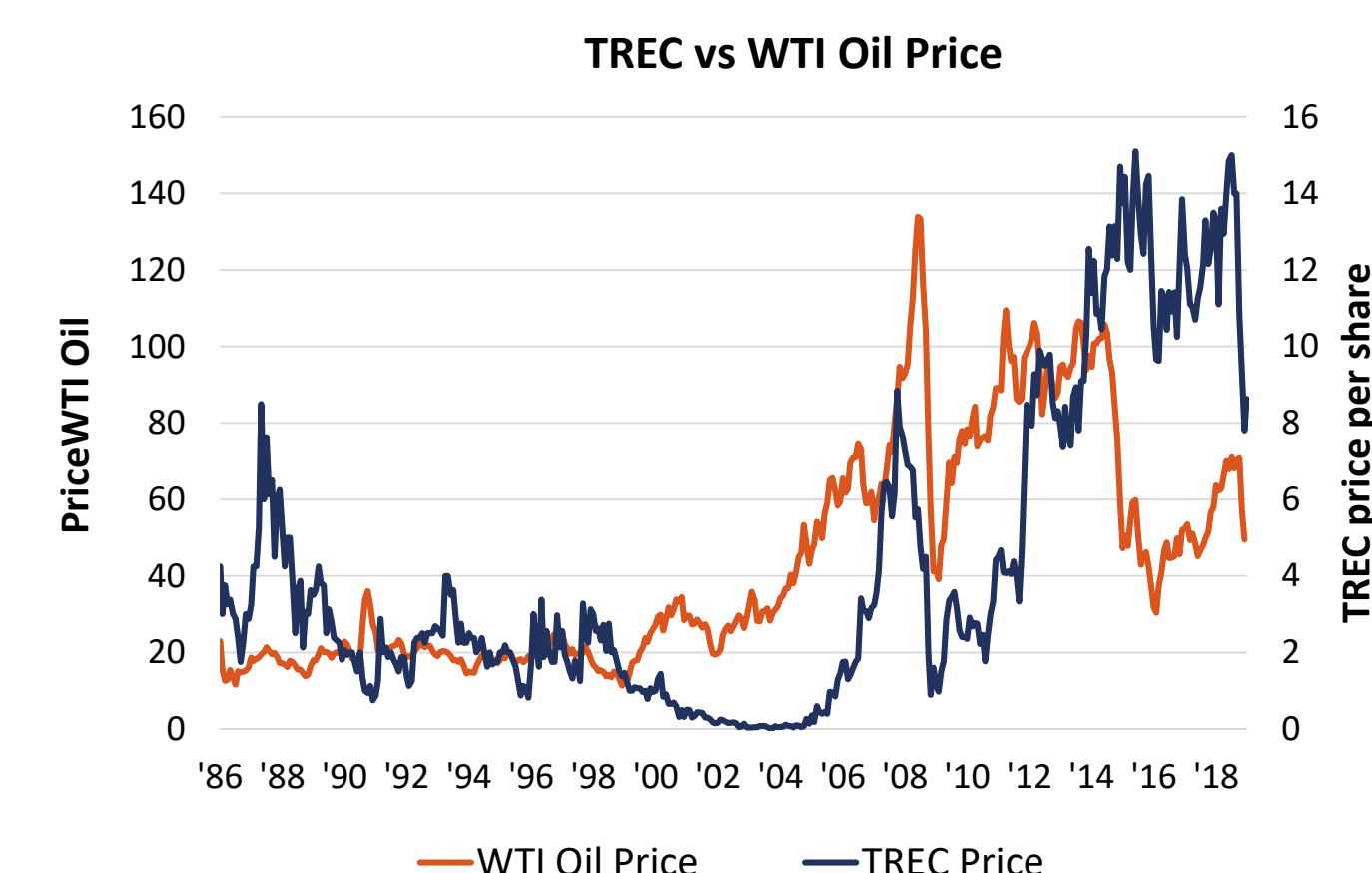
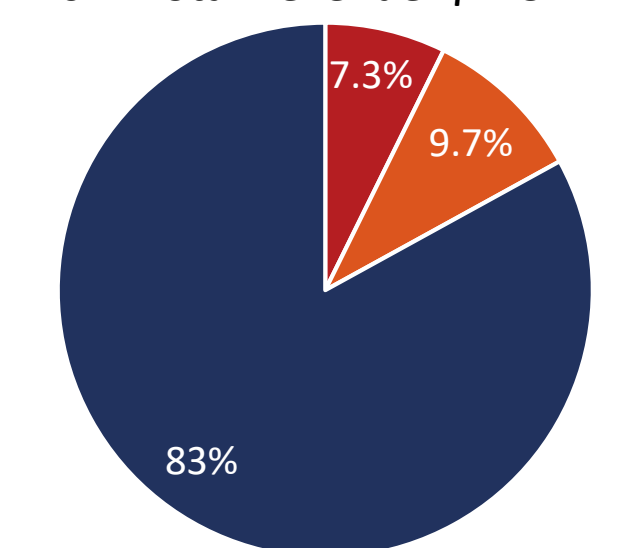




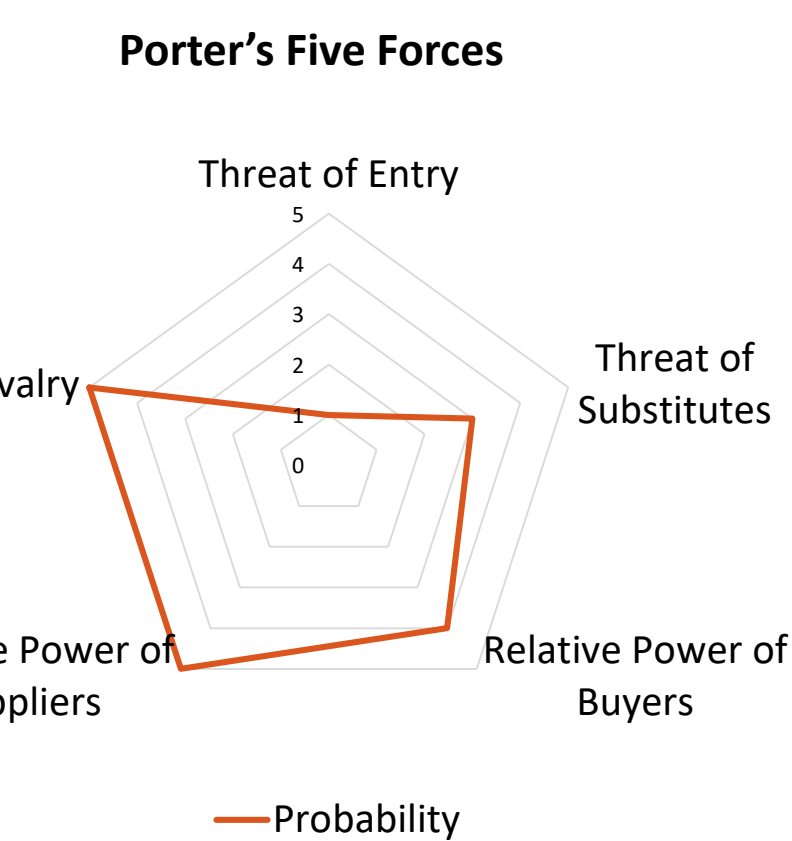
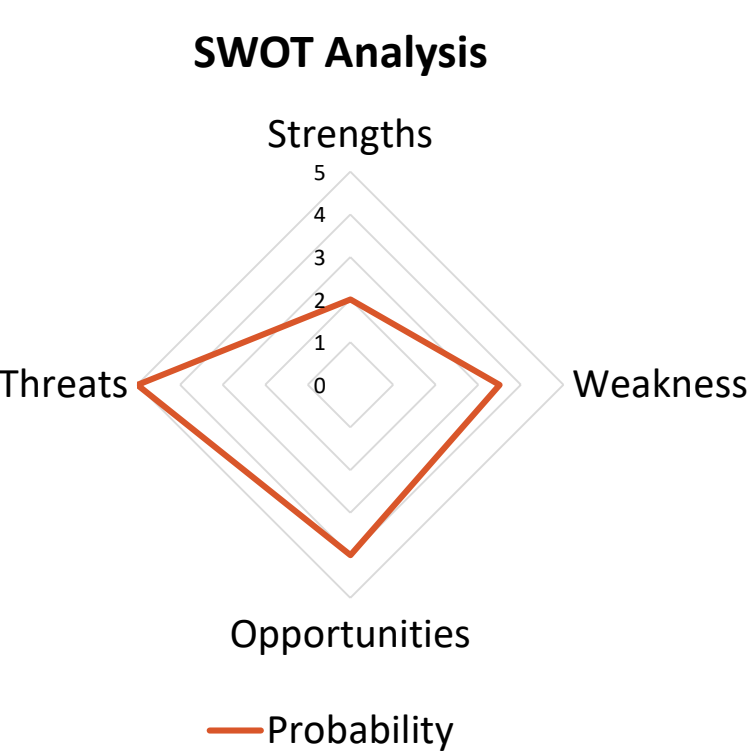
Company Statistics	
Price (US\$)	\$9.02 (as of 3/25/19)
52-wk High	\$15.60 (as of 3/25/19)
52-wk Low	\$6.69 (as of 3/25/19)
Mkt Cap (MM)	\$209.40
Outstanding Shares (MM)	24.30
Beta	1.51 (52 week)
Float	83.80%
Enterprise Value	275.20
P/E (TTM)	12.53
D/E	0.56
EV/Sales	0.92
EV/EBITDA	10.16
ROA (TTM)	5.06%
ROE (TTM)	8.94%
WACC	9.57%
Top 10 Inst. Holders	36.30%
Methods of Valuation	
Quant. Method	Values
DCF (Terminal Growth)	14.38
Expected Return	
Target Price	14.38
Exp. Stock Appreciation (\$)	5.65 (as of 3/25/19)
Exp. Stock Appreciation (%)	64.7%



2017 Total Revenue: \$245.2M



Source: Company Presentation



### Executive Summary

#### Investment Recommendation

Trecora 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%.

#### Investment Highlights

- Potential monetization of AMAK Ownership**  
Trecora Resources (TREC) plans to divest the 33.4% of Al Masane Al Kobra (AMAK), a Saudi Arabian mining company that it currently owns. AMAK's year-to-date ETIBDA through the third quarter in 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 Townsend. The plan is being 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 differ by facility to insure 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 original business plan of mining newly found minerals in Saudi Arabia. When they had the opportunity to expand into the hydrocarbons field, they ran with it and became a leader in producing high purity light hydrocarbons. TREC also provides a variety of custom processing through their specialty wax segment.

#### Key Risks

- Fluctuation on Crude Oil Price**  
Currently, Crude Oils are low, but government regulation and market competition could cause oil prices to increase and affect TREC's revenue in a positive way. The EIA predicts that Brent crude oil prices will reach \$113.56 based on the assumption that petroleum demand levels off, the economy grows at 2% 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, Trecora 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 Trecora Resources. The name Trecora comes from the incorporation of trust, ecology, and the core of the earth. The CEO at the time, Nick Carter emphasized, "Trecora Resources connotes natural resources that you can trust." The company has two segments of operation: South Hampton Resources (SHR) that concentrates in petrochemical production and Trecora 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 pentanes are used for solvents, chemical intermediaries, and blowing agents for polystyrene. High Purity Light Hydrocarbons accounted for 83% of SHR's revenues in 2017. IBIS expects the petrochemical industry to grow because feedstock prices have begun to stabilize themselves, so demand is rising.

#### 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. TREC

### 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 high switching costs customers in 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 is competitive, the switching cost for suppliers is high.

#### Relative Power of Buyers / High

ExxonMobil and its affiliates accounted for about 20% of TREC's sales revenue in 2016 and 2017. If Exxon takes its business elsewhere, this could cause a significant blow to the firm's bottom line.

#### Relative Power of Suppliers / High

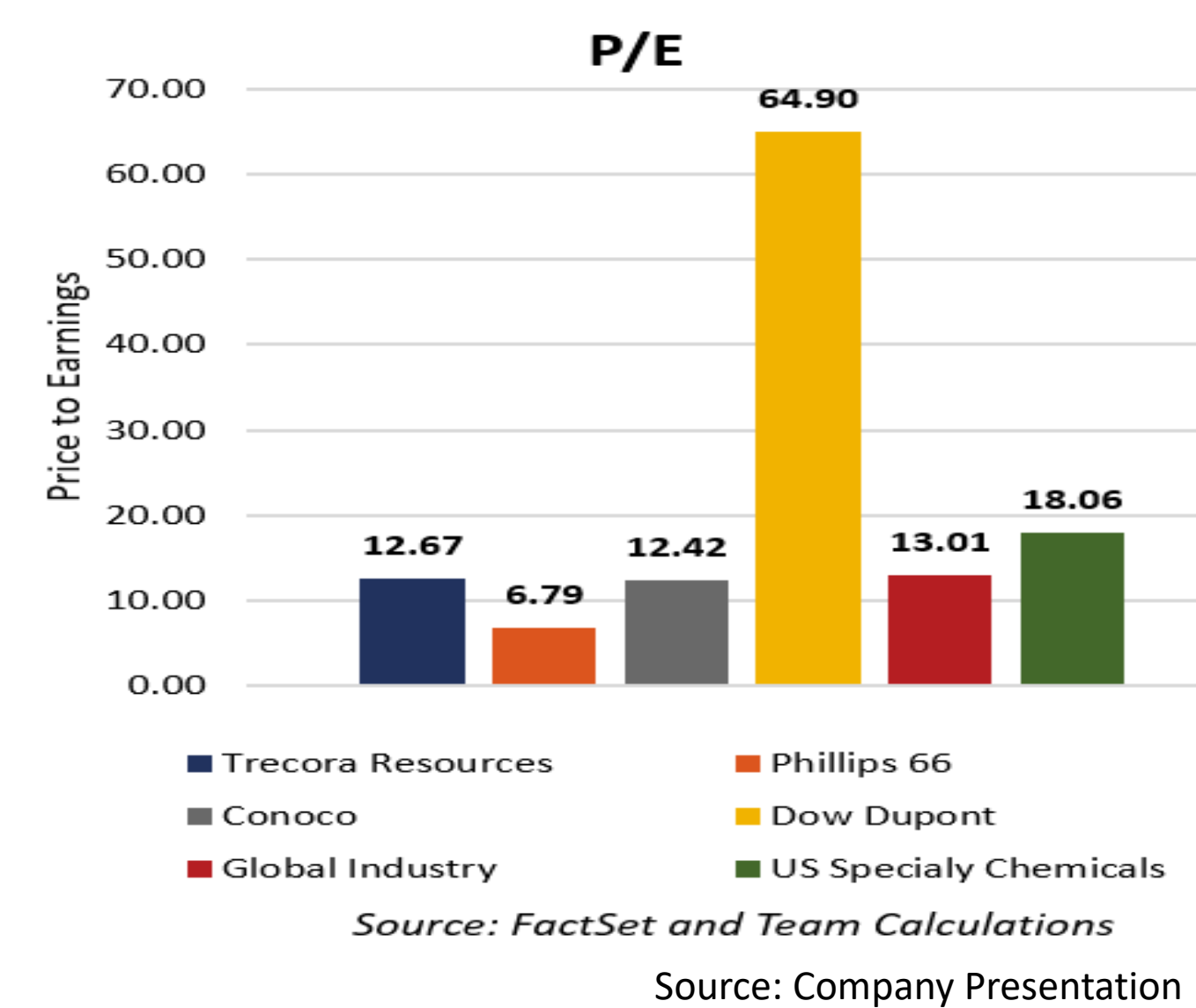
TREC uses one supplier for its wax segment. This supplier is expecting an outage in Q1 2019, and TREC is trying to find a new source of wax. TREC's dependence on this supplier has put the company in a compromising situation.

#### Threat of Rivalry / High

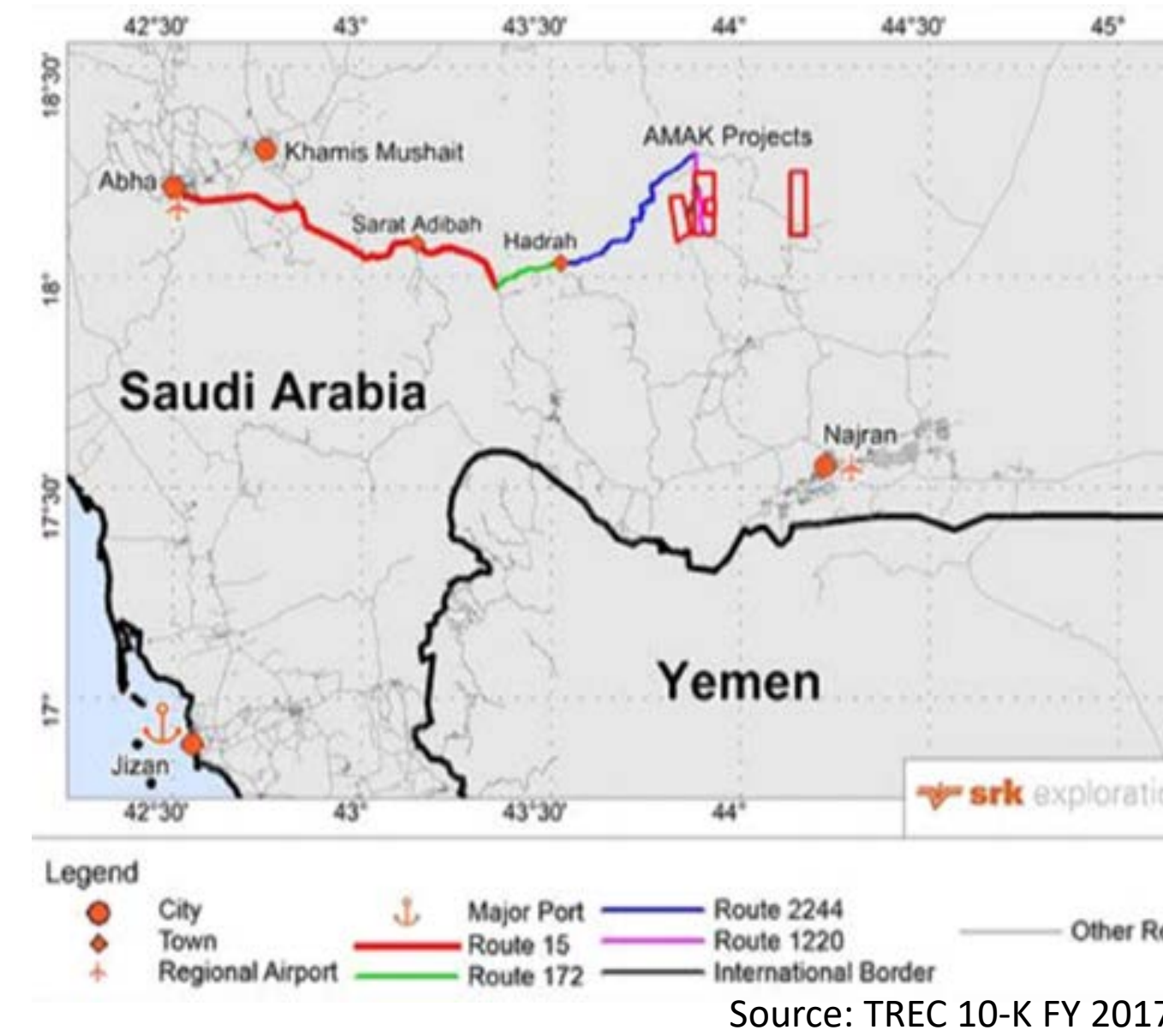
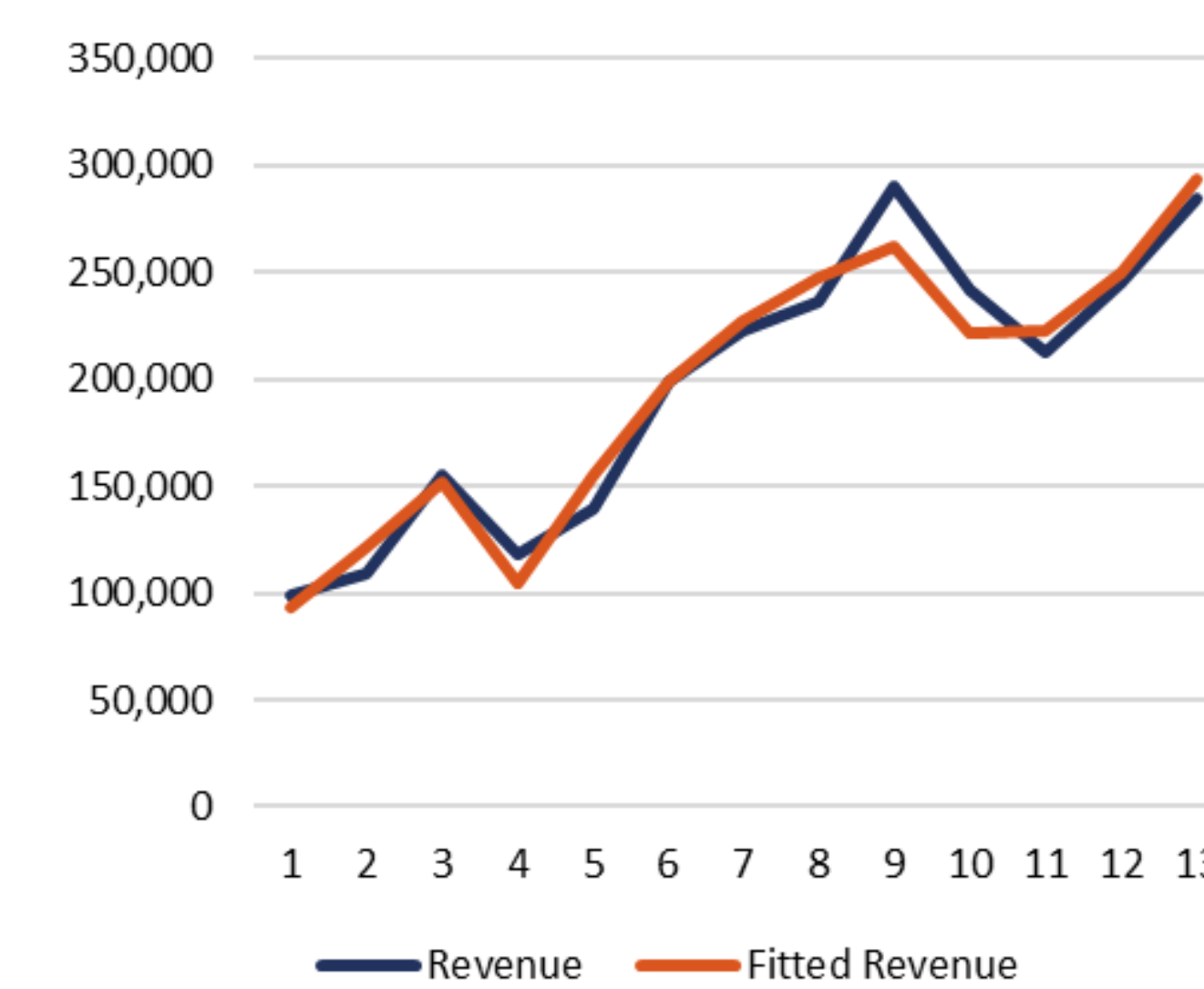
This industry has many competitors. Companies in the chemical industry each produce mostly undifferentiated products, making the industry relatively not diverse.

### Market Cap of Top Competitors

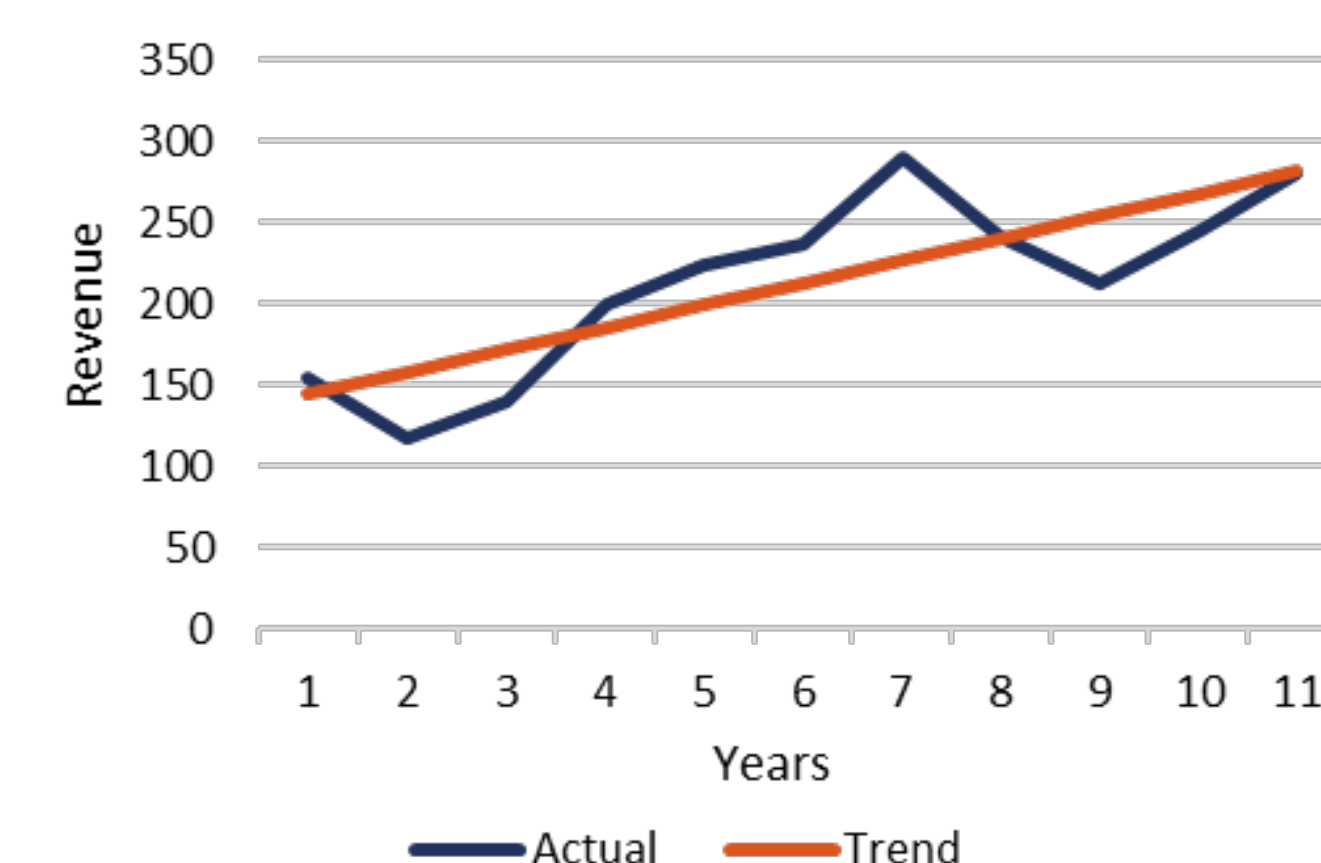
Company	Ticker	Mkt Cap
Trecora Resources	TREC	.209B
ConocoPhillips	COP	78.17B
DowDuPont Inc.	DWDP	133.2B
Eastman Chemical	EMN	10.93B
GCP Applied Tech	GCP	1.80B
LyondellBasell	LYB	32.21B
Phillips 66	PSX	43.95B
Westlake Chemical	WLK	9.40B



### Regression Revenue



### Revenue Growth Trend



### Key Economic Drivers

#### Price Volatility of Commodities Drives Prices

TREC's revenues are not only affected by the US economy but also the prices of commodities. In Appendix T, we show the results of a regression that shows how TREC's revenue is heavily determined by the industrial production index (an indicator of the US economy), WTI oil prices, and Henry Hub natural gas prices. It appears that TREC uses oil prices as a benchmark for pricing products. The regression shows us that as INDPRO and WTI oil prices increase, so do TREC's revenues. However, when natural gas prices are high, TREC has to spend more time to make their chemicals. The price of commodities are risks to TREC because there is uncertainty about which way their price will go.

#### Chinese Trade War Will Increase Export Prices

More than \$100B in chemicals and plastics face tariffs now after the Chinese have placed retaliatory tariffs on many U.S. exports. The trade war mainly affects the American agriculture, automobile, and chemical industries. Companies must pay the tariff and can either absorb the cost or pass the cost on to the customer.

#### Terrorism Threats Could Affect Business in Saudi Arabia

In August 2018, the U.S. State Department sent out a travel advisory for Saudi Arabia because of terrorism and threats of missile attacks on civilian targets. The State Department specifically restricted travel to the areas of the country that are within 50 miles of the border. AMAK's mine is located near the town of Najran which is listed in the warning. A short-range missile or drone strike could be an imminent threat to the mine. This is one of two major concerns for the mine. The other is that in October 2018, Saudi journalist Jamal Khashoggi was murdered while in the Saudi consulate in Istanbul. While at the moment this event has not directly affected AMAK, it has affected other industries of trade between the US and Saudi Arabia.

### Financial Analysis

#### Operational Efficiency - TREC

Trecora Resources' petrochemical and wax divisions have not been very efficient in the past. They have a normalized operating profit margin of 8.5% and will need to increase that if they are going to maximize shareholder value. The company has recently completed all of their big projects including their Advanced Reformer. This machine is used to convert lower quality by-products into higher quality products. As a result of their all of their CAPEX projects, we expect their margins to increase to 11% by 2020.

#### Operational Efficiency - AMAK

In order to effectively & accurately value AMAK, we had to model our forecast with the assumption that management would focus predominately on reviving their negative OPM. As a result of these negative profit margins, AMAK has only seen one year of positive OPM since the beginning of operations in 2012. During the early months of 2016, AMAK took advantage of low mineral prices and implemented several changes to their processing plant. Management installed SART modifications (sulfidization, acidification, recycling, and thickening), which is a more efficient chemical system that is expected to lower costs. This new improvement drove us to increase their OPM from the current -32.88% to 7.04%, placing them in the 60th percentile of their industry.

#### New Management - TREC

Not only should Trecora's margins increase from improved operations, but also from a new management team. The company has recently made changes at CEO and Chief Manufacturing Officer. These two executives have been charged with the task of making their operations more reliable and efficient. They have promoted a new plan of "operational excellence". TREC's new executives should be able to improve margins with all of their big capital projects now completed.

#### New Management - AMAK

In 2015, AMAK terminated their contract with the Chinese mining company who was in charge of maintaining operational efficiency at the production facility. This led to the introduction of a new owners' team, which receives technical support and labor resources from a Turkish company with considerable experience in the mining industry. When combined with the operational upgrades, it strengthens our argument that AMAK should see improved OPM in the future.

### Investment Summary

TREC aims to provide the highest levels of quality and reliability for customers all while operating efficiently and bringing their debt to normalized levels. Because TREC is a cyclical company that is affected by crude oil and NGL prices, as the economy expands, TREC's customers demand more product, however if the economy contracts, TREC's customers do not have as high of demand for TREC's products. TREC's strategy to improve its margins and operations appears to be two-fold. Each member of TREC's new management team has significant experience in the chemical industry, and it appears that they have a plan to move the company forward toward its goal of "operational excellence." This plan will be overseen by Dick Townsend, TREC's new Chief Manufacturing Officer, and it will focus on safety, sustainability, consistency. The second part of TREC's plan to improve its operations and margins is that the company has spent a large amount of money as investment towards its capital projects including the Aromax® Unit and the Advanced Reformer Unit. TREC plans on these projects expanding its capacity, improving its operating reliability, and strengthening its margins. If TREC liquidates AMAK at or above its book value, debt should dramatically decrease. Decreasing leverage should improve TREC's margins. TREC could potentially expand its business if it generates cash flow from improving its operations. Overall, by decreasing its leverage, TREC should be in a better economic position if a recession begins.