

# Enterprise Group Inc.

(TSX: E / OTCQB: ETOLF)

**BUY**

**Current Price: C\$0.46**

**Fair Value: C\$1.12**

**Risk\*: 3**

## Blows Past Our Q1 Estimates

**Sector/Industry: Energy/Oil & Gas**

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

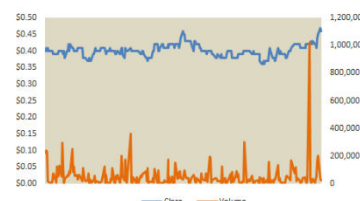
### Highlights

- Q1 revenue was up 31% YoY, and EPS was up 67% YoY, **beating our estimates by 11% and 56%, respectively.**
- Q1 and Q4 are historically stronger quarters due to seasonality. Revenue growth came from several new contracts from tier-one clients. The company generates revenue from renting equipment to oil and gas companies, **including majors** such as Suncor (TSX: SU), Chevron (NYSE: CVX), ConocoPhillips (NYSE: COP), Tourmaline Oil (TSX:TOU), and Cenovus Energy (TSX:CVE).
- **Gross margins were up 5 pp YoY, from 46% to 51%, beating our estimate by 3 pp.**
- Oil prices are down 9% YTD, amid slower global GDP growth. **Consensus forecasts indicate potential for 5% upside in prices this year.**
- According to Energy Intelligence, global oil and gas CAPEX spending is estimated to increase 12% this year. **Several oil and gas majors have announced higher CAPEX budgets.** For example, Chevron announced a 25% YoY increase in spending this year.
- Enterprise owns \$44M in equipment and property assets. However, Enterprise' EV (enterprise value) is just \$35M, **implying that shares are trading below hard assets.**
- **Upcoming catalysts** include strong Q2 results, and increased CAPEX budgets of oil and gas companies.

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### Price and Volume (1-year)



	YTD	12M
E	18%	15%
TSX	4%	0%

### Company Data

52-Week Range	C\$0.34 – \$0.46
Shares O/S	50M
Market Cap.	C\$23M
Current Yield	N/A
P/E (forward)	5.7x
P/B	0.6x

### Key Financial Data (\$)

YE Dec 31	2022	2023E	2024E
Cash	\$1,061,698	\$1,611,715	\$1,618,462
Working Capital	\$7,368,583	\$9,006,595	\$9,595,819
Total Assets	\$55,371,667	\$56,686,398	\$57,005,371
Total Debt	\$14,977,077	\$11,871,879	\$7,266,681
Revenue	\$26,892,249	\$31,734,515	\$34,591,764
Net Income	\$2,275,495	\$4,063,221	\$4,480,434
EPS	\$0.05	\$0.08	\$0.09

\*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 27% lower on average

	Enterprise Value (EV)	(% Change)	Operating and Valuation Metrics			
			1 Yr	EV/R (f)	EV/EBITDA (f)	Gross Margin
FTAI Aviation Ltd.	\$6,483	48%	4.09	8.86	47%	97%
Precision Drilling Corp.	\$2,035	-24%	1.00	3.07	34%	48%
Black Diamond Group Ltd	\$663	64%	1.85	6.94	43%	46%
Total Energy Services Inc.	\$419	0%	0.49	2.67	24%	20%
Acrow Formwork and Construction Services	\$240	65%	1.57	5.27	68%	42%
Vertex Resource Group Ltd	\$176	-12%	0.66	4.20	24%	68%
Wolverine Energy and Infrastructure Inc.	\$106	-36%	1.75	7.07	31%	88%
High Arctic Energy Services	\$12	-29%	0.20	n/a	17%	5%
Enterprise Group Inc.	\$35	15%	1.12	3.48	40%	37%
<b>Average</b>		<b>10%</b>	<b>1.41</b>	<b>5.20</b>	<b>37%</b>	<b>50%</b>

Source: FRC / S&P Capital IQ

## Financials

Q1 revenue was up 31%, beating our estimate by 11%

Margins improved across the board

EPS was up 67% YoY, beating our estimate by 56%

Maintains a healthy balance sheet

### STATEMENT OF OPERATIONS (\$)

YE Dec 31	Q1-2021	Q1-2022	Q1-2023	YoY
<b>Revenue</b>	<b>5,859,287</b>	<b>7,629,418</b>	<b>10,008,332</b>	<b>31%</b>
Gross Profit	1,962,413	3,521,822	5,099,298	45%
SG&A Expense	497,030	491,961	835,768	70%
<b>EBITDA</b>	<b>1,465,383</b>	<b>3,029,861</b>	<b>4,263,530</b>	<b>41%</b>
Net Income	93,639	1,678,048	2,801,335	67%
EPS	0.00	0.03	0.06	

Margins	Q1-2021	Q1-2022	Q1-2023	Oil & Gas Eqpt Sector
Gross	33%	46%	51%	9%
EBITDA	25%	40%	43%	9%
EBIT	-1%	25%	31%	4%
Net	2%	22%	28%	4%

Expenses as of	Q1-2021	Q1-2022	Q1-2023	Oil & Gas Eqpt Sector
SG&A	8%	6%	7%	5%

### Summary of Cash Flows (\$)

	Q1-2022	Q1-2023
Cash Flows from Operations	2,679,056	4,965,708
Cash Flows from Investing	(1,271,062)	(2,433,440)
Cash Flows from Financing	(1,092,588)	(2,047,975)
<b>Net Change</b>	<b>315,406</b>	<b>484,293</b>

### Free Cash Flows

	2021	2022	Q1-2023
<b>Free Cash Flows</b>	<b>997,690</b>	<b>2,349,163</b>	

### Liquidity and Capital Structure (\$)

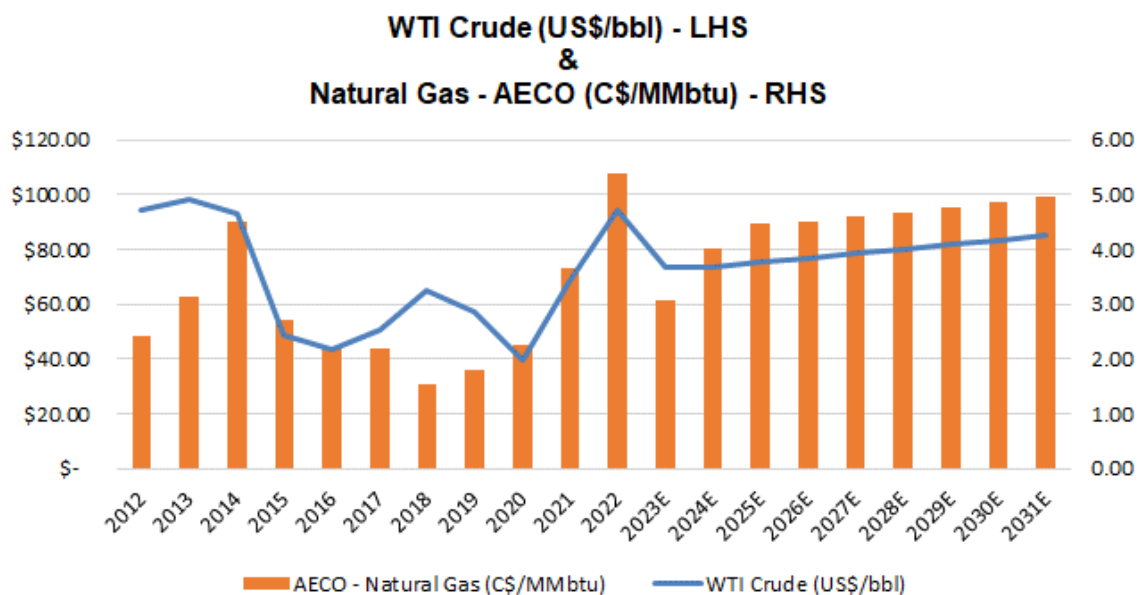
YE December 31	2021	2022	Q1-2023
Cash	876,543	1,061,698	1,545,991
Working Capital	4,295,421	7,368,583	7,319,594
Current Ratio	2.50	3.81	2.94
LT Debt	13,220,200	14,371,879	13,299,452
Total Debt	14,445,343	14,977,077	13,867,970
Total Debt / Capital	0.45	0.43	37.0%
LT Debt / Capital	0.41	0.41	35.5%

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

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

As Q1 beat our expectations, we are raising our 2023 and 2024 revenue and EPS forecasts

	2023E (Old)	2023E (New)	2024E (Old)	2024E (New)
Revenue	\$28,826,470	\$31,734,515	\$31,494,697	\$34,591,764
EBITDA	\$8,540,694	\$10,184,562	\$9,493,273	\$10,414,875
Net Income	\$2,320,862	\$4,063,221	\$3,034,560	\$4,480,434
EPS	\$0.05	\$0.08	\$0.06	\$0.09

As a result, our DCF valuation increased from \$1.83 to \$1.95 per share

DCF Model	2023E	2024E	2029E	2030E	Terminal
EBIT(1-tax)	4,855,246	8,540,198	13,568,102	14,542,932	
Non-Cash Expenses	3,616,580	4,984,150	6,361,179	6,679,238	
Change in Working Capital	(1,657,957)	(582,478)	(908,362)	(1,766,094)	
Cash from Operations	6,813,869	12,941,870	19,020,919	19,456,076	
CAPEX	(1,426,342)	(4,245,031)	(5,417,855)	(5,688,747)	
Free Cash Flow	5,387,528	8,696,839	13,603,064	13,767,329	
Present Value	4,932,024	7,076,924	6,142,670	5,526,086	59,914,406
Discount Rate	12.5%				
Terminal Growth	3.0%				
Present Value	110,326,182				
Cash - Debt	(12,321,979)				
Fair Value	98,004,203				
Shares O/S	50,318,693				
<b>Value per Share (C\$)</b>	<b>\$1.95</b>				

Source: FRC

Sector multiples are down 6% on average since our previous report in March 2023

E is trading at an 11% discount (previously 8%)

Our weighted average valuation increased from \$1.02 to \$1.12 per share

We are maintaining our risk rating of 3 (Average)

Comparable Companies	EV/ Rev (forward)	EV/ EBITDA (forward)	
Acrow Formwork and Construction Services	1.57	5.27	
Black Diamond Group Ltd	1.85	6.94	
Dexterra Group Inc.	0.45	5.28	
Ensign Energy Services Inc.	0.91	3.45	
<b>Enterprise Group</b>	<b>1.12</b>	<b>3.48</b>	
FTAI Infrastructure Inc.	4.09	8.86	
High Arctic Energy Services	0.20	n/a	
Precision Drilling Corp.	1.00	3.07	
Total Energy Services Inc.	0.49	2.67	
Vertex Resource Group Ltd	0.66	4.20	
Wolverine Energy and Infrastructure Inc.	1.75	7.07	
<b>Oil &amp; Gas Equipment &amp; Services Sector Average</b>	<b>1.10x</b>	<b>6.60x</b>	
<b>Average Market Multiples</b>	<b>1.09x</b>	<b>4.60x</b>	<b>Average</b>
<b>Enterprise Group's Premium/(Discount)</b>	<b>3%</b>	<b>-24%</b>	<b>-11%</b>

Source: FRC / S&P Capital IQ

Valuation Method	Fair Value per share (\$)	Weight
DCF Valuation	\$1.95	40.0%
Fair value per share (\$) - Average EV/R Multiple (2023E)	\$0.44	30.0%
Fair value per share (\$) - Average EV/EBITDA Multiple (2023E)	\$0.69	30.0%
<b>Fair Value Estimate (\$)</b>		<b>\$1.12</b>

Source: FRC

**We are maintaining our BUY rating, and raising our fair value estimate from \$1.02 to \$1.12 per share.** Upcoming catalysts include strong Q2 results, and 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

<b>STATEMENTS OF OPERATIONS (C\$)</b>				
<b>YE December 31</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>
Revenue	18,732,335	26,892,249	31,734,515	34,591,764
<b>Total revenues</b>	<b>18,732,335</b>	<b>26,892,249</b>	<b>31,734,515</b>	<b>34,591,764</b>
Direct expenses	13,645,231	16,012,321	18,247,346	20,755,058
<b>Gross margin</b>	<b>5,087,104</b>	<b>10,879,928</b>	<b>13,487,169</b>	<b>13,836,706</b>
SG&A	2,096,460	2,732,705	3,173,451	3,286,218
Share-based expenses	25,085	102,140	129,155	135,613
Professional fees	-	-	-	-
<b>EBITDA</b>	<b>2,965,559</b>	<b>8,045,083</b>	<b>10,184,562</b>	<b>10,414,875</b>
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
<b>EBIT</b>	<b>(2,890,656)</b>	<b>3,524,312</b>	<b>5,437,753</b>	<b>5,430,725</b>
Net financing expense	1,201,988	1,478,268	1,021,208	560,689
Other Income	-	-	-	-
<b>EBT</b>	<b>(4,092,644)</b>	<b>2,046,044</b>	<b>4,416,544</b>	<b>4,870,037</b>
Income tax expense	(42,591)	(1,200)	353,324	389,603
Unusual/Non-recurring expense	(1,674,235)	(228,251)	-	-
<b>Net Income (Net Loss)</b>	<b>(2,375,818)</b>	<b>2,275,495</b>	<b>4,063,221</b>	<b>4,480,434</b>
EPS	(0.05)	0.05	0.08	0.09

<b>BALANCE SHEET (C\$)</b>				
<b>YE December 31</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>
<b>Assets</b>				
Cash	876,543	1,061,698	1,611,715	1,618,462
Receivables	5,133,070	7,456,605	8,694,388	9,477,196
Unbilled revenue	581,792	592,954	622,602	653,732
Inventories	296,229	327,160	347,784	395,579
Prepays and other current assets	265,694	549,873	577,367	606,235
<b>Current Assets</b>	<b>7,153,328</b>	<b>9,988,290</b>	<b>11,853,855</b>	<b>12,751,204</b>
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
<b>Total Assets</b>	<b>51,146,957</b>	<b>55,371,667</b>	<b>56,686,398</b>	<b>57,005,371</b>
<b>Liabilities &amp; Shareholders' Equity</b>				
Payables and accrued liabilities	1,632,764	2,014,509	2,242,062	2,550,186
Borrowings	1,225,143	605,198	605,198	605,198
<b>Current Liabilities</b>	<b>2,857,907</b>	<b>2,619,707</b>	<b>2,847,260</b>	<b>3,155,384</b>
Borrowings	11,161,438	12,712,083	9,606,885	5,001,687
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	3,061,778	3,061,778
<b>Total Liabilities</b>	<b>18,925,015</b>	<b>20,585,634</b>	<b>17,707,989</b>	<b>13,410,915</b>
Equity	68,172,183	67,002,456	67,002,456	67,002,456
Contributed Surplus	17,178,348	18,636,671	18,765,826	18,901,439
Deficit	(53,128,589)	(50,853,094)	(46,789,873)	(42,309,439)
<b>Total Liabilities and SE</b>	<b>51,146,957</b>	<b>55,371,667</b>	<b>56,686,398</b>	<b>57,005,371</b>

<b>STATEMENTS OF CASH FLOWS (C\$)</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>
<b>YE December 31</b>				
<b>Operating Activities</b>				
Net loss for the period	(2,375,818)	2,275,495	4,063,221	4,480,434
<b>Items not involving cash</b>				
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	129,155	135,613
<b>FFO</b>	<b>4,856,866</b>	<b>8,178,892</b>	<b>8,939,185</b>	<b>9,600,197</b>
Prepaid expense	(352,189)	(284,179)	(27,494)	(28,868)
Inventory	(84,373)	(30,931)	(20,624)	(47,796)
Receivables	(1,188,478)	(2,323,535)	(1,237,783)	(782,808)
Accounts payable and accrued liabilities	373,931	381,745	227,553	308,124
Others	(104,888)	(11,162)	(29,648)	(31,130)
<b>Changes in WC</b>	<b>(1,355,997)</b>	<b>(2,268,062)</b>	<b>(1,087,995)</b>	<b>(582,478)</b>
<b>Cash from (used in) Operations</b>	<b>3,500,869</b>	<b>5,910,830</b>	<b>7,851,191</b>	<b>9,017,719</b>
<b>Financing activities</b>				
Equity	(434,053)	186,456		
Debt	337,537	(666,987)	(3,105,198)	(4,605,198)
Due to related parties				
Lease	(840,892)	(892,857)	-	-
Other				
<b>Cash provided by Financing Activities</b>	<b>(937,408)</b>	<b>(1,373,388)</b>	<b>(3,105,198)</b>	<b>(4,605,198)</b>
<b>Investing activities</b>				
PP&E	(3,845,497)	(5,569,011)	(4,042,887)	(4,245,031)
Others	1,374,962	1,216,724	(153,089)	(160,743)
<b>Cash used in Investing Activities</b>	<b>(2,470,535)</b>	<b>(4,352,287)</b>	<b>(4,195,976)</b>	<b>(4,405,774)</b>

**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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