

# Enterprise Group Inc.

(TSX: E / OTCQB: ETOLF)

**BUY**

**Current Price: C\$1.24**

**Fair Value: C\$1.62**

**Risk\*: 3**

## EPS Beat / Poised for Aggressive Expansion

### Sector: Energy Services/Oil & Gas

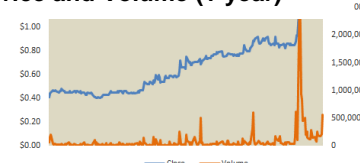
[Click here for more research on the company and to share your views](#)

#### Highlights

- E is up 202% YoY, making it **the best performing stock** on our list of oilfield services companies.
- In Q1-2024, **revenue was up 23% YoY**, in line with our estimate. Revenue growth came from new contracts with tier-one clients.
- **EPS was up 42% YoY**, beating our estimate by 6%, driven by higher than expected margins.
- Following a **\$7M bought-deal financing in Q1**, debt/capital decreased 11 pp QoQ to 45%.
- CAPEX increased 84% YoY to \$5M, driven by heightened client demand necessitating new equipment purchases. The company is **building a new facility** in Fort St. John, B.C., for equipment storage and maintenance, as part of its expansion efforts in the province.
- Per consensus estimates, growth in North American oil and gas CAPEX will ease to 2.2% in 2024, down from 19% in 2023, driven by slower GDP growth, and higher lending rates. We believe the company's expanded rental equipment fleet **will help mitigate the sector-wide slowdown**. We anticipate 13% revenue growth in 2024 (unchanged) vs 25% in 2023.

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

Price and Volume (1-year)



	YTD	12M
E	63%	202%
TSX	7%	9%

#### Company Data

52-Week Range	\$0.39 – \$1.30
Shares O/S	58M
Market Cap.	C\$72M
Current Yield	N/A
P/E (forward)	10.0x
P/B	1.0x

Key Financial Data (\$)			
YE Dec 31	2023	2024E	2025E
Cash	\$3,786,383	\$7,643,561	\$15,031,771
Working Capital	\$9,160,716	\$13,354,225	\$21,095,581
Total Assets	\$72,806,744	\$82,373,997	\$90,329,880
Total Debt	\$22,690,426	\$18,690,426	\$18,690,426
Revenue	\$33,500,501	\$37,702,696	\$40,400,551
Net Income	\$6,169,904	\$6,652,878	\$7,247,086
EPS	\$0.12	\$0.12	\$0.12

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

## Enterprise vs Larger Players

*E is up 202% YoY, and is the best performing stock on our list of oilfield services companies*

*Gross margins are higher than the sector average, while debt/capital is lower*

*In 2024, we anticipate E's revenue will grow by 13%, outpacing sector growth by 2 pp*

*Q1-2024 revenue was up 23% YoY, in line with our estimate*

*Gross margins improved by 5 pp YoY, and were 2 pp higher than our estimate*

*G&A expenses were down 28% YoY, and 15% lower than our estimate, primarily due to reduced employee bonuses*

*EPS was up 42% YoY, beating our estimate by 6%*

*CAPEX increased 84% YoY to \$5M, driven by heightened client demand necessitating new equipment purchases*

	Enterprise Value (EV, C\$M)	Share Price (% Change)	2024E Revenue Growth		Operating and Valuation Metrics			
			1 Yr	YoY	EV/R (f)	EV/EBITDA (f)	Gross Margin	Debt to Capital
FTAI Aviation Ltd.	\$14,367	183%	21%		7.40	14.60	49%	94%
Precision Drilling Corp.	\$2,434	62%	3%		1.22	4.39	37%	38%
Black Diamond Group Ltd	\$735	20%	-3%		1.87	6.71	45%	43%
Total Energy Services Inc.	\$449	22%	6%		0.47	2.29	24%	17%
Acrow Limited	\$400	46%	33%		1.96	5.89	75%	45%
Vertex Resource Group Ltd	\$175	0%	4%		0.70	4.70	25%	67%
Wolverine Energy and Infrastructure Inc.	\$88	n/a	n/a		1.54	n/a	35%	90%
<b>Enterprise Group Inc.</b>	<b>\$85</b>	<b>202%</b>	<b>13%</b>		<b>2.32</b>	<b>5.91</b>	<b>47%</b>	<b>34%</b>
Cleantek Industries	\$16	42%	n/a		1.10	5.48	60%	97%
High Arctic Energy Services	\$19	25%	n/a		0.31	1.57	48%	6%
<b>Average</b>		<b>67%</b>	<b>11%</b>		<b>1.45</b>	<b>5.70</b>	<b>45%</b>	<b>53%</b>

Source: FRC / S&P Capital IQ

## Financials

STATEMENT OF OPERATIONS (\$)				
YE: Dec 31st	Q1-2022	Q1-2023	Q1-2024	YoY
<b>Revenue</b>	<b>7,629,418</b>	<b>10,008,332</b>	<b>12,326,288</b>	<b>23%</b>
Gross Profit	3,521,822	5,099,298	6,896,344	35%
SG&A Expenses	491,961	835,768	605,756	-28%
<b>EBITDA</b>	<b>3,029,861</b>	<b>4,263,530</b>	<b>6,290,588</b>	<b>48%</b>
Net Income	1,678,048	2,801,335	3,991,514	42%
EPS	0.03	0.06	0.08	

Margins	Q1-2022	Q1-2023	Q1-2024	Sector
Gross	46%	51%	56%	44%
EBITDA	40%	43%	51%	
EBIT	25%	31%	38%	
Net	22%	28%	32%	16%
Expenses as % of Revenue	Q1-2022	Q1-2023	Q1-2024	
SG&A	6%	7%	5%	4%

\*Sector: Oil & Gas Machinery Rental and Leasing

Summary of Cash Flows (\$)	Q1-2022	Q1-2023	Q1-2024	YoY
Cash Flows from Operations	2,679,056	4,965,708	5,659,665	14%
Cash Flows from Investing	(1,271,062)	(2,433,440)	(4,472,786)	84%
Cash Flows from Financing	(1,092,588)	(2,047,975)	5,240,994	-356%
Net Change	315,406	484,293	6,427,873	1227%
<b>Free Cash Flows</b>	<b>997,690</b>	<b>2,349,163</b>	<b>1,111,678</b>	<b>-53%</b>

Source: FRC / Company

Following a \$7M bought-deal financing in Q1, debt/capital decreased 11 pp QoQ to 45%

Can raise up to \$5.93M from in-the-money options and warrants

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

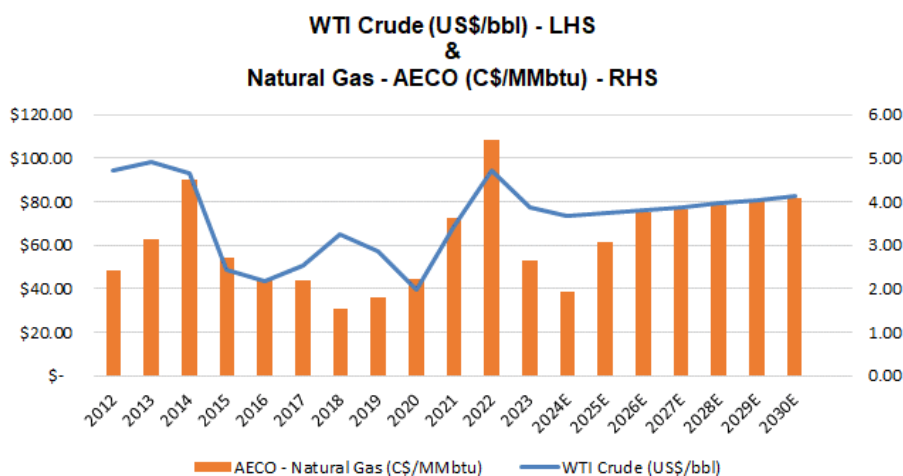
Conversely, a 1% decrease in these factors has resulted in a 1.3% decline in E's revenue

Liquidity and Capital Structure (\$)				2022	2023	Q1-2024	Sector
YE December 31							
Cash				1,061,698	3,786,383	10,214,256	
Working Capital				7,368,583	9,160,716	16,013,603	
Current Ratio				3.81	3.48	3.88	1.00
LT Debt				14,371,879	21,338,148	21,295,560	
Total Debt				14,977,077	22,690,426	22,890,350	
Total Debt / Capital				43%	56%	45%	55%
LT Debt / Capital				41%	52%	42%	

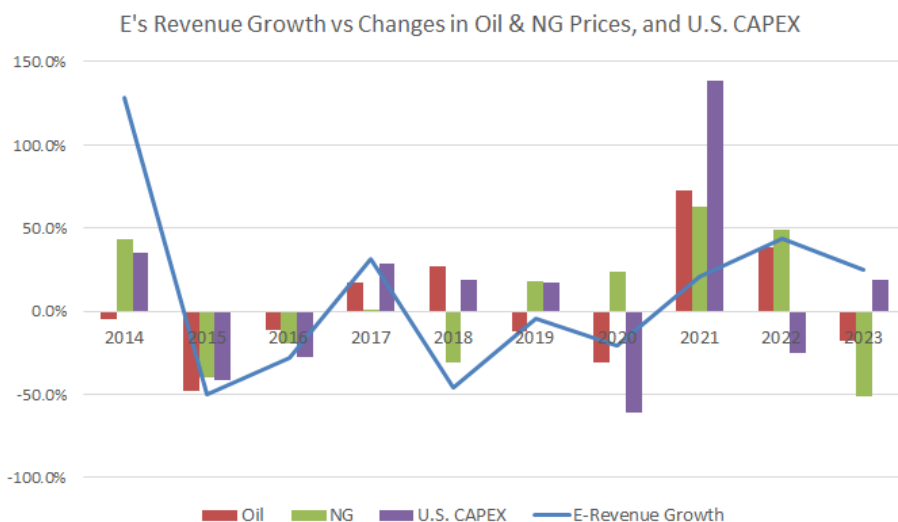
	# Options	Strike Price	Value	Warrants	Strike Price	Value
Total Outstanding	5,000,000	\$0.45	\$2,250,000	3,873,000	\$0.95	\$3,679,350
In the Money	5,000,000	\$0.45	\$2,250,000	3,873,000	\$0.95	\$3,679,350

Source: FRC / Company

## Oil & Gas Price Outlook



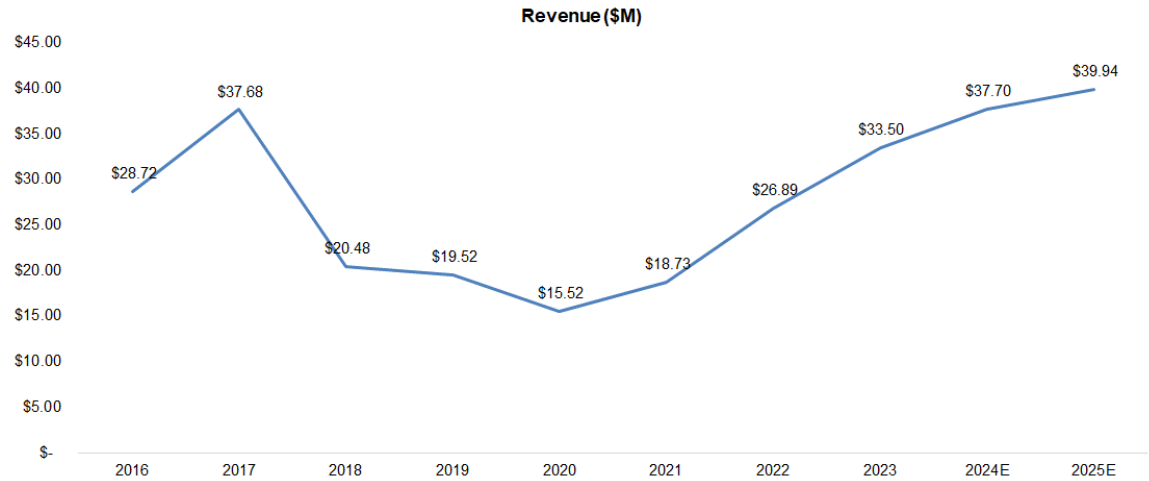
Source: FRC/Sproule/GLJ



Source: FRC/Various

## FRC Projections and Valuation

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



As Q1 margins were higher than expected, we are raising our 2024 EPS estimate by 6%

	2024E (Old)	2024E (New)	2025E (Old)	2025E (New)
Revenue	\$37,702,696	\$37,702,696	\$39,940,945	\$40,400,551
EBITDA	\$13,958,189	\$15,089,270	\$14,790,282	\$15,570,940
Net Income	\$6,249,823	\$6,652,878	\$6,466,428	\$7,247,086
EPS	\$0.12	\$0.12	\$0.11	\$0.12

We are also raising our long-term revenue/EPS forecasts to account for CAPEX-driven growth

DCF Model	2024E	2025E	2029E	2030E	Terminal
EBIT(1-tax)	7,214,919	12,768,171	15,780,329	16,817,270	
Non-Cash Expenses	4,245,391	5,987,551	7,277,905	7,641,801	
Change in Working Capital	331,195	(353,147)	(429,252)	(450,715)	
Cash from Operations	11,791,506	18,402,575	22,628,982	24,008,355	
CAPEX	(6,558,541)	(6,078,908)	(5,923,194)	(5,208,950)	
Free Cash Flow	5,232,964	12,323,667	16,705,788	18,799,405	
Present Value	5,232,964	10,954,370	9,270,526	9,273,186	100,540,858

As a result, our DCF valuation increased from \$2.08 to \$2.44/share

Discount Rate	12.5%
Terminal Growth	3.0%
Present Value	164,759,193
Cash - Debt	(12,676,094)
Fair Value	152,083,099
Shares O/S	62,357,165
<b>Value per Share (C\$)</b>	<b>\$2.44</b>

Source: FRC

Sector valuations are up 14% since our previous report

E's forward EV/Revenue and EV/EBITDA are 21% higher than sector averages

We believe E's premium is justified, given its higher margins, lower debt/capital, and higher 2024 revenue growth estimate

Our weighted average valuation increased from \$1.33 to \$1.62/share

We are maintaining our risk rating of 3 (Average)

	Rev (forward)	EBITDA (forward)	
FTAI Aviation Ltd.	7.40	14.60	
Precision Drilling Corp.	1.22	4.39	
Black Diamond Group Ltd	1.87	6.71	
Total Energy Services Inc.	0.47	2.29	
Acrow Limited	1.96	5.89	
Vertex Resource Group Ltd	0.70	4.70	
Wolverine Energy and Infrastructure Inc.	1.54	n/a	
Enterprise Group Inc.	2.30	5.87	
Cleantek Industries	1.10	5.48	
High Arctic Energy Services	0.31	1.57	
<b>Average</b>	<b>1.45x</b>	<b>5.70x</b>	
<b>Oil &amp; Gas Machinery Rental &amp; Leasing</b>	<b>1.90x</b>	<b>5.50x</b>	<b>Average</b>
<b>Enterprise Group's Premium/(Discount)</b>	<b>38%</b>	<b>5%</b>	<b>21%</b>

Source: FRC / S&P Capital IQ

Valuation Method	Fair Value per share (\$)	Weight
DCF Valuation	\$2.44	33.3%
Fair Value/Share @ Sector Average EV/R	\$1.02	33.3%
Fair Value/Share @ Sector Average EV/EBITDA	\$1.41	33.3%
<b>Fair Value Estimate (\$)</b>		<b>\$1.62</b>

Source: FRC

We are maintaining our **BUY rating, and raising our fair value estimate** from \$1.33 to \$1.62/share. Upcoming catalyst includes revenue growth stemming from the deployment of newly acquired equipment.

## 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	2022	2023	2024E	2025E
Revenue	26,892,249	33,500,501	37,702,696	40,400,551
<b>Total revenues</b>	<b>26,892,249</b>	<b>33,500,501</b>	<b>37,702,696</b>	<b>40,400,551</b>
Direct expenses	16,012,321	17,998,532	19,982,429	21,816,298
<b>Gross Profit</b>	<b>10,879,928</b>	<b>15,501,969</b>	<b>17,720,267</b>	<b>18,584,253</b>
SG&A	2,732,705	2,216,089	2,262,162	2,626,036
Share-based expenses	102,140	351,272	368,836	387,277
Professional fees	-	-	-	-
<b>EBITDA</b>	<b>8,045,083</b>	<b>12,934,608</b>	<b>15,089,270</b>	<b>15,570,940</b>
D&A	4,520,771	5,005,936	5,850,089	5,987,551
<b>EBIT</b>	<b>3,524,312</b>	<b>7,928,672</b>	<b>9,239,181</b>	<b>9,583,390</b>
Net financing expense	1,478,268	1,912,251	2,586,303	2,336,303
Other Income	-	-	-	-
<b>EBT</b>	<b>2,046,044</b>	<b>6,016,421</b>	<b>6,652,878</b>	<b>7,247,086</b>
Income tax expense	(1,200)	-	-	-
Unusual/Non-recurring expense	(228,251)	(153,483)	-	-
<b>Net Income (Net Loss)</b>	<b>2,275,495</b>	<b>6,169,904</b>	<b>6,652,878</b>	<b>7,247,086</b>
EPS	0.05	0.12	0.12	0.12

BALANCE SHEET (C\$) YE December 31	2022	2023	2024E	2025E
<b>Assets</b>				
Cash	1,061,698	3,786,383	7,643,561	15,031,771
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
<b>Current Assets</b>	<b>9,988,290</b>	<b>12,859,085</b>	<b>17,169,899</b>	<b>25,034,425</b>
PP&E	41,823,259	55,532,641	60,789,080	60,880,437
Intangible assets	498,340	448,017	448,017	448,017
Deferred taxes	3,061,778	3,967,001	3,967,001	3,967,001
<b>Total Assets</b>	<b>55,371,667</b>	<b>72,806,744</b>	<b>82,373,997</b>	<b>90,329,880</b>
<b>Liabilities &amp; Shareholders' Equity</b>				
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
<b>Current Liabilities</b>	<b>2,619,707</b>	<b>3,698,369</b>	<b>3,815,674</b>	<b>3,938,843</b>
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
<b>Total Liabilities</b>	<b>20,585,634</b>	<b>32,011,620</b>	<b>28,128,925</b>	<b>28,450,444</b>
Equity	67,002,456	65,320,978	71,749,213	71,749,213
Contributed Surplus	18,636,671	20,157,336	20,526,172	20,913,449
Deficit	(50,853,094)	(44,683,190)	(38,030,312)	(30,783,226)
<b>Total Liabilities and SE</b>	<b>55,371,667</b>	<b>72,806,744</b>	<b>82,373,997</b>	<b>90,329,880</b>

<b>STATEMENTS OF CASH FLOWS</b>				
<b>(C\$)</b>	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>
<b>YE December 31</b>				
<b>Operating Activities</b>				
Net loss for the period	2,275,495	6,169,904	6,652,878	7,247,086
<b>Items not involving cash</b>				
D&A	4,520,771	5,005,936	5,850,089	5,987,551
Other non-cash adjustments	1,280,486	1,817,689		
Share-based compensation	102,140	351,272	368,836	387,277
<b>FFO</b>	<b>8,178,892</b>	<b>13,344,801</b>	<b>12,871,802</b>	<b>13,621,914</b>
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)
<b>Changes in WC</b>	<b>(2,268,062)</b>	<b>185,471</b>	<b>(336,331)</b>	<b>(353,147)</b>
<b>Cash from (used in) Operations</b>	<b>5,910,830</b>	<b>13,530,272</b>	<b>12,535,472</b>	<b>13,268,767</b>
<b>Financing activities</b>				
Equity	186,456	(512,085)	6,428,235	
Debt	(666,987)	5,144,821	(4,000,000)	-
Lease	(892,857)	(1,151,026)	-	-
<b>Cash From Financing Activities</b>	<b>(1,373,388)</b>	<b>3,481,710</b>	<b>2,428,235</b>	<b>-</b>
<b>Investing activities</b>				
PP&E	(5,569,011)	(15,110,693)	(11,106,528)	(6,078,908)
Others	1,216,724	823,396	-	198,350
<b>Cash From Investing Activities</b>	<b>(4,352,287)</b>	<b>(14,287,297)</b>	<b>(11,106,528)</b>	<b>(5,880,558)</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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