

Enterprise Group Inc.

(TSX: E / OTCQB: ETOLF)

EBITDA & EPS Blow Past Expectations

BUY

Current Price: C\$0.39

Fair Value: C\$1.02

Risk*: 3

Sector/Industry: Energy/Oil & Gas

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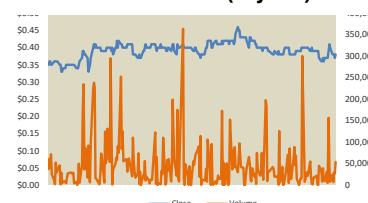
Highlights

- 2022 revenue was up 44% YoY, EBITDA was up 171% YoY, and EPS improved from -\$0.05 to \$0.05. **EPS beat our forecast by 58%, as revenue was 2% higher, and gross margins were 2 pp higher (40% vs 38%) than we had expected.**
- Q4 revenue was up 52% YoY, as the company was able to secure larger contracts from tier-one clients. We are **expecting a strong Q1-2023**. Note that Q1 and Q4 are historically stronger quarters due to seasonality. E has secured multiple new contracts in the past few months.
- The company generates revenue from renting equipment to oil and gas companies, and has **high-profile clients**, such as Suncor (TSX: SU), Chevron (NYSE: CVX), ConocoPhillips (NYSE: COP), Tourmaline Oil (TSX:TOU), and Cenovus Energy (TSX:CVE).
- As we expected, oil prices have pulled back in the past few months, and are down 31% YoY. Despite slower GDP growth, we expect oil prices to remain well above the historic average, as we are expecting a prolonged period of conflict between the West and East. **Consensus forecasts indicate potential for 18% upside in oil prices this year.**
- Per Energy Intelligence, oil and gas companies are likely to increase CAPEX by 12% this year. **Several oil and gas majors have announced larger CAPEX budgets.** For example, Chevron announced a 25% YoY increase in spending this year.
- Enterprise owns \$42M in equipment and property assets. However, Enterprise' EV (enterprise value) is just \$34M, **implying that shares are trading below hard assets.**
- **Upcoming catalysts** include strong Q1 results, and improved sector sentiment, driven by increased CAPEX budgets of oil and gas companies.

Sid Rajeev, B.Tech, MBA, CFA
Head of Research

Alexis Cabel, B.A.Econ
Equity Analyst

Price and Volume (1-year)



	YTD	12M
E	3%	11%
TSX	0%	-11%

Company Data

52-Week Range	C\$0.31 – \$0.46
Shares O/S	51M
Market Cap.	C\$20M
Current Yield	N/A
P/E (forward)	8.5x
P/B	0.6x

Key Financial Data (\$)

YE Dec 31	2022	2023E	2024E
Cash	\$1,061,698	\$3,198,489	\$5,854,755
Working Capital	\$7,368,583	\$9,895,417	\$13,176,507
Total Assets	\$55,371,667	\$57,458,313	\$60,357,736
Total Debt	\$14,977,077	\$14,371,879	\$13,766,681
Revenue	\$26,892,249	\$28,826,470	\$31,494,697
Net Income	\$2,275,495	\$2,320,862	\$3,034,560
EPS	\$0.05	\$0.05	\$0.06

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

Enterprise vs Larger Players

Enterprise has higher gross margins, and lower debt to capital

However, Enterprise' EV/R and EV/EBITDA are 22% lower on average

	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.	\$4,556	56%	12%	4.67	8.54	46%	99%
Precision Drilling Corp.	\$1,988	-2%	-30%	0.98	3.02	31%	48%
Black Diamond Group Ltd	\$620	47%	19%	1.77	6.59	43%	48%
Total Energy Services Inc.	\$431	20%	9%	0.50	2.58	22%	21%
Acrow Formwork and Construction Services	\$273	53%	47%	1.61	5.63	68%	42%
Vertex Resource Group Ltd	\$172	9%	-34%	0.78	5.02	23%	66%
Wolverine Energy and Infrastructure Inc.	\$107	36%	-53%	1.76	7.11	31%	76%
High Arctic Energy Services	\$55	3%	-17%	0.60	9.50	19%	6%
Enterprise Group Inc.	\$34	-3%	11%	1.17	3.95	40%	43%
Average		24%	-4%	1.54	5.77	36%	50%

Source: FRC / S&P Capital IQ

Financials

STATEMENT OF OPERATIONS (\$)									
YE Dec 31	Q3-2021	Q3-2022	YoY	Q4-2021	Q4-2022	YoY	2021	2022	YoY
Revenue	3,916,527	5,230,675	34%	5,730,978	8,734,471	52%	18,732,335	26,892,249	44%
Gross Profit	827,045	1,590,082	92%	2,165,334	4,157,875	92%	5,087,104	10,879,928	114%
SG&A Expense	556,082	727,275	31%	541,287	1,021,403	89%	2,121,545	2,834,845	34%
EBITDA	296,048	862,807	191%	1,624,047	3,238,612	99%	2,965,559	8,045,083	171%
Net Income	(969,494)	(677,679)	-30%	126,584	1,788,428	1313%	(2,375,818)	2,275,495	
EPS	(0.02)	(0.01)		0.00	0.03		(0.05)	0.05	

2022 revenue was up 44%, beating our estimate by 2%

Gross margins improved YoY, from 27% to 40%, beating our estimate by 2 pp

G&A expenses were 17% higher than our estimate

EPS improved from -\$0.05 to \$0.05, beating our estimate by \$0.02

Margins	Q3-2021	Q3-2022	Q4-2021	Q4-2022	2021	2022	Sector
Gross	21%	30%	38%	48%	27%	40%	12%
EBITDA	8%	16%	28%	37%	16%	30%	5%
EBIT	-29%	-6%	6%	25%	-15%	13%	4%
Net	-25%	-13%	2%	20%	-13%	8%	4%

Expenses as of	Q3-2021	Q3-2022	Q4-2021	Q4-2022	2021	2022	Sector
SG&A	14%	14%	9%	11%	11%	10%	8%

Summary of Cash Flows (\$)

	2021	2022
Cash Flows from Operations	3,500,869	5,910,830
Cash Flows from Investing	(2,470,535)	(4,352,287)
Cash Flows from Financing	(937,408)	(1,373,388)
Net Change	92,926	185,155
Free Cash Flows	1,030,334	1,558,543

Liquidity and Capital Structure (\$)

YE December 31	2021	2022	Sector
Cash	876,543	1,061,698	
Working Capital	4,295,421	7,368,583	
Current Ratio	2.50	3.81	1.20
LT Debt	13,220,200	14,371,879	
Total Debt	14,445,343	14,977,077	
Total Debt / Capital	0.45	0.43	57%
LT Debt / Capital	0.41	0.41	33%

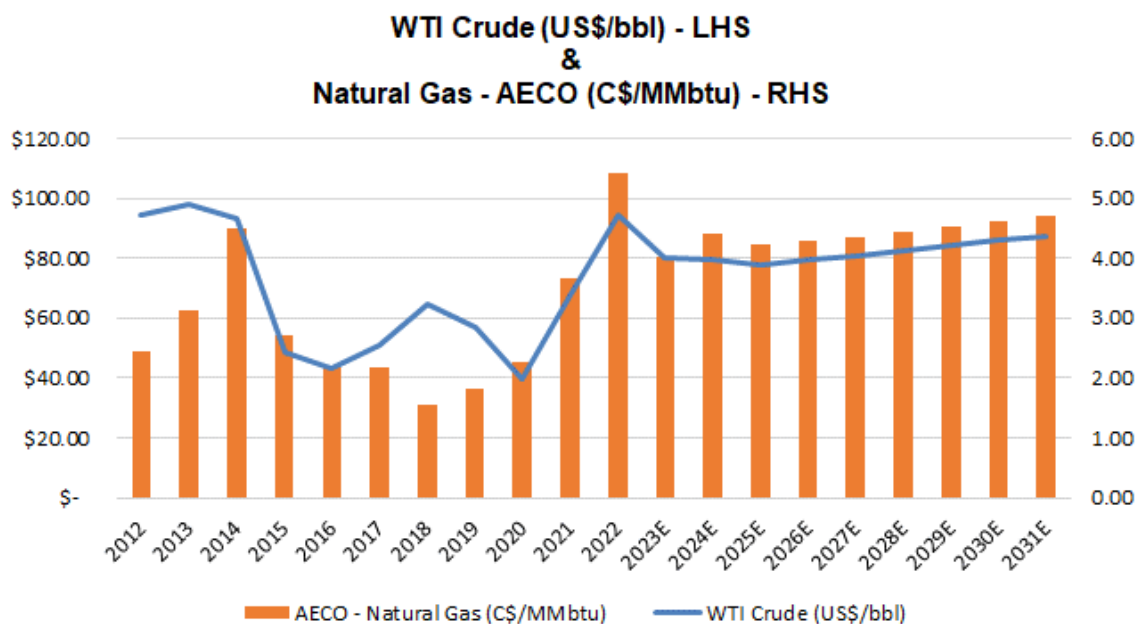
Maintains a healthy balance sheet

	# Options	Strike Price	Value
Total Outstanding	5,100,000	\$0.45	\$2,295,000
In the Money	-	-	-

Source: FRC / Company

Oil & Gas Price Outlook

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 Valuation

Due to higher CAPEX budgets of oil and gas companies, we are raising our 2023 revenue forecast

However, we are lowering our EPS estimate, due to higher G&A expenses

As a result, our DCF valuation declined from \$1.96 to \$1.83 per share

	2023E (Old)	2023E (New)	2024E (Introducing)
Revenue	\$28,183,748	\$28,826,470	\$31,494,697
EBITDA	\$9,018,800	\$8,540,694	\$9,493,273
Net Income	\$2,777,078	\$2,320,862	\$3,034,560
EPS	\$0.05	\$0.05	\$0.06

DCF Model	2023E	2024E	2029E	2030E	Terminal
EBIT(1-tax)	7,857,439	8,733,811	12,899,219	13,345,352	
Non-Cash Expenses	4,746,810	4,984,150	6,361,179	6,679,238	
Change in Working Capital	(390,043)	(624,824)	(758,223)	(1,472,012)	
Cash from Operations	12,214,205	13,093,137	18,502,175	18,552,578	
CAPEX	(4,042,887)	(4,245,031)	(5,417,855)	(5,688,747)	
Free Cash Flow	8,171,319	8,848,106	13,084,320	12,863,831	
Present Value	7,263,395	6,991,096	5,736,982	5,013,605	54,358,036
Discount Rate	12.5%				
Terminal Growth	3.0%				
Present Value	107,004,265				
Cash - Debt	(13,915,379)				
Fair Value	93,088,886				
Shares O/S	50,813,874				
Value per Share (C\$)	\$1.83				

Source: FRC

Sector multiples are down 10% since our previous report in November 2022

E is trading at an 8% discount (previously 9%)

Our weighted average valuation declined from \$1.08 to \$1.02 per share

We are maintaining our risk rating of 3 (Average)

Comparable Companies	EV/ Rev	EV/ EBITDA	
Acrow Formwork and Construction Services	1.56	5.47	
Black Diamond Group Ltd	1.73	6.44	
Dexterra Group Inc.	0.42	5.06	
Ensign Energy Services Inc.	0.99	3.54	
Enterprise Group	1.17	3.95	
FTAI Infrastructure Inc.	n/a	8.94	
High Arctic Energy Services	0.60	9.60	
Precision Drilling Corp.	1.01	3.12	
Total Energy Services Inc.	0.51	2.63	
Vertex Resource Group Ltd	0.71	4.41	
Wolverine Energy and Infrastructure Inc.	1.76	7.14	
Oil & Gas Equipment & Services Sector Average	1.50x	8.50x	
Average Market Multiples	1.05x	5.48x	
Median Market Multiples	1.00x	5.06x	Average
Enterprise Group's Premium/(Discount)	12%	-28%	-8%

Source: FRC / S&P Capital IQ

Valuation Method	Fair Value per share (\$)	Weight
DCF Valuation	\$1.83	40.0%
Fair value per share (\$) - Average EV/R Multiple (2023E)	\$0.32	30.0%
Fair value per share (\$) - Average EV/EBITDA Multiple (2023E)	\$0.65	30.0%
Fair Value Estimate (\$)		\$1.02

Source: FRC

We are maintaining our BUY rating, and adjusting our fair value estimate from \$1.08 to \$1.02 per share. Upcoming catalysts include strong Q1 results, and improved sector sentiment, driven by higher CAPEX budgets of oil and gas companies.

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

Appendix

STATEMENTS OF OPERATIONS (C\$) YE December 31	2021	2022	2023E	2024E
Revenue	18,732,335	26,892,249	28,826,470	31,494,697
Total revenues	18,732,335	26,892,249	28,826,470	31,494,697
Direct expenses	13,645,231	16,012,321	17,295,882	18,896,818
Gross margin	5,087,104	10,879,928	11,530,588	12,597,879
SG&A	2,096,460	2,732,705	2,882,647	2,991,996
Share-based expenses	25,085	102,140	107,247	112,609
Professional fees	-	-	-	-
EBITDA	2,965,559	8,045,083	8,540,694	9,493,273
Depreciation	5,795,696	4,466,080	4,689,384	4,923,853
Amortization	60,519	54,691	57,426	60,297
D&A	5,856,215	4,520,771	4,746,810	4,984,150
EBIT	(2,890,656)	3,524,312	3,793,884	4,509,123
Net financing expense	1,201,988	1,478,268	1,271,208	1,210,689
EBT	(4,092,644)	2,046,044	2,522,676	3,298,435
Income tax expense	(42,591)	(1,200)	201,814	263,875
Unusual/Non-recurring expense	(1,674,235)	(228,251)	-	-
Net Income (Net Loss)	(2,375,818)	2,275,495	2,320,862	3,034,560
EPS	(0.05)	0.05	0.05	0.06

BALANCE SHEET (C\$) YE December 31	2021	2022	2023E	2024E
Assets				
Cash	876,543	1,061,698	3,198,489	5,854,755
Receivables	5,133,070	7,456,605	7,897,663	8,628,684
Unbilled revenue	581,792	592,954	622,602	653,732
Inventories	296,229	327,160	329,650	360,162
Prepays and other current assets	265,694	549,873	577,367	606,235
Current Assets	7,153,328	9,988,290	12,625,770	16,103,569
PP&E	40,947,466	41,823,259	41,119,336	40,380,217
Intangible assets	553,031	498,340	498,340	498,340
Deferred taxes	2,493,132	3,061,778	3,214,867	3,375,610
Total Assets	51,146,957	55,371,667	57,458,313	60,357,736
Liabilities & Shareholders' Equity				
Payables and accrued liabilities	1,632,764	2,014,509	2,125,155	2,321,863
Borrowings	1,225,143	605,198	605,198	605,198
Current Liabilities	2,857,907	2,619,707	2,730,353	2,927,061
Borrowings	11,161,438	12,712,083	12,106,885	11,501,687
Lease Liabilities	353,776	532,270	532,270	532,270
Mortgages	2,058,762	1,659,796	1,659,796	1,659,796
Deferred taxes	2,493,132	3,061,778	3,214,867	3,375,610
Total Liabilities	18,925,015	20,585,634	20,244,171	19,996,425
Equity	68,172,183	67,002,456	67,002,456	67,002,456
Contributed Surplus	17,178,348	18,636,671	18,743,918	18,856,527
Deficit	(53,128,589)	(50,853,094)	(48,532,232)	(45,497,672)
Total Liabilities and SE	51,146,957	55,371,667	57,458,313	60,357,736

STATEMENTS OF CASH FLOWS (C\$)	2021	2022	2023E	2024E
YE December 31				
Operating Activities				
Net loss for the period	(2,375,818)	2,275,495	2,320,862	3,034,560
Items not involving cash				
D&A	5,856,215	4,520,771	4,746,810	4,984,150
Other non-cash adjustments	1,351,384	1,280,486		
Share-based compensation	25,085	102,140	107,247	112,609
FFO	4,856,866	8,178,892	7,174,919	8,131,319
Prepaid expense	(352,189)	(284,179)	(27,494)	(28,868)
Inventory	(84,373)	(30,931)	(2,490)	(30,513)
Receivables	(1,188,478)	(2,323,535)	(441,058)	(731,021)
Accounts payable and accrued liabilities	373,931	381,745	110,646	196,708
Others	(104,888)	(11,162)	(29,648)	(31,130)
Changes in WC	(1,355,997)	(2,268,062)	(390,043)	(624,824)
Cash from (used in) Operations	3,500,869	5,910,830	6,784,876	7,506,495
Financing activities				
Equity	(434,053)	186,456		
Debt	337,537	(666,987)	(605,198)	(605,198)
Due to related parties				
Lease	(840,892)	(892,857)	-	-
Other				
Cash provided by Financing Activities	(937,408)	(1,373,388)	(605,198)	(605,198)
Investing activities				
PP&E	(3,845,497)	(5,569,011)	(4,042,887)	(4,245,031)
Others	1,374,962	1,216,724	-	-
Cash used in Investing Activities	(2,470,535)	(4,352,287)	(4,042,887)	(4,245,031)

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:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

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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