

Enterprise Group Inc.

(TSX: E)

BUY

Current Price: C\$0.43

Fair Value: C\$1.08

Risk*: 3

Q3 in Line/Shares Trading Below Hard Assets

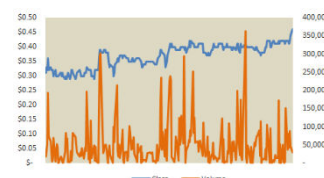
Sector/Industry: Energy/Oil & Gas

[Click here for more research on the company and to share your views](#)

Highlights

- **Q3 revenue and EPS were in line with our estimates.** Revenue was up 34% YoY, EBITDA was up 15% YoY, and EPS improved from -\$0.02 to -\$0.01. Q2 and Q3 are historically weaker quarters due to seasonality.
- The company generates revenue from renting equipment to oil and gas companies. Enterprise does not provide segmented results, but **revenue growth came from organic growth** as well as its recently launched natural gas-powered mobile power systems, replacing diesel generators.
- Enterprise's clientele includes majors such as Suncor (TSX: SU), Chevron (NYSE: CVX), ConocoPhillips (NYSE: COP), Tourmaline Oil (TSX:TOU), and Cenovus Energy (TSX:CVE).
- Oil prices have pulled back from their highs in June 2022, but are still up 10% YoY. Despite rising rates and slower GDP growth forecasts, **we have a positive outlook on oil prices** as we are expecting a prolonged period of conflict between the West and East.
- As Q3 was in line, we are maintaining our 2022 and 2023, **revenue and EPS estimates.**
- **Upcoming catalysts** include strong Q4 results, and increased adoption of the company's mobile power systems.
- Enterprise has \$40M in equipment and property assets. However, Enterprise' EV (enterprise value) is just \$36M, **implying that shares are trading below hard assets.**

Price and Volume (1-year)



52-Week Range	C\$0.28 – \$0.46
Shares O/S	52M
Market Cap.	C\$22M
Current Yield	N/A
P/E (forward)	15x
P/B	0.7x

Key Financial Data (\$)

YE Dec 31	2021	2022E	2023E
Cash	\$ 876,543	\$ 3,161,869	\$ 4,667,540
Working Capital	\$ 4,295,421	\$ 6,136,586	\$ 8,624,815
Total Assets	\$ 51,146,957	\$ 53,821,040	\$ 55,309,445
Total Debt	\$ 14,445,343	\$ 14,193,577	\$ 12,999,123
Revenue	\$ 18,732,335	\$ 26,249,255	\$ 28,183,748
Net Income	\$ (2,375,818)	\$ 1,437,366	\$ 2,777,078
EPS	\$ (0.05)	\$ 0.03	\$ 0.05

*See last page for important disclosures, rating, and risk definitions. All figures in C\$ unless otherwise specified.

Enterprise has higher gross margins, and lower debt to capital

However, Enterprise' EV/R and EV/EBITDA are 22% lower than the comparables averages

Q3 was in line with our expectations

Revenue was up 34% YoY, and EBITDA was up 191% YoY

Margins improved across the board

FCF improved as well

Healthy balance sheet

Enterprise vs Larger Players

	Enterprise Value (EV)	Share Price (% Change)		Operating and Valuation Metrics			
		6 Mo	1 Yr	EV/R (f)	EV/EBITDA (f)	Gross Margin	Debt to Capital
FTAI Aviation Ltd.	\$4,860	4%	-20%	5.23	7.76	45%	99%
Precision Drilling Corp.	\$2,768	11%	135%	1.73	7.01	27%	52%
Total Energy Services Inc.	\$513	2%	65%	0.66	3.74	24%	24%
Black Diamond Group Ltd	\$453	7%	-2%	1.42	5.41	39%	41%
Acrow Formwork and Construction Services	\$191	24%	31%	1.22	4.57	65%	44%
Vertex Resource Group Ltd	\$170	-13%	-38%	0.78	5.04	23%	66%
Wolverine Energy and Infrastructure Inc.	\$102	-54%	-74%	1.42	7.32	33%	76%
High Arctic Energy Services	\$59	-1%	-9%	0.70	10.10	19%	6%
Enterprise Group Inc. (2022E)	\$34	6%	37%	1.31	4.57	37%	42%
Average		-1%	14%	1.61	6.17	35%	50%

Source: FRC / S&P Capital IQ

Financials

STATEMENT OF OPERATIONS (\$)									
YE Dec 31	Q2-2021	Q2-2022	YoY	Q3-2021	Q3-2022	YoY	2021 (9M)	2022 (9M)	YoY
Revenue	3,225,543	5,297,685	64%	3,916,527	5,230,675	34%	13,001,357	18,157,778	40%
Gross Profit	132,312	1,610,188	1117%	827,045	1,590,082	92%	2,921,770	6,722,053	130%
SG&A Expense	527,146	594,210	13%	556,082	727,275	31%	1,580,258	1,813,442	15%
EBITDA	(394,834)	1,015,978	-357%	296,048	862,807	191%	1,366,597	4,908,611	259%
Net Income	(1,626,547)	(513,268)	-68%	(969,494)	(677,679)	-30%	(2,502,402)	487,067	-119%
EPS	(0.03)	(0.01)		(0.02)	(0.01)		(0.05)	0.01	

Margins	Q1-2021	Q1-2022	Q2-2021	Q2-2022	Q3-2021	Q3-2022	2021 (9M)	2022 (9M)	Sector
Gross	33%	46%	4%	30%	21%	30%	22%	37%	10%
EBITDA	25%	40%	-12%	19%	8%	16%	11%	27%	5%
EBIT	-1%	25%	-62%	-3%	-29%	-6%	-25%	7%	4%
Net	2%	22%	-50%	-10%	-25%	-13%	-19%	3%	3%

Expenses as % of	Q1-2021	Q1-2022	Q2-2021	Q2-2022	Q3-2021	Q3-2022	2021 (9M)	2022 (9M)
SG&A	8%	6%	16%	11%	14%	14%	12%	10%

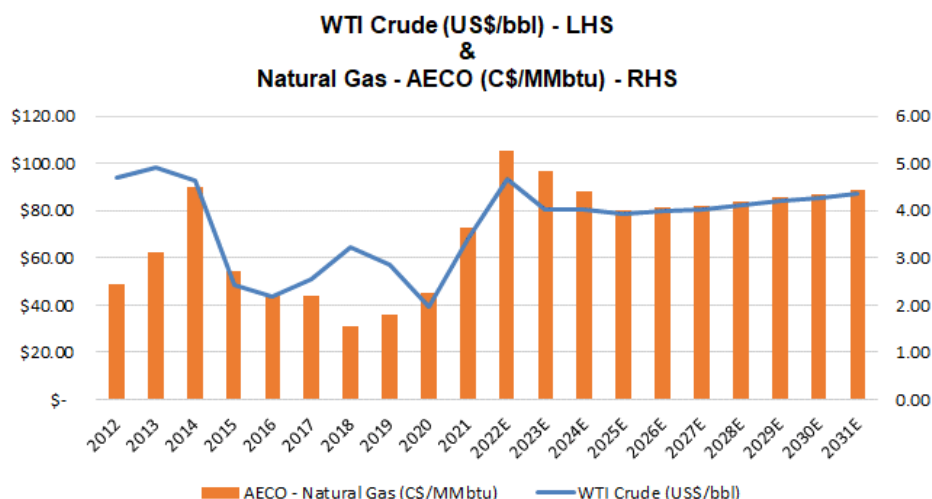
Summary of Cash Flows (\$)		
	2021 (9M)	2022 (9M)
Cash Flows from Operations	3,467,365	5,160,161
Cash Flows from Investing	(1,812,811)	(2,998,569)
Cash Flows from Financing	(1,071,909)	(1,383,654)
Net Change	582,645	777,938
Free Cash Flows	556,003	1,057,531

Liquidity and Capital Structure (\$)					
YE December 31	2021	Q1-2022	Q2-2022	Q3-2022	Sector
Cash	876,543	1,191,949	1,134,392	1,654,481	
Working Capital	4,295,421	5,472,696	3,840,606	5,101,379	
Current Ratio	2.50	2.46	2.42	3.33	1.30
LT Debt	13,220,200	12,865,625	11,317,688	12,917,224	
Total Debt	14,445,343	14,141,978	12,452,597	13,881,902	
Total Debt / Capital	0.45	41.9%	37.5%	41.6%	47.7%
LT Debt / Capital	0.41	38.1%	34.0%	38.7%	23.9%

Source: FRC / Company

Oil & Gas Price Outlook

Although we expect oil and gas prices to be under pressure in the near-term, amid rising rates and slower GDP growth forecasts, consensus price forecasts (near-term and long-term) are well above historic averages, implying a positive outlook for the oilfield services sector



Source: FRC/Sproule/GLJ

FRC Projections and Valuations

Maintaining our forecasts

	2022E (Unchanged)	2023E (Unchanged)
Revenue	\$26,249,255	\$28,183,748
EBITDA	\$7,514,912	\$9,018,800
Net Income	\$1,437,366	\$2,777,078
EPS	\$0.03	\$0.05

Our DCF valuation declined from \$2.01 to \$1.96 per share due to share dilution since our previous reports

DCF Model	2022E	2023E	2029E	2030E	Terminal
EBIT(1-tax)	2,397,797	8,297,296	12,758,323	13,198,826	
Non-Cash Expenses	1,126,503	4,912,312	6,582,967	6,912,116	
Change in Working Capital	160,506	(956,952)	(539,227)	(561,781)	
Cash from Operations	3,684,805	12,252,655	18,802,063	19,549,160	
CAPEX	(406,478)	(4,032,312)	(5,403,684)	(5,673,868)	
Free Cash Flow	3,278,328	8,220,343	13,398,379	13,875,292	
Present Value	3,202,004	7,136,856	5,737,915	5,281,916	57,267,086
Discount Rate	12.5%				
Terminal Growth	3%				
Present Value	113,860,173				
Cash - Debt	(12,227,421)				
Fair Value	101,632,752				
Shares O/S	51,980,874				
Value per Share (C\$)	\$1.96				

Source: FRC

Sector multiples are up 13% since our previous report in August 2022

E is trading at a 9% discount (previously 10%)

Comparable Companies	EV/ Rev	EV/ EBITDA	
Acrow Formwork and Construction Services Ltd	1.23	4.60	
Black Diamond Group Ltd	1.34	5.16	
Dexterra Group Inc.	0.47	5.35	
Ensign Energy Services Inc.	1.10	4.24	
Enterprise Group	1.31	4.57	
FTAI Infrastructure Inc.	4.26	9.88	
High Arctic Energy Services	0.60	8.20	
Precision Drilling Corp.	1.40	4.54	
Total Energy Services Inc.	0.59	3.12	
Vertex Resource Group Ltd	0.69	4.34	
Wolverine Energy and Infrastructure Inc.	1.36	7.19	
Oil & Gas Equipment & Services Sector Average	1.30x	8.30x	
Average Market Multiples	1.30x	5.56x	
Median Market Multiples	1.23x	4.60x	Average
Enterprise Group's Premium/(Discount)	0%	-18%	-9%

Source: S&P Capital IQ and FRC

Our weighted average valuation remained unchanged at \$1.08, as our lower DCF valuation was offset by our higher comparables valuation

Valuation Method	Fair Value per share (\$)	Weight
DCF Valuation	\$1.96	40.0%
Fair value per share (\$) - Average EV/R Multiple (2022E)	\$0.42	30.0%
Fair value per share (\$) - Ave EV/EBITDA Multiple (2022E)	\$0.57	30.0%
Fair Value Estimate (\$)		\$1.08

Source: FRC

We are maintaining our BUY rating, and fair value estimate of \$1.08 per share. Upcoming catalysts include strong Q4 results, and increased adoption of the company's mobile power systems.

Risks

We believe the company is exposed to the following key risks (not exhaustive):

- The oil/gas field services market is highly dependent on oil and gas prices
- **Operates in a competitive space**
- As the company uses leverage, a downturn in business activities can negatively impact its balance sheet

Maintaining our risk rating of 3

Appendix

STATEMENTS OF OPERATIONS (C\$)			
YE December 31	2021	2022E	2023E
Revenue	18,732,335	26,249,255	28,183,748
Total revenues	18,732,335	26,249,255	28,183,748
Direct expenses	12,100,517	16,274,538	16,910,249
Gross margin	6,631,818	9,974,717	11,273,499
SG&A	1,763,932	2,459,805	2,254,700
Share-based expenses	25,085	-	-
Professional fees	-	-	-
EBITDA	4,842,801	7,514,912	9,018,800
Depreciation	5,795,696	4,678,392	4,912,312
Amortization	60,519	-	-
D&A	5,856,215	4,678,392	4,912,312
EBIT	(1,013,414)	2,836,520	4,106,488
Net financing expense	1,201,988	1,460,144	1,087,925
EBT	(2,215,402)	1,376,376	3,018,563
Income tax expense	(42,591)	110,110	241,485
Unusual/Non-recurring expense	203,007	(171,100)	-
Net Income (Net Loss)	(2,375,818)	1,437,366	2,777,078
EPS	(0.05)	0.03	0.05

BALANCE SHEET (C\$)			
YE December 31	2021	2022E	2023E
Assets			
Cash	876,543	3,161,869	4,667,540
Receivables	5,133,070	5,501,710	6,177,260
Unbilled revenue	581,792	610,882	641,426
Inventories	296,229	318,600	330,400
Prepays and other current assets	265,694	278,979	292,928
Current Assets	7,153,328	9,872,039	12,109,554
PP&E	40,947,466	40,778,182	39,898,182
Intangible assets	553,031	553,031	553,031
Deferred taxes	2,493,132	2,617,789	2,748,678
Total Assets	51,146,957	53,821,040	55,309,445
Liabilities & Shareholders' Equity			
Payables and accrued liabilities	1,632,764	2,459,099	2,233,991
Borrowings	1,225,143	1,276,353	1,250,748
Current Liabilities	2,857,907	3,735,452	3,484,739
Borrowings	11,161,438	11,279,248	10,028,500
Lease Liabilities	353,776	189,500	189,500
Mortgages	2,058,762	1,637,976	1,719,875
Deferred taxes	2,493,132	2,617,789	2,748,678
Total Liabilities	18,925,015	19,459,965	18,171,292
Equity	68,172,183	68,337,381	68,337,381
Contributed Surplus	17,178,348	17,714,917	17,714,917
Deficit	(53,128,589)	(51,691,223)	(48,914,145)
Total Liabilities and SE	51,146,957	53,821,040	55,309,445

STATEMENTS OF CASH FLOWS (C\$)	2021	2022E	2023E
YE December 31			
Operating Activities			
Net loss for the period	(2,375,818)	1,437,366	2,777,078
Items not involving cash			
D&A	5,856,215	4,678,392	4,912,312
Other non-cash adjustments	1,351,384		
Share-based compensation	25,085		
FFO	4,856,866	6,115,758	7,689,390
Prepaid expense		(13,285)	(13,949)
Inventory	(84,373)	(22,371)	(11,800)
Receivables	(1,188,478)	(368,640)	(675,550)
Accounts payable and accrued liabilities	373,931	826,335	(225,108)
Others	(457,077)	(29,090)	(30,544)
Changes in WC	(1,355,997)	392,951	(956,952)
Cash from (used in) Operations	3,500,869	6,508,708	6,732,438
Financing activities			
Equity	(434,053)	701,767	
Debt	337,537	169,020	(1,276,353)
Due to related parties			
Lease	(840,892)	(164,276)	-
Other			
Cash provided by Financing Activities	(937,408)	706,511	(1,276,353)
Investing activities			
PP&E	(3,845,497)	(4,509,108)	(4,032,312)
Others	1,374,962	(420,786)	81,899
Cash used in Investing Activities	(2,470,535)	(4,929,894)	(3,950,413)

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

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2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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