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Argan Inc

Introduction

Argan, Inc. (NYSE: AGX) stands at the forefront of a transformative trend reshaping the global energy landscape. As the demand for AI-driven data centres accelerates, the need for reliable and scalable power sources has never been more critical. Argan, a leader in constructing gas and renewable energy power plants, is uniquely positioned to capitalise on this seismic shift. With revenues growing at a staggering 60% year-over-year and earnings on a similar trajectory, the company's valuation significantly lags behind its potential. This disconnect presents an exceptional opportunity for investors to capture outsized returns as the market begins to recognise Argan's role in powering the future of AI.

Company Background

Argan, Inc. is a versatile construction firm specialising in engineering, procurement, construction, commissioning, and maintenance of power generation assets. The company also provides consulting and development services for these assets. Historically, Argan has excelled in constructing complex gas power plants, a niche dominated by only a few contractors in the United States. Recently, the company has expanded its portfolio to include utility-scale renewable energy projects, such as solar power plants, reflecting the energy mix required to meet America's future needs.

Operating primarily within the United States, Argan derived approximately 86% of its revenue from this market in the most recent quarter. The remainder originates from the Republic of Ireland—two regions that are home to a significant portion of the world's data centres. These hubs are set to demand an increasing share of global energy resources in the future.

Electricity Demand Growth Set to Propel Earnings

The advent of AI has fundamentally altered the trajectory of energy demand in the United States. Base load power requirements are surging, with some utility companies reporting growth rates exceeding 5%.

Our tracking of data centre construction (see table below) suggests this trend will persist and accelerate through 2025. Independent industry analysts further estimate that overall electricity demand growth will reach 2.5% annually (historically, electricity demand growth has been around 0.2% p.a.) by 2027, underscoring the durability of this trend.

Data Center Power Usage in the United States

	Units	2020	2021	2022	2023	2024	2025	2026	2027	2028
AI Data Center Critical IT Power	MW	318	640	1,102	3,332	8,499	16,356	28,140	41,337	56,280
Non-AI Data Center Critical IT Power	MW	14,231	16,395	18,376	19,221	19,798	21,382	23,520	25,637	27,175
Critical IT Power	**MW**	**14,550**	**17,035**	**19,478**	**22,553**	**28,297**	**37,738**	**51,660**	**66,974**	**83,455**
Utilization Rate	%	65%	66%	66%	67%	70%	72%	73%	74%	75%
Critical IT Power Consumed	MW	9,505	11,169	12,826	15,159	19,668	26,983	37,800	49,733	62,688
Power Usage Effectiveness (PUE)	Ratio	1.59	1.56	1.53	1.47	1.40	1.34	1.30	1.26	1.22
Data Center Utility Power Consumed	MW	15,142	17,407	19,660	22,323	27,538	36,263	48,957	62,521	76,684
Data Center Actual Power Usage, per year	**TWh**	**133**	**152**	**172**	**196**	**241**	**318**	**429**	**548**	**672**
As % of United States Power Generation	%	*3.3%*	*3.7%*	*4.0%*	*4.5%*	*5.5%*	*7.1%*	*9.5%*	*12.0%*	*14.6%*

W = Watts. kW = Kilowatts. kWh = Kilowatt-hours.
MW = Megawatts. MWh = Megawatt-hours.

Source: SemiAnalysis

Capital Expenditure and Energy Sources

Big Tech's capital expenditure on data centres continues to grow at an extraordinary pace. These facilities require substantial and reliable power sources. While nuclear energy and small modular reactors (SMRs) have garnered attention, these technologies face significant development timelines – new nuclear plants take up to eight years to build, and SMR technology remains in its infancy. Consequently, renewable energy and natural gas will be indispensable in bridging the gap. Argan's expertise positions it as a critical enabler of this transition.

Simultaneously, the government's phased reduction of coal power plants creates additional opportunities for Argan. Whether through gas power plant conversions or new renewable energy installations, Argan is well-positioned to capture this demand.

Argan Financials

The prevailing megatrend has provided a substantial tailwind for Argan's financial performance. In the latest quarter, revenues grew by approximately 60% year-over-year, while net income increased by 43% over the same period.

Argan Inc	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25
Revenues	100,277	118,110	117,875	118,778	103,675	141,349	163,755	164,554	157,682	227,015
YoY%	*-20.6%*	*-11.2%*	*-5.3%*	*-5.4%*	*3.4%*	*19.7%*	*38.9%*	*38.5%*	*52.1%*	*60.6%*
Cost of Revenues	80,538	93,723	95,667	98,751	89,451	117,607	144,520	140,921	139,738	195,910
Gross Profit	19,739	24,387	22,208	20,027	14,224	23,742	19,235	23,633	17,944	31,105
GP %	19.7%	20.6%	18.8%	16.9%	13.7%	16.8%	11.7%	14.4%	11.4%	13.7%
SG&A	10,575	10,984	12,667	10,466	10,591	10,501	11,375	11,909	11,425	12,428
Operating Income	9,164	13,403	9,541	9,561	3,633	13,241	7,860	11,724	6,519	18,677
Other Income	595	505	768	2,463	-629	4,118	3,733	5,253	4,794	5,604
Pre-tax Income	9,759	13,908	10,309	12,024	3,004	17,359	11,593	16,977	11,313	24,281
Tax	2,273	9,686	2,551	-3,214	895	4,592	6,129	4,959	3,431	6,083
Net Income	7,486	4,222	7,758	15,238	2,109	12,767	5,464	12,018	7,882	18,198
YoY%	*-30.5%*	*-67.2%*	*-37.4%*	*101.1%*	*-71.8%*	*202.4%*	*-29.6%*	*-21.1%*	*273.7%*	*42.5%*

Source: Argan Company Financial Reports, Fawkes Capital Management

While margins have softened slightly due to the lower profitability of renewable energy projects compared to gas, our discussions with management indicate that they remain focused on balancing growth and margin stability. We believe that margins are stabilising as demand for gas power plants reemerges, suggesting that future revenue growth will translate more effectively to the bottom line.

Argan Valuation

Argan's valuation presents a compelling opportunity for investors. We estimate the company's earnings will reach approximately $85 million over the next 12 months, supported by robust revenue growth of 60% year-over-year and stabilising margins. At its current 21x forward P/E ratio, Argan trades at a significant discount to its growth trajectory and AI infrastructure peers, which typically command multiples exceeding 40x.

The below table presents our estimate of the Argan's current valuation:

Valuation Table	$m
Argan Market Cap	1,800
Estimate of 1-Year Earnings	85
Price-Earnings Ratio	21.2

AI Peers	P/E Ratio
Vertiv	52
NVIDIA	48
Arista Networks	46
AMD	42
Quanta Services	39

Source: Argan Valuation Table (Company Reports, Fawkes Capital Management)

This valuation gap highlights a market underappreciation of Argan's role in meeting the surging power demands of AI-driven data centres. By comparison, its peers are valued more highly despite similar or slower growth rates, underscoring the disconnect in market perception.

Our fair value estimate for Argan is around $250 per share, implying a forward P/E ratio of around 41x – aligned with its peers. This represents substantial upside potential as the market begins to recognise Argan's earnings growth and strategic positioning. Even a modest re-rating to a 30x P/E would yield a share price of approximately $180, demonstrating the stock's favourable risk-reward profile.

Argan Fair Value Estimate		
Price	250	180
Diluted Shares Outstanding	13,880,000	13,880,000
Market Cap ($b)	3.5	3.5
Earnings 12m Forward ($m)	85	85
P/E Ratio 12m Forward	40.8	29.4

Source: Fawkes Capital Management Calculations

With earnings growth accelerating, market tailwinds strengthening, and its valuation lagging the sector, Argan offers a rare opportunity to capitalise on the secular trends driving energy demand. As the company's growth story gains recognition, we anticipate a narrowing of the valuation gap, presenting significant long-term upside.

Risks and Mitigants

While Argan's prospects are promising, two key risks warrant attention:

1. **Margin Compression**: The company's emphasis on lower-margin renewable energy projects could impact profitability. However, our discussions with management have evidenced a strong commitment to balancing revenue growth with margin stability.
2. **Policy Changes**: Alterations to tax credits for renewable energy projects, such as those provided under the Inflation Reduction Act, could slow Argan's revenue growth. Despite this, we believe the overarching demand for energy-driven by AI data centres will mitigate these risks, as the gap would likely be filled by gas power projects in the medium term.

Summary

Argan stands as a pivotal player in the evolving energy landscape, uniquely positioned to meet the surging power demands fuelled by AI-driven data centres. Despite delivering exceptional revenue growth of 60% year-over-year and solidifying its role in the renewable and gas power sectors, the market has yet to fully recognise the company's potential. This undervaluation, combined with the resilience of its growth drivers, creates an attractive opportunity for investors seeking exposure to transformative industry trends.

Our fair value estimate of approximately $250 per share underscores the significant upside embedded in the stock, reflecting a re-rating to valuation levels more consistent with its AI infrastructure peers. As the market gains clarity on Argan's strategic role and earnings potential, we expect this valuation gap to close, offering substantial returns for long-term investors.

In a sector poised for enduring growth, Argan is not merely a participant but a leader. With its strong financial performance, favourable market positioning, and ability to capitalise on critical energy transitions, Argan represents a compelling investment in the infrastructure enabling the AI revolution. For those looking to invest in a company at the intersection of innovation and necessity, Argan represents a strong choice.

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