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FOLLOW UP

After Plunge, Real Industry Shares Look Tempting Again

The market is giving no value to $930 million in tax benefits from net operating losses. Acquisitions also could aid the stock.

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Last May, *Barron's* recommended shares of Real Industry , an aluminum recycler and acquisition-oriented company backed by investor Sam Zell.

Up 15% since our story ran, Real Industry (ticker: RELY), which changed its name from Signature Group Holdings in June, has given investors a wild ride. The shares spiked 75% to a June high of $13.50, before plummeting in recent months to its current $9. Investors' growing unease with leveraged roll-up plays is partly to blame. Real, which reported quarterly earnings on Nov. 9, has also been hurt by weak aluminum prices.

Investor Sam Zell *Photo: Jonathan Elmer/Bloomberg News*

The shares' drop looks like a good entry (or, for those who sold at higher prices, re-entry) point. The stock trades for an enterprise value of 7.3 times 2016 expected earnings before interest, taxes, depreciation, and amortization. That's cheap, considering that it doesn't include the value of Real's $930 million in federal net operating losses.

The NOLs are a legacy of subprime mortgage originator Freemont General, which went bankrupt in 2008. Zell gained control of the assets in 2013, and, ever since, his strategy has been to make acquisitions to realize the NOLs' value. Zell's Equity Group owns 7% of the shares.

Last October, CEO Craig Bouchard struck his first deal—for Real Alloy, the aluminum-recycling business of Aleris, for $525 million. He's on the hunt for another. In last week's earnings release, he said the economic environment had "opened a rare window to acquire valuable assets at reasonable multiples." Industrials hit by the commodity downturn could provide opportunities. Food, transportation, and energy companies are fair game, and a deal is likely to give the stock a pop. Also, auto aerospace demand are expected to remain strong for aluminum sheet.

In 2016, Real is expected to generate $81 million in Ebitda. B. Riley analyst Mike Crawford thinks Real can acquire $200 million in Ebitda by the end of next year. He values the stock at $16.

-- *David Englander*