

Enterprise Group Inc.

(TSX: E / OTCQB: ETOLF)

BUY

Current Price: C\$0.83

Fair Value: C\$1.33

Risk*: 3

Attracts Bought-Deal Financing to Fund Growth CAPEX

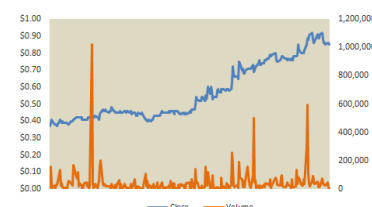
Sector: Energy Services/Oil & Gas

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

Highlights

- E is up 118% YoY, making it **one of the best performing stocks** on our list of oilfield services companies.
- In 2023, **EBITDA was up 61% YoY**, missing our estimate by just 1%. Revenue was up 25% YoY, missing our estimate by 7% due to project delays caused by forest fires, and **unusually warm weather in Q4**. We anticipate that some of these projects will be rescheduled to H1-2024 and therefore, revenue from these projects has been deferred rather than lost.
- Gross and EBITDA **margins exceeded our estimates** by 1 pp, and 3 pp, respectively.
- Revenue growth came from new contracts with tier-one clients. Per consensus estimates, growth in North American oil and gas CAPEX will ease to 2.2% in 2024, down from 19% in 2023.
- Recently closed a **\$7M bought-deal equity financing** to expand its rental equipment fleet, signaling management's expectation of continued revenue growth in 2024.
- **Upcoming catalysts** include Q1 results, and revenue growth stemming from the deployment of newly acquired equipment. Note that Q1 and Q4 are historically stronger quarters due to seasonality.

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



	YTD	12M
E	9%	118%
TSX	5%	11%

Company Data

52-Week Range	\$0.37 – \$0.93
Shares O/S	58M
Market Cap.	C\$48M
Current Yield	N/A
P/E (forward)	7.2x
P/B	1.0x

Key Financial Data (\$)

YE Dec 31	2023	2024E	2025E
Cash	\$3,786,383	\$6,734,246	\$13,268,994
Working Capital	\$9,160,716	\$12,444,909	\$19,332,804
Total Assets	\$72,806,744	\$82,192,708	\$89,367,932
Total Debt	\$22,690,426	\$18,690,426	\$18,690,426
Revenue	\$33,500,501	\$37,702,696	\$39,940,945
Net Income	\$6,169,904	\$6,249,823	\$6,466,428
EPS	\$0.12	\$0.12	\$0.11

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

Enterprise vs Larger Players

E is up 118% YoY, and is one of the best performing stocks on our list of oilfield services companies

E has higher margins than sector averages

	Enterprise Value (EV, C\$M)	Share Price (% Change)	Operating and Valuation Metrics			
			1 Yr	EV/R (f)	EV/EBITDA (f)	Gross Margin
FTAI Aviation Ltd.	\$11,133	127%	6.15	11.78	48%	94%
Precision Drilling Corp.	\$2,155	5%	1.07	3.76	38%	39%
Black Diamond Group Ltd	\$736	31%	1.87	6.69	44%	42%
Total Energy Services Inc.	\$472	8%	0.53	2.89	23%	18%
Acrow Limited	\$405	53%	1.99	5.96	75%	45%
Vertex Resource Group Ltd	\$177	-14%	0.71	4.57	25%	66%
Wolverine Energy and Infrastructure Inc.	\$88	n/a	1.54	n/a	33%	90%
Enterprise Group Inc.	\$60	118%	1.61	4.34	46%	56%
Cleantek Industries	\$16	-14%	1.10	n/a	62%	86%
High Arctic Energy Services	\$10	-28%	0.18	3.95	32%	5%
Average		32%	1.34	5.40	43%	55%

Source: FRC / S&P Capital IQ

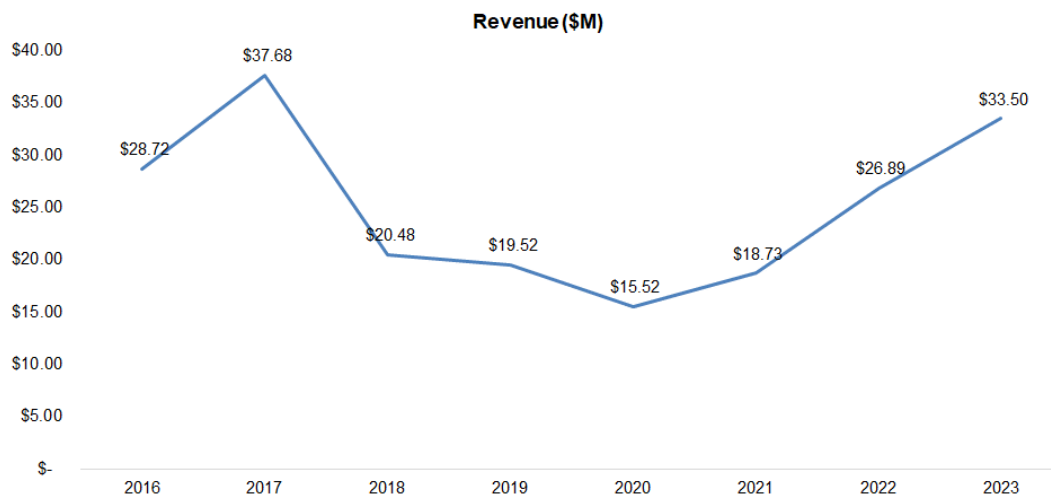
Financials

2023 revenue was up 25% YoY, missing our estimate by 7% due to forest fires in Alberta and B.C., as well as project delays caused by warm weather in Q4

EBITDA margins exceeded our estimate by 3 pp, primarily driven by lower G&A expenses

EBITDA was up 61%, missing our estimate by 1%

EPS (adjusted) was up 140% YoY, missing our estimate by 5%



STATEMENT OF OPERATIONS (\$)						
YE: Dec 31st	2019	2020	2021	2022	2023	YoY
Revenue	19,521,797	15,520,105	18,732,335	26,892,249	33,500,501	25%
Gross Profit	5,044,970	5,194,826	5,087,104	10,879,928	15,501,969	42%
SG&A Expense	2,565,241	1,430,158	2,121,545	2,834,845	2,567,361	-9%
EBITDA	2,479,729	3,764,668	2,965,559	8,045,083	12,934,608	61%
Net Income	(5,035,705)	(5,033,709)	(2,375,818)	2,275,495	6,169,904	171%
EPS	(0.09)	(0.10)	(0.05)	0.05	0.12	168%

Source: FRC / Company

E's margins remained well above sector averages

Margins	2019	2020	2021	2022	2023	Sector
Gross	26%	33%	27%	40%	46%	29%
EBITDA	13%	24%	16%	30%	39%	
EBIT	-17%	-15%	-15%	13%	24%	17%
Net	-26%	-32%	-13%	8%	18%	13%

Expenses as % of Revenue	2019	2020	2021	2022	2023	Sector
SG&A	11%	9%	11%	10%	7%	5%

*Sector: Oil & Gas Machinery Rental and Leasing

CAPEX increased 171% YoY to \$15M, driven by heightened client demand necessitating new equipment purchases

Summary of Cash Flows (\$)	2019	2020	2021	2022	2023
Cash Flows from Operations	3,609,571	3,983,730	3,500,869	5,910,830	13,530,272
Cash Flows from Investing	(4,447,430)	(1,254,111)	(2,470,535)	(4,352,287)	(14,287,297)
Cash Flows from Financing	936,998	(2,915,053)	(937,408)	(1,373,388)	3,481,710
Net Change	99,139	(185,434)	92,926	185,155	2,724,685
Free Cash Flows	(1,835,027)	2,571,562	1,030,334	1,558,543	(757,025)

As a result, FCF declined, and debt to capital increased 4 pp to 47%

Liquidity and Capital Structure (\$) YE December 31	2019	2020	2021	2022	2023	Sector
Cash	969,051	783,617	876,543	1,061,698	3,786,383	
Working Capital	(4,978,970)	2,749,004	4,295,421	7,368,583	9,160,716	
Current Ratio	0.59	2.06	2.50	3.81	3.48	1.10
LT Debt	-	11,564,103	13,220,200	14,371,879	21,338,148	
Total Debt	10,123,063	12,886,740	14,445,343	14,977,077	22,690,426	
Total Debt / Capital	0.25	0.37	0.45	43%	56%	35%
LT Debt / Capital	-	0.33	0.41	41%	52%	7%

*As a result of the recent equity financing, debt/capital decreased to 47%.

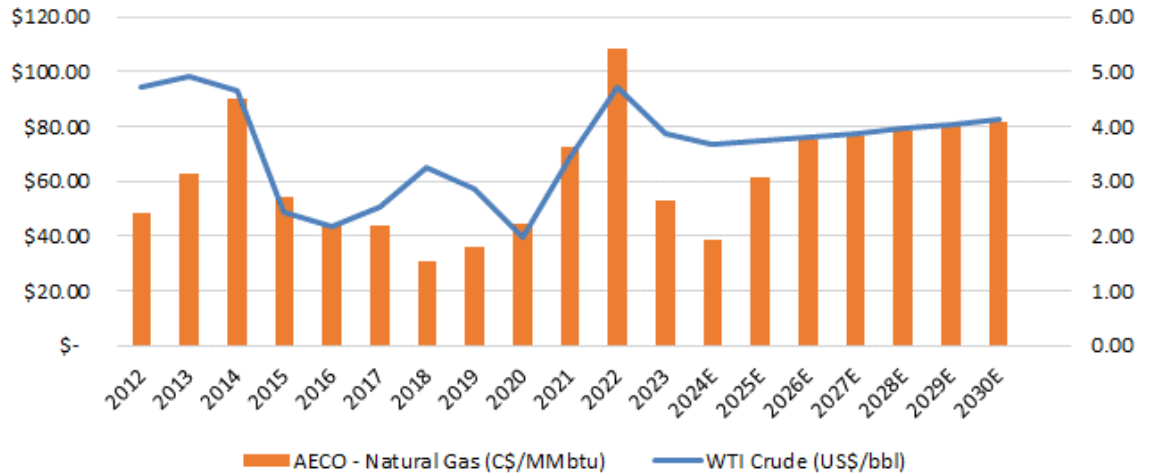
Can raise up to \$2.27M from in-the-money options

	# Options	Strike Price	Value	Warrants	Strike Price	Value
Total Outstanding	5,050,000	\$0.45	\$2,272,500	4,117,175	\$0.95	\$3,911,316
In the Money	5,050,000	\$0.45	\$2,272,500	-	-	-

Source: FRC / Company

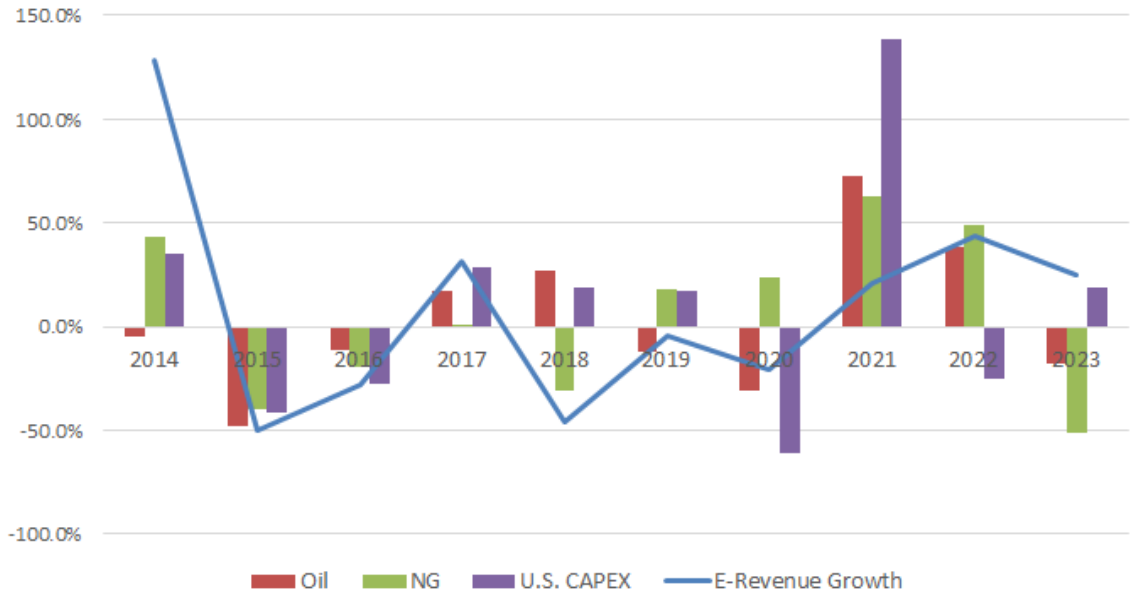
Oil & Gas Price Outlook

WTI Crude (US\$/bbl) - LHS
&
Natural Gas - AECO (C\$/MMbtu) - RHS



Source: FRC/Sproule/GLJ

E's Revenue Growth vs Changes in Oil & NG Prices, and U.S. CAPEX



Source: FRC/Various

Consensus price forecasts (near and long-term) are well above historic averages, implying a positive outlook for the oilfield services sector

E's revenue generally tracks changes in oil and gas prices, and sector CAPEX spending

Historically, a 1% increase in oil and gas prices, and CAPEX spending, has led to a 2.5% increase in E's revenue

Conversely, a 1% decrease in these factors has resulted in a 1.3% decline in E's revenue

Based on consensus CAPEX spending, and oil/gas prices forecasts, we anticipate 5% organic revenue growth in 2024

FRC Projections and Valuation

We are not making any material changes to our near-term forecasts

	2024E (Old)	2024E (New)	2025E (Introducing)
Revenue	\$38,032,950	\$37,702,696	\$39,940,945
EBITDA	\$13,267,172	\$13,958,189	\$14,790,282
Net Income	\$6,094,348	\$6,249,823	\$6,466,428
EPS	\$0.12	\$0.12	\$0.11

However, we are raising our long-term revenue/EPS forecasts to account for growth attributed to increased CAPEX

DCF Model	2024E	2025E	2029E	2030E	Terminal
EBIT(1-tax)	11,445,715	12,128,031	14,896,504	15,695,621	
Non-Cash Expenses	5,122,062	5,987,551	7,277,905	7,641,801	
Change in Working Capital	(336,331)	(353,147)	(429,252)	(450,715)	
Cash from Operations	16,231,447	17,762,435	21,745,157	22,886,706	
CAPEX	(11,106,528)	(6,151,711)	(6,029,784)	(5,904,972)	
Free Cash Flow	5,124,918	11,610,724	15,715,373	16,981,734	
Present Value	4,645,793	9,355,773	7,905,602	7,593,461	82,329,109

As a result, our DCF valuation increased from \$1.98 to \$2.08/share

Discount Rate	12.5%
Terminal Growth	3.0%
Present Value	137,497,648
Cash - Debt	(12,254,043)
Fair Value	125,243,605
Shares O/S	60,341,272
Value per Share (C\$)	\$2.08

Source: FRC

E's EV/EBITDA (forward) is 4.3x vs the sector average of 5.4x, reflecting a 20% discount

E's EV/revenue (forward) is 1.6x vs the sector average of 1.3x, reflecting a 20% premium

Given E's higher margins compared to sector averages, we believe E warrants a premium

Comparables	EV/ Rev (forward)	EV/ EBITDA (forward)	
FTAI Aviation Ltd.	6.15	11.78	
Precision Drilling Corp.	1.07	3.76	
Black Diamond Group Ltd	1.87	6.69	
Total Energy Services Inc.	0.53	2.89	
Acrow Limited	1.99	5.96	
Vertex Resource Group Ltd	0.71	4.57	
Wolverine Energy and Infrastructure Inc.	1.54	n/a	
Enterprise Group Inc.	1.61	4.34	
Cleantek Industries	1.10	n/a	
High Arctic Energy Services	0.18	3.95	
Oil & Gas Machinery Rental & Leasing	1.60x	4.70x	
Average	1.34x	5.40x	Average
Enterprise Group's Premium/(Discount)	20%	-20%	0%

Source: FRC / S&P Capital IQ

Our weighted average valuation increased from \$1.26 to \$1.33/share

Valuation Method	Fair Value per share (\$)	Weight
DCF Valuation	\$2.08	33.3%
Fair Value/Share @ Sector Average EV/R	\$0.72	33.3%
Fair Value/Share @ Sector Average EV/EBITDA	\$1.19	33.3%
Fair Value Estimate (\$)		\$1.33

Source: FRC

We are maintaining our **BUY rating, and raising our fair value estimate** from \$1.26 to \$1.33/share. Upcoming catalysts include Q1 results, and revenue growth stemming from the deployment of newly acquired equipment.

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	2022	2023	2024E	2025E
Revenue	26,892,249	33,500,501	37,702,696	39,940,945
Total revenues	26,892,249	33,500,501	37,702,696	39,940,945
Direct expenses	16,012,321	17,998,532	20,736,483	21,967,520
Gross Profit	10,879,928	15,501,969	16,966,213	17,973,425
SG&A	2,732,705	2,216,089	2,639,189	2,795,866
Share-based expenses	102,140	351,272	368,836	387,277
Professional fees	-	-	-	-
EBITDA	8,045,083	12,934,608	13,958,189	14,790,282
D&A	4,520,771	5,005,936	5,122,062	5,987,551
EBIT	3,524,312	7,928,672	8,836,127	8,802,731
Net financing expense	1,478,268	1,912,251	2,586,303	2,336,303
Other Income	-	-	-	-
EBT	2,046,044	6,016,421	6,249,823	6,466,428
Income tax expense	(1,200)	-	-	-
Unusual/Non-recurring expense	(228,251)	(153,483)	-	-
Net Income (Net Loss)	2,275,495	6,169,904	6,249,823	6,466,428
EPS	0.05	0.12	0.12	0.11
BALANCE SHEET (C\$)				
YE December 31	2022	2023	2024E	2025E
Assets				
Cash	1,061,698	3,786,383	6,734,246	13,268,994
Receivables	7,456,605	6,717,934	7,053,831	7,406,522
Unbilled revenue	592,954	742,166	779,274	818,238
Inventories	327,160	286,654	300,987	316,036
Prepays and other current assets	549,873	1,325,948	1,392,245	1,461,858
Current Assets	9,988,290	12,859,085	16,260,583	23,271,648
PP&E	41,823,259	55,532,641	61,517,107	61,681,267
Intangible assets	498,340	448,017	448,017	448,017
Deferred taxes	3,061,778	3,967,001	3,967,001	3,967,001
Total Assets	55,371,667	72,806,744	82,192,708	89,367,932
Liabilities & Shareholders' Equity				
Payables and accrued liabilities	2,014,509	2,346,091	2,463,396	2,586,565
Borrowings	605,198	1,352,278	1,352,278	1,352,278
Current Liabilities	2,619,707	3,698,369	3,815,674	3,938,843
Borrowings	12,712,083	17,649,700	13,649,700	13,649,700
Lease Liabilities	532,270	3,008,102	3,008,102	3,008,102
Mortgages	1,659,796	3,688,448	3,688,448	3,688,448
Deferred taxes	3,061,778	3,967,001	3,967,001	4,165,351
Total Liabilities	20,585,634	32,011,620	28,128,925	28,450,444
Equity	67,002,456	65,320,978	71,970,978	71,970,978
Contributed Surplus	18,636,671	20,157,336	20,526,172	20,913,449
Deficit	(50,853,094)	(44,683,190)	(38,433,367)	(31,966,939)
Total Liabilities and SE	55,371,667	72,806,744	82,192,708	89,367,932

STATEMENTS OF CASH FLOWS (C\$) YE December 31	2022	2023	2024E	2025E
Operating Activities				
Net loss for the period	2,275,495	6,169,904	6,249,823	6,466,428
Items not involving cash				
D&A	4,520,771	5,005,936	5,122,062	5,987,551
Other non-cash adjustments	1,280,486	1,817,689		
Share-based compensation	102,140	351,272	368,836	387,277
FFO	8,178,892	13,344,801	11,740,721	12,841,256
Prepaid expense	(284,179)	(776,075)	(66,297)	(69,612)
Inventory	(30,931)	40,506	(14,333)	(15,049)
Receivables	(2,323,535)	738,671	(335,897)	(352,692)
A/P	381,745	331,581	117,305	123,170
Others	(11,162)	(149,212)	(37,108)	(38,964)
Changes in WC	(2,268,062)	185,471	(336,331)	(353,147)
Cash from (used in) Operations	5,910,830	13,530,272	11,404,391	12,488,109
Financing activities				
Equity	186,456	(512,085)	6,650,000	
Debt	(666,987)	5,144,821	(4,000,000)	-
Lease	(892,857)	(1,151,026)	-	-
Cash From Financing Activities	(1,373,388)	3,481,710	2,650,000	-
Investing activities				
PP&E	(5,569,011)	(15,110,693)	(11,106,528)	(6,151,711)
Others	1,216,724	823,396	-	198,350
Cash From Investing Activities	(4,352,287)	(14,287,297)	(11,106,528)	(5,953,361)

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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