

Enterprise Group Inc.

(TSX: E / OTCQB: ETOLF)

BUY

Current Price: C\$0.68

Fair Value: C\$1.26

Risk*: 3

Shatters Records in Q3 / Anticipating a Strong Finish to the Year

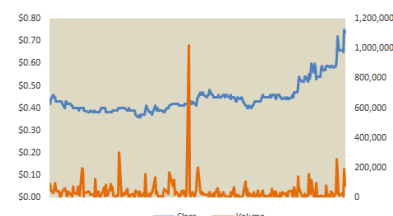
Sector/Industry: Energy/Oil & Gas

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Highlights

- In Q3-2023, Enterprise posted record revenue, and EPS. **Revenue was up 61% YoY, beating our estimate by 12%**. For comparison, H1-2023 revenue was up 20% YoY.
- Gross margins improved YoY by 16 ppt, and was 3 ppt higher than our estimate.
- **Q3 EPS turned positive, beating our estimate by 60%**, amid higher revenue and gross margins.
- Revenue growth came from **multiple new contracts from tier-one clients**. According to the Alberta Energy Regulator, Canadian oil and gas CAPEX spending will increase 18% this year, and 2% in 2024. We believe higher CAPEX spending should directly benefit service providers such as E.
- **We are anticipating strong revenue growth in Q4 as well**. Note that Q1 and Q4 are historically stronger quarters due to seasonality.
- **Oil prices are down 6%** since our previous report in August 2023. We believe that oil prices could see material gains, amid a vulnerable supply chain, and a high probability of escalating geopolitical tensions in the Middle East.
- In Q3, Patterson-UTI Energy (NASDAQ: PTEN) acquired NextTier Oilfield Solutions for US\$1.9B, and Ulterra Drilling Technologies for US\$0.8B, reflecting the ongoing consolidation trend in the oilfield services sector. Given **our favorable outlook on the sector**, we anticipate further M&A activity in the near-term. Note that E's forward EV/EBITDA is 30% lower than the sector average.
- **Upcoming catalysts** include strong Q4 results, and increased CAPEX budgets at oil and gas companies.

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



	YTD	12M
E	79%	51%
TSX	3%	1%

Company Data

52-Week Range	C\$0.36 – \$0.75
Shares O/S	50M
Market Cap.	C\$34M
Current Yield	N/A
P/E (forward)	6.1x
P/B	0.9x

Key Financial Data (\$)

YE Dec 31	2022	2023E	2024E
Cash	\$1,061,698	\$718,084	\$3,379,052
Working Capital	\$7,368,583	\$7,873,885	\$10,917,018
Total Assets	\$55,371,667	\$63,876,823	\$66,835,617
Total Debt	\$14,977,077	\$17,371,879	\$13,766,681
Revenue	\$26,892,249	\$35,907,312	\$38,032,950
Net Income	\$2,275,495	\$5,741,058	\$6,094,348
EPS	\$0.05	\$0.11	\$0.12

*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 18% lower on average

	Enterprise Value (EV, C\$M)		Operating and Valuation Metrics				
		(% Change)	1 Yr	EV/R (f)	EV/EBITDA (f)	Gross Margin	Debt to Capital
FTAI Aviation Ltd.	\$8,626	126%	5.14	13.23	47%	96%	
Precision Drilling Corp.	\$2,096	-27%	1.08	3.41	36%	43%	
Black Diamond Group Ltd	\$676	65%	1.74	6.23	43%	47%	
Total Energy Services Inc.	\$423	-1%	0.48	2.56	24%	20%	
Acrow Formwork and Construction Services	\$277	63%	1.51	4.43	68%	42%	
Vertex Resource Group Ltd	\$169	16%	0.66	4.22	25%	66%	
Wolverine Energy and Infrastructure Inc.	\$88	-43%	1.54	7.97	33%	85%	
Enterprise Group Inc.	\$50	51%	1.39	3.83	45%	46%	
Cleantek Industries	\$17	-20%	1.10	3.64	61%	87%	
High Arctic Energy Services	\$14	-30%	0.27	n/a	26%	5%	
Average		20%	1.49	5.50	41%	54%	

Source: FRC / S&P Capital IQ

Financials

Q3 revenue was up 61% YoY, beating our estimate by 12%

Margins improved across the board; gross margins were 3 ppt higher than expected

EPS turned positive, and was 60% higher than expected

CAPEX increased 222% YoY to \$10M, to purchase new equipment to fulfill heightened demand from clients

As a result, FCF declined in 2023 (9M), and debt to capital increased 8 ppt QoQ, indicating higher risk in the event of a pullback in sector activity

STATEMENT OF OPERATIONS (\$)								
YE Dec 31	Q3-2021	Q3-2022	Q3-2023	YoY	2021 (9M)	2022 (9M)	2023 (9M)	YoY
Revenue	3,916,527	5,230,675	8,433,369	61%	13,001,357	18,157,778	23,901,556	32%
Gross Profit	827,045	1,590,082	3,878,931	144%	2,921,770	6,722,092	10,657,781	59%
SG&A Expense	556,082	727,275	550,546	-24%	1,580,258	1,813,446	2,044,192	13%
EBITDA	296,048	862,807	3,402,589	294%	1,366,597	4,908,646	8,911,150	82%
Net Income	(969,494)	(677,679)	1,639,148	-342%	(2,502,402)	487,101	3,914,747	704%
EPS	(0.02)	(0.01)	0.03		(0.05)	0.01	0.08	

Margins	Q3-2021	Q3-2022	Q3-2023	2021 (9M)	2022 (9M)	2023 (9M)	Sector
Gross	21%	30%	46%	22%	37%	45%	30%
EBITDA	8%	16%	40%	11%	27%	37%	
EBIT	-29%	-6%	24%	-25%	7%	21%	23%
Net	-25%	-13%	19%	-19%	3%	16%	17%

Expenses as % of Revenue	Q3-2021	Q3-2022	Q3-2023	2021 (9M)	2022 (9M)	2023 (9M)
SG&A	14%	14%	6%	12%	10%	7%

Summary of Cash Flows (\$)			
	2021 (9M)	2022 (9M)	2023 (9M)
Cash Flows from Operations	3,467,365	5,160,161	10,570,610
Cash Flows from Investing	(1,812,811)	(2,998,569)	(9,648,332)
Cash Flows from Financing	(1,071,909)	(1,383,654)	(406,544)
Net Change	582,645	777,938	515,734
Free Cash Flows	556,003	1,057,531	149,017

Liquidity and Capital Structure (\$)					Oil & Gas Machinery Rental & Leasing
YE December 31	2022	Q1-2023	Q2-2023	Q3-2023	
Cash	1,061,698	1,545,991	527,352	1,577,432	
Working Capital	7,368,583	7,319,594	3,684,701	5,528,851	
Current Ratio	3.81	2.94	2.33	2.11	1.00
LT Debt	14,371,879	13,299,452	12,907,118	16,519,187	
Total Debt	14,977,077	13,867,970	13,667,221	17,851,337	
Total Debt / Capital	0.43	37.0%	37.2%	46.4%	36.0%
LT Debt / Capital	0.41	35.5%	35.1%	42.9%	7.0%

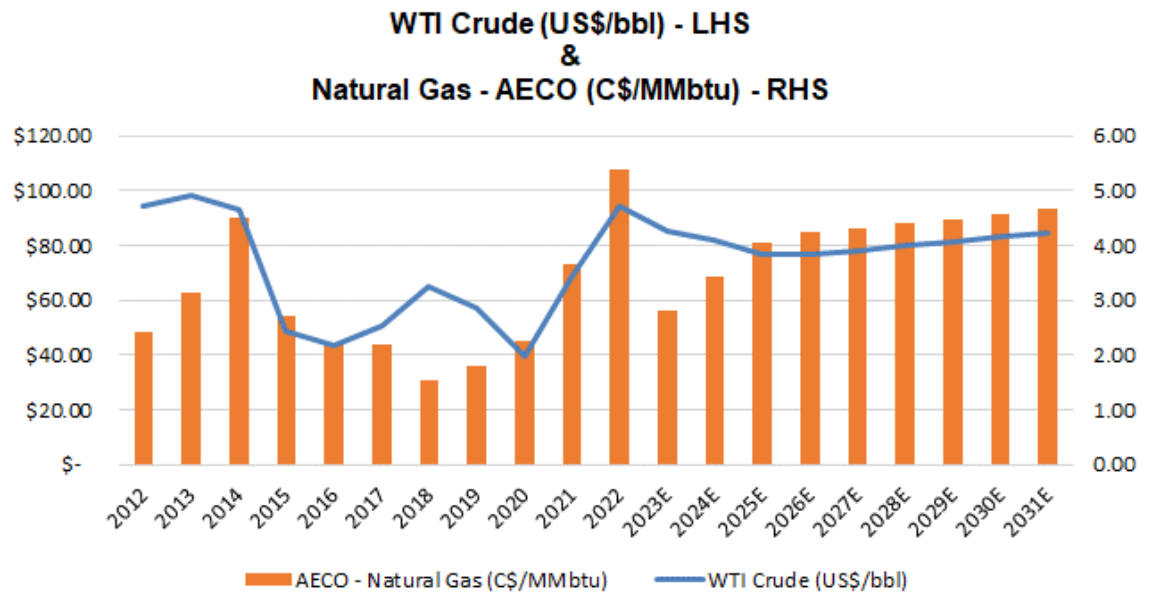
Can raise up to \$2.30M from in-the-money options, which should lower debt/capital

	# Options	Strike Price	Value	Warrants	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 Q3 revenue, and margins were significantly stronger than expected, we are raising our 2023 and 2024 revenue, and EPS forecasts

	2023E (Old)	2023E (New)	2024E (Old)	2024E (New)
Revenue	\$32,057,631	\$35,907,312	\$34,935,883	\$38,032,950
EBITDA	\$10,195,373	\$13,062,348	\$10,420,919	\$13,267,172
Net Income	\$3,594,394	\$5,741,058	\$3,939,842	\$6,094,348
EPS	\$0.07	\$0.11	\$0.08	\$0.12

As a result, our DCF valuation increased from \$1.86 to \$1.98/share

DCF Model	2023E	2024E	2029E	2030E	Terminal
EBIT(1-tax)	3,403,983	10,879,081	14,139,203	14,896,835	
Non-Cash Expenses	1,208,696	5,129,521	7,287,425	7,651,796	
Change in Working Capital	(2,477,432)	(382,164)	(771,728)	(1,668,831)	
Cash from Operations	2,135,247	15,626,438	20,654,899	20,879,800	
CAPEX	(1,707,067)	(4,649,320)	(6,216,405)	(6,527,225)	
Free Cash Flow	428,180	10,977,118	14,438,495	14,352,575	
Present Value	423,998	9,662,135	7,052,516	6,231,598	67,563,644
Discount Rate	12.5%				
Terminal Growth	3.0%				
Present Value	117,891,193				
Cash - Debt	(16,273,905)				
Fair Value	101,617,288				
Shares O/S	51,412,374				
Value per Share (C\$)	\$1.98				

Source: FRC

Sector multiples are up 25% on average since our previous report in August 2023

E is trading at a 18% discount (previously 10%)

Comparable Companies	EV/ Rev (forward)	EV/ EBITDA (forward)	
Acrow Formwork and Construction Services	1.51	4.43	
Black Diamond Group Ltd	1.74	6.23	
Dexterra Group Inc.	0.48	4.77	
Ensign Energy Services Inc.	0.92	3.47	
Enterprise Group	1.39	3.83	
FTAI Infrastructure Inc.	5.14	13.23	
High Arctic Energy Services	0.27	n/a	
Precision Drilling Corp.	1.08	3.41	
Total Energy Services Inc.	0.48	2.56	
Vertex Resource Group Ltd	0.66	4.22	
Wolverine Energy and Infrastructure Inc.	1.54	7.97	
Oil & Gas Machinery Rental & Leasing	1.60x	5.30x	
Average	1.49x	5.50x	Average
Enterprise Group's Premium/(Discount)	-7%	-30%	-18%

Source: FRC / S&P Capital IQ

Our weighted average valuation increased from \$1.07 to \$1.26/share

Valuation Method	Fair Value per share (\$)	Weight
DCF Valuation	\$1.98	33.3%
Fair value per share (\$) - Average EV/R Multiple (2023E)	\$0.73	33.3%
Fair value per share (\$) - Average EV/EBITDA Multiple (2023E)	\$1.08	33.3%
Fair Value Estimate (\$)		\$1.26

Source: FRC

We are maintaining our BUY rating, and adjusting our fair value estimate from \$1.07 to \$1.26/share. Given our favorable outlook on the sector, we anticipate

further M&A activity in the near-term. **Upcoming catalysts** include strong Q4 results, and increased CAPEX budgets at oil and gas companies.

Risks

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

*We are maintaining
our risk rating of 3
(Average)*

- 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	35,907,312	38,032,950
Total revenues	18,732,335	26,892,249	35,907,312	38,032,950
Direct expenses	13,645,231	16,012,321	19,749,022	21,488,617
Gross Profit	5,087,104	10,879,928	16,158,290	16,544,333
SG&A	2,096,460	2,732,705	2,872,585	3,042,636
Share-based expenses	25,085	102,140	223,357	234,525
Professional fees	-	-	-	-
EBITDA	2,965,559	8,045,083	13,062,348	13,267,172
Depreciation	5,795,696	4,466,080	4,879,192	5,069,224
Amortization	60,519	54,691	57,426	60,297
D&A	5,856,215	4,520,771	4,936,618	5,129,521
EBIT	(2,890,656)	3,524,312	8,125,730	8,137,652
Net financing expense	1,201,988	1,478,268	1,885,450	1,513,361
Other Income	-	-	-	-
EBT	(4,092,644)	2,046,044	6,240,281	6,624,291
Income tax expense	(42,591)	(1,200)	499,222	529,943
Unusual/Non-recurring expense	(1,674,235)	(228,251)	-	-
Net Income (Net Loss)	(2,375,818)	2,275,495	5,741,058	6,094,348
EPS	(0.05)	0.05	0.11	0.12

BALANCE SHEET (C\$) YE December 31	2022	2023E	2024E
Assets			
Cash	1,061,698	718,084	3,379,052
Receivables	7,456,605	8,853,858	9,377,988
Unbilled revenue	592,954	622,602	653,732
Inventories	327,160	376,405	409,561
Prepays and other current assets	549,873	577,367	606,235
Current Assets	9,988,290	11,148,315	14,426,567
PP&E	41,823,259	49,015,301	48,535,100
Intangible assets	498,340	498,340	498,340
Deferred taxes	3,061,778	3,214,867	3,375,610
Total Assets	55,371,667	63,876,823	66,835,617
Liabilities & Shareholders' Equity			
Payables and accrued liabilities	2,014,509	2,669,231	2,904,351
Borrowings	605,198	605,198	605,198
Current Liabilities	2,619,707	3,274,429	3,509,549
Borrowings	12,712,083	15,106,885	11,501,687
Lease Liabilities	532,270	532,270	532,270
Mortgages	1,659,796	1,659,796	1,659,796
Deferred taxes	3,061,778	3,061,778	3,061,778
Total Liabilities	20,585,634	23,635,158	20,265,080
Equity	67,002,456	66,493,672	66,493,672
Contributed Surplus	18,636,671	18,860,028	19,094,553
Deficit	(50,853,094)	(45,112,036)	(39,017,688)
Total Liabilities and SE	55,371,667	63,876,823	66,835,617

STATEMENTS OF CASH FLOWS			
(C\$)	2022	2023E	2024E
YE December 31			
Operating Activities			
Net loss for the period	2,275,495	5,741,058	6,094,348
Items not involving cash			
D&A	4,520,771	4,936,618	5,129,521
Other non-cash adjustments	1,280,486		
Share-based compensation	102,140	223,357	234,525
FFO	8,178,892	10,901,033	11,458,393
Prepaid expense	(284,179)	(27,494)	(28,868)
Inventory	(30,931)	(49,245)	(33,156)
Receivables	(2,323,535)	(1,397,253)	(524,130)
A/P	381,745	654,722	235,120
Others	(11,162)	(29,648)	(31,130)
Changes in WC	(2,268,062)	(848,917)	(382,164)
Cash from (used in) Operations	5,910,830	10,052,116	11,076,229
Financing activities			
Equity	186,456	(508,784)	
Debt	(666,987)	2,394,802	(3,605,198)
Lease	(892,857)	-	-
Cash From Financing Activities	(1,373,388)	1,886,018	(3,605,198)
Investing activities			
PP&E	(5,569,011)	(12,128,660)	(4,649,320)
Others	1,216,724	(153,089)	(160,743)
Cash From Investing Activities	(4,352,287)	(12,281,749)	(4,810,063)

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.

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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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