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## Profire Energy, Inc. (NASDAQ: PFIE)

June 21, 2021

### Buy: Reiterate Buy and \$1.65 Price Target

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We reiterate our Buy recommendation and \$1.65 price target on Profire Energy. Since the beginning of the year, West Texas Intermediate (WTI) has increased almost 50% to over \$71 per barrel, the Baker Hughes U.S. rig count has increased 34%, and according to the EIA (Energy Information Administration), the rate of monthly well completions in the U.S. has doubled over the past twelve months. We believe Profire has significant leverage to sustained prices in oil and natural gas, and if oil prices are sustained at current levels, we believe the company can achieve its former revenue and EBITDA levels and drive substantial stock price appreciation.

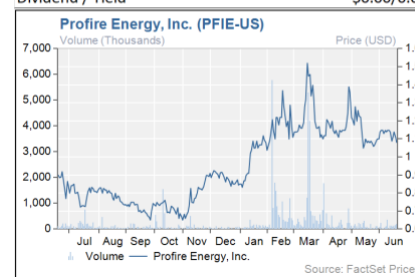
If oil and natural gas prices remain firm, we expect the rig count, drilled wells, and completed wells to continue to increase and the outlook for Profire to improve. The price of WTI crude oil has increased from the negative level seen in late April 2020 to almost \$72 per barrel currently. WTI exceeds the average price in 2018 of \$65.23 and the average price in 2019 of \$56.99. The Baker Hughes U.S. rig count, however, at 470, remains more than 50% below the average rig count in 2018 and 2019. Energy Information Administration (EIA) data indicates the number of wells drilled fell 57% in 2020 and the number of completed wells fell 45%. There is substantial room for improvement as both drilled and completed wells have increased from the Q3 2020 trough but remain 64% and 43%, respectively, below their peaks in 2018.

Oil prices have continued to improve with the improving economy, but the U.S. rig count has lagged the increase in oil prices by a large margin. The last time WTI was over \$70 per barrel (in 2018), the North American rig count exceeded 1,200, versus less than 600 currently. We are not counting on an improvement to prior levels in order to achieve our price target. We believe Profire is in a better position than many of its competitors, with a strong balance sheet and positive cash flow. However, it remains at the mercy of oil prices and its attempt to expand into the upstream burner management system (BMS) market.

**Valuation:** Our price target of \$1.65 is based on an EV/EBITDA multiple of 15x our 2022 EBITDA estimate of \$4.0 million. Our EV/EBITDA target multiple is a discount to the median multiple of 18.8x of a comp group. (See page 3.) We believe the discount is warranted to reflect the risks of reaching our EBITDA estimate.

**Risks:** Risks to achieving our price target include changes in oil and gas prices, global economic growth and its impact on demand for oil and gas, regulation that could impact the ability to drill for oil and gas, and regulation that could impede the development of pipelines in the U.S.

Current Price	\$1.08		
Price Target	\$1.65		
Estimates	F2020A	F2021E	F2022E
Revenues (\$000s)	\$ 21,459	\$ 23,631 E	\$ 30,110
1Q March	\$ 7,447	\$ 5,092 A	\$ 7,027
2Q June	\$ 4,359	\$ 5,457 E	\$ 7,304
3Q September	\$ 4,000	\$ 6,229 E	\$ 7,609
4Q December	\$ 5,652	\$ 6,852 E	\$ 8,170
	F2020A	F2021E	F2022E
EBITDA (\$000s)	\$ (1,460)	\$ 659 E	\$ 3,969
1Q March	\$ (339)	\$ (386) A	\$ 781
2Q June	\$ (587)	\$ (30) E	\$ 885
3Q September	\$ (935)	\$ 387 E	\$ 1,007
4Q December	\$ 400	\$ 687 E	\$ 1,297
EV/Sales	1.5 x	1.4 x	1.1 x
EV/EBITDA	NM	49.4 x	8.2 x
Stock Data			
52-Week Range	\$0.63	-	\$1.74
Shares Outstanding (mil.)	48.0		
Market Capitalization (mil.)	\$52		
Enterprise Value (mil.)	\$33		
Debt to Capital	0%		
Book Value/Share	\$0.94		
Price/Book	1.2x		
Average Three Months Trading Volume (K)	707		
Insider Ownership	37.4%		
Institutional Ownership	35.1%		
Short interest (mil.)	0.2%		
Dividend / Yield	\$0.00/0.0%		



## Balance Sheet

Profire is debt-free, and at the end of Q1, had \$19.4 million, or \$0.40 per share, in cash and investments. Operating cash flow from 2017 to 2019 averaged \$7 million per year but declined to \$264 thousand in 2020. Much of the decline is due to the \$6.5 million decline in EBITDA, offset by a reduction in working capital of about \$2.7 million. Inventory levels are high, and we expect them to remain so for the rest of the year as the company is experiencing supply chain delays and is building inventory in order to fulfill orders quickly. For 2021, we expect operating cash flow of \$590 thousand, and cash to decline almost \$700 thousand for the year.

## Outlook

In the smaller and mid-size oilfield applications, demand for BMSs is driven by the number of well completions, and to a lesser extent, by replacement demand and retrofit of existing wells. According to EIA data, in the U.S., the number of well completions in 2018 was almost 15,000, fell to under 14,000 in 2019 and to 7,709 in 2020. Q1 2021 well completions were about half of the year-ago quarter's count but up about 33% from the trough of Q3.

The industry decline has overwhelmed the positive contributions from Profire's steady stream of new products and acquisitions. Sales fell 45% in 2020, with the steepest decline, almost 60%, in Q3. Sales in Q1 2021 fell 31% from the year-ago quarter, but we expect Q2 to rise 25% over the year-ago quarter, Q3 56% and Q4 21%. Assuming a stable environment in the first half and a recovery in the second half, we expect sales in 2021 of \$23.6 million, and a further recovery in 2022 to \$30.1 million.

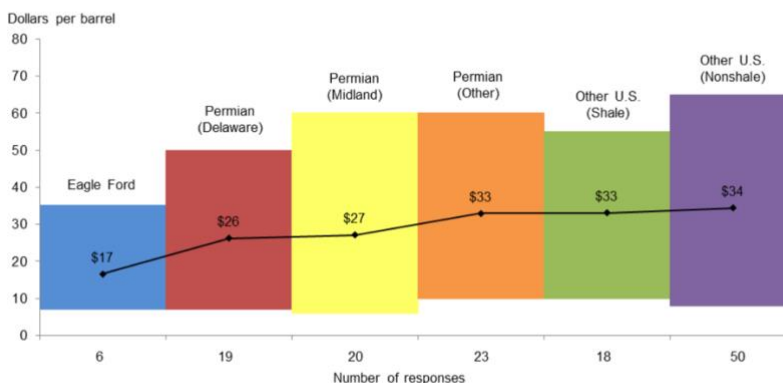
The outlook for drilling and completions in the U.S. has improved. An [April 2021 survey from the Federal Reserve Bank of Kansas City](#) states "activity moved higher than year-ago levels for the first time since March 2019, and expectations also increased further." A [March 2021 survey from the Federal Reserve Bank of Dallas](#) states "firms have increased their capital spending plans for 2022."

With WTI at \$72, operating expenses are well covered, according to a Federal Reserve Bank of Dallas energy survey (see below).

### Exploration and Production (E&P) Firms

#### In the top two areas in which your firm is active: What West Texas Intermediate (WTI) oil price does your firm need to cover operating expenses for existing wells?

Across regions, the average price necessary to cover operating expenses ranges from \$17 to \$34 per barrel. Almost all respondents can cover operating expenses for existing wells at current prices. The average across the entire sample is approximately \$31 per barrel, up slightly from \$30 last year.

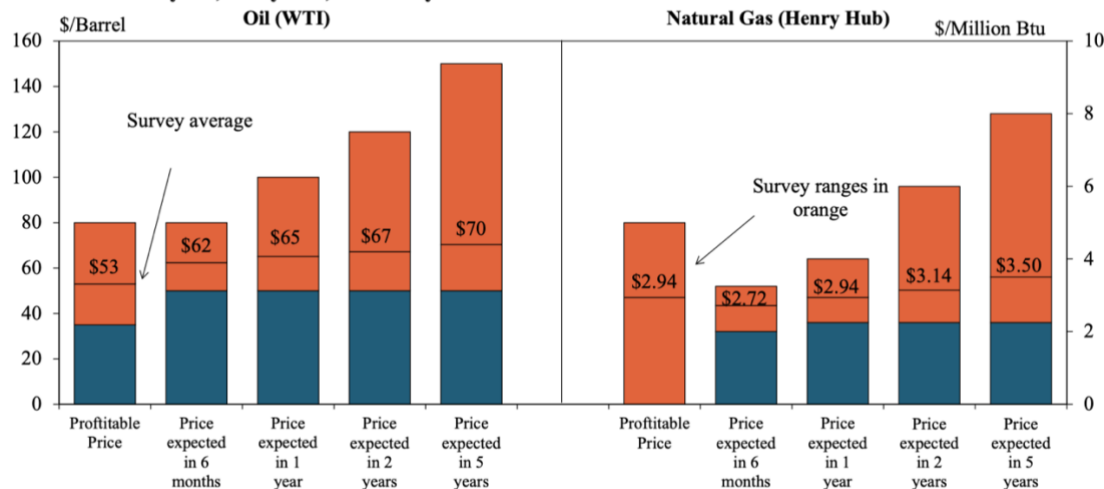


NOTES: Lines show the mean, and bars show the range of responses. Executives from 94 exploration and production firms answered this question during the survey collection period, March 10-18, 2021.  
SOURCE: Federal Reserve Bank of Dallas.

Source: "Dallas Fed Energy Survey," March 24, 2021 Federal Reserve Bank of Dallas.

Current prices also support profitable drilling for new wells, as shown in a Federal Reserve Bank of Kansas City energy survey (see below).

**Chart 2. Special Question - What price is currently needed for drilling to be profitable for oil and natural gas, and what do you expect the WTI and Henry Hub prices to be in six months, one year, two years, and five years?**



Source: "Federal Reserve Bank of Kansas City First Quarter Energy Survey," April 9, 2021, Kansas City Federal Reserve

We project revenue for Profire in 2021 of \$23.6 million, up from \$21.4 million in 2020. For 2022, we forecast revenue of \$30.1 million, based on stable oil and gas prices and continued improvement in drilling and completion activity. (See [Haliburton Q1 2021 EPS transcript](#): "North America is staging a healthy recovery. In the current oil price environment, shale operators have a larger portfolio of economically viable projects.")

We believe Profire is in a better position than many of its competitors, with a strong balance sheet and positive cash flow. However, it remains at the mercy of oil prices, and its attempts to reduce its dependence on the upstream BMS market have met with limited success.

Profire Energy, Inc. Comparable Group

		Price	TEV (\$M)	FTM Sales (\$M)	EV/Sales	FTM EBITDA (\$M)	EV/EBITDA
CLB	Core Laboratories NV	\$ 41.35	\$ 2,170.3	\$ 509.6	4.26	\$ 91.8	23.6
BOOM	DMC Global Inc.	55.03	816.2	304.9	2.68	43.4	18.8
ENSV	Enservco Corporation	1.46	33.2	26.0	1.28	1.6	20.6
HTG-GB	Hunting PLC	£ 2.43	£ 365.5	£ 474.7	0.77	£ 38.2	9.6
OIS	Oil States International, Inc.	8.00	659.4	644.6	1.02	54.7	12.0
PSD-CA	Pulse Seismic Inc.	C\$ 1.95	C\$ 125.0	C\$ 26.6	4.70	C\$ 22.0	5.7
SDPI	Superior Drilling Products, Inc.	0.88	27.7	11.5	2.41	0.5	56.4
	Median				2.41		18.8
PFIE	Profire Energy, Inc.	\$ 1.08	\$ 32.5	\$ 26.7	1.22	\$ 2.2	14.7

Source: FactSet and Dawson James Securities estimates.

### Valuation:

Our price target of \$1.65 is based on an EV/EBITDA multiple of 15x our 2022 EBITDA estimate of \$4.0 million. Our EV/EBITDA target multiple is a discount to the median multiple of 18.8x of a comp group. We believe the discount is warranted to reflect the risks of reaching our EBITDA estimate.

### Risk Analysis:

Risks to achieving our price target include changes in oil and gas prices, global economic growth and its impact on demand for oil and gas, regulation that could impact the ability to drill for oil and gas, and regulation that could impede the development of pipelines in the U.S.



**Exhibit 1. Income Statement**

\$ in 000's except per share data	FY 18	FY 19	FY 20	Mar-21 Q1 21 A	Jun-21 Q2 21 E	Sep-21 Q3 21 E	Dec-21 Q4 21 E	FY 21E	FY 22E
Sales of Goods	42,870	36,208	19,396	4,658	5,000	5,750	6,325	21,733	27,750
Sales of Services	2,744	2,773	2,063	435	457	479	527	1,898	2,360
Total Revenues	\$ 45,615	\$ 38,981	\$ 21,459	\$ 5,092	\$ 5,457	\$ 6,229	\$ 6,852	\$ 23,631	\$ 30,110
Cost of Goods	20,789	17,588	10,378	2,538	2,600	2,875	3,099	11,112	13,344
Cost of Services	1,924	1,865	1,554	380	320	336	369	1,404	1,616
Total COGS	22,713	19,453	11,932	2,918	2,920	3,211	3,468	12,516	14,959
Gross Profit-Goods	22,081	18,620	9,017	2,120	2,400	2,875	3,226	10,621	14,406
Gross Profit-Services	820	908	509	55	137	144	158	494	744
Gross Profit-Total	22,901	19,528	9,526	2,175	2,537	3,019	3,384	11,114	15,151
G&A	13,029	13,454	10,641	2,555	2,605	2,655	2,705	10,518	11,118
R&D	1,397	1,933	1,299	257	272	287	302	1,118	1,298
Depreciation	501	977	666	167	167	167	167	670	670
Opex	14,927	16,364	12,606	2,979	3,044	3,109	3,174	12,306	13,086
Operating income	7,974	3,164	(3,080)	(804)	(507)	(90)	210	(1,191)	2,065
Interest and Other	624	403	421	95	95	95	95	379	379
Pretax income	8,598	3,567	(2,659)	(709)	(412)	5	305	(812)	2,444
Taxes	2,517	1,546	(484)	(108)	(107)	1	79	(134)	636
Net Income	\$ 6,081	\$ 2,021	\$ (2,176)	\$ (602)	\$ (305)	\$ 4	\$ 226	\$ (677)	\$ 1,809
Basic Shares	48,471	47,491	47,778	47,990	48,016	48,072	48,172	47,878	48,030
Diluted Shares	49,222	48,134	47,778	47,990	48,416	48,472	48,572	47,878	48,350
Basic EPS	\$ 0.13	\$ 0.04	\$ (0.05)	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ 0.00	\$ (0.01)	\$ 0.04
Diluted EPS	\$ 0.12	\$ 0.04	\$ (0.05)	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ 0.00	\$ (0.01)	\$ 0.04
Operating Income	7,974	3,164	(3,080)	(804)	(507)	(90)	210	(1,191)	2,065
D&A	897	1,467	1,177	294	352	352	352	1,350	1,404
Stock Comp	1,059	391	443	125	125	125	125	500	500
<b>EBITDA</b>	<b>\$ 9,930</b>	<b>\$ 5,022</b>	<b>\$ (1,460)</b>	<b>\$ (386)</b>	<b>\$ (30)</b>	<b>\$ 387</b>	<b>\$ 687</b>	<b>\$ 659</b>	<b>\$ 3,969</b>
<b>WTI \$/barrel</b>	<b>\$ 65.23</b>	<b>\$ 56.99</b>	<b>\$ 39.16</b>	<b>\$ 58.09</b>					
	FY 18	FY 19	FY 20	Q1 21 A	Q2 21 E	Q3 21 E	Q4 21 E	FY 21E	FY 22E
Sales of Goods	94.0%	92.9%	90.4%	91.5%	91.6%	92.3%	92.3%	92.0%	92.2%
Sales of Services	6.0%	7.1%	9.6%	8.5%	8.4%	7.7%	7.7%	8.0%	7.8%
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods	48.5%	48.6%	53.5%	54.5%	52.0%	50.0%	49.0%	51.1%	48.1%
Cost of services	70.1%	67.3%	75.3%	87.4%	70.0%	70.0%	70.0%	74.0%	68.5%
Total COGS	49.8%	49.9%	55.6%	57.3%	53.5%	51.5%	50.6%	53.0%	49.7%
Gross Profit-Goods	51.5%	51.4%	46.5%	45.5%	48.0%	50.0%	51.0%	48.9%	51.9%
Gross Profit-Services	29.9%	32.7%	24.7%	12.6%	30.0%	30.0%	30.0%	26.0%	31.5%
Gross Profit-Total	50.2%	50.1%	44.4%	42.7%	46.5%	48.5%	49.4%	47.0%	50.3%
G&A	28.6%	34.5%	49.6%	50.2%	47.7%	42.6%	39.5%	44.5%	36.9%
Payroll Expense	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation	1.1%	2.5%	3.1%	3.3%	3.1%	2.7%	2.4%	2.8%	2.2%
Opex	32.7%	42.0%	58.7%	58.5%	55.8%	49.9%	46.3%	52.1%	43.5%
Operating income	17.5%	8.1%	-14.4%	-15.8%	-9.3%	-1.4%	3.1%	-5.0%	6.9%
Interest and Other	1.4%	1.0%	2.0%	1.9%	1.7%	1.5%	1.4%	1.6%	1.3%
Pretax income	18.8%	9.2%	-12.4%	-13.9%	-7.6%	0.1%	4.4%	-3.4%	8.1%
Tax Rate	29.3%	43.3%	18.2%	15.2%	26.0%	26.0%	26.0%	16.6%	26.0%
Net Income	13.3%	5.2%	-10.1%	-11.8%	-5.6%	0.1%	3.3%	-2.9%	6.0%
EBITDA	21.8%	12.9%	-6.8%	-7.6%	-0.5%	6.2%	10.0%	2.8%	13.2%

Source: Profire Energy, Inc. and Dawson James Securities estimates

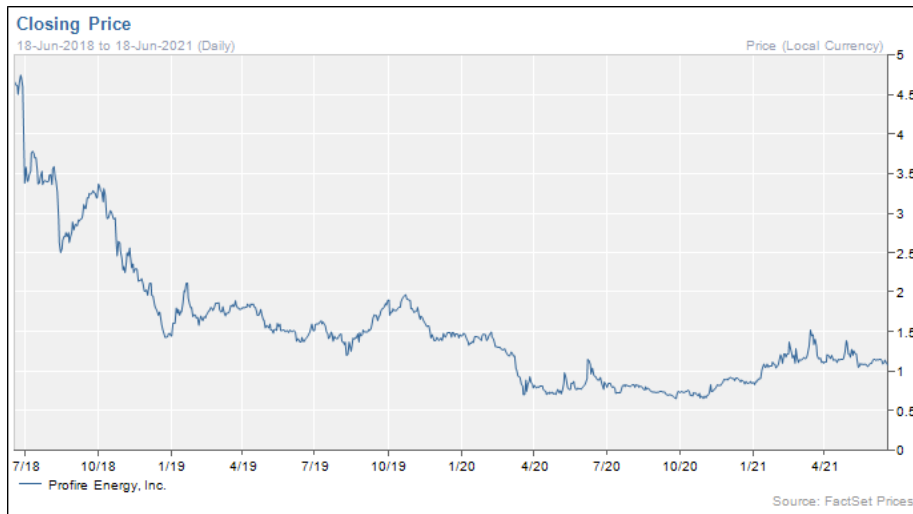
**Exhibit 2. Balance Sheet and Cash Flow Statement**

\$ in 000's	FY 18	FY 19	FY 20	FY 21E	FY 22E
Cash	10,102	7,359	9,148	8,495	9,563
ST Investments	4,558	3,822	2,389	2,294	2,294
A/R	6,885	5,598	3,720	3,730	4,448
Inventories	9,660	9,572	8,415	9,634	10,615
Prepaid Expenses & Other	647	1,750	2,165	1,890	2,254
<b>Current Assets</b>	<b>\$ 31,851</b>	<b>\$ 28,100</b>	<b>\$ 25,836</b>	<b>\$ 26,043</b>	<b>\$ 29,173</b>
LT Investments	7,978	7,400	6,064	6,589	6,589
Financing right of use asset	0	108	50	39	39
PP&E	8,020	12,071	12,022	11,796	11,621
Deferred Tax Asset	85	0	0	0	0
Intangible Assets	430	1,990	1,772	1,540	1,310
Goodwill	998	2,579	2,579	2,579	2,579
<b>Total Assets</b>	<b>\$ 49,363</b>	<b>\$ 52,248</b>	<b>\$ 48,323</b>	<b>\$ 48,587</b>	<b>\$ 51,312</b>
A/P	1,178	2,634	1,179	1,313	1,565
Accrued liabilities	1,757	2,089	1,197	1,411	1,574
Financing lease	0	59	39	36	36
Income tax payable	1,172	403	0	0	0
<b>Current Liabilities</b>	<b>\$ 4,107</b>	<b>\$ 5,185</b>	<b>\$ 2,415</b>	<b>\$ 2,760</b>	<b>\$ 3,176</b>
Deferred Tax Liability	0	439	523	522	522
Financing Lease Liability	0	52	13	4	4
Equity	45,256	46,572	45,372	45,300	47,609
<b>Total Equity &amp; Liab.</b>	<b>\$ 49,363</b>	<b>\$ 52,248</b>	<b>\$ 48,323</b>	<b>\$ 48,587</b>	<b>\$ 51,312</b>
	FY 18	FY 19	FY 20	FY 21E	FY 22E
Net	6,081	2,021	(2,176)	(677)	1,809
D&A	897	1,467	1,177	1,350	1,404
Stock issued for services	1,059	391	443	500	500
Other	69	201	(123)	(77)	0
Working Capital	(2,553)	3,633	943	(506)	(1,645)
<b>Operating Cash Flow</b>	<b>\$ 5,553</b>	<b>\$ 7,713</b>	<b>\$ 264</b>	<b>\$ 590</b>	<b>\$ 2,068</b>
Other	359	1,611	3,314	(411)	0
Acquisition	0	(4,384)	0	0	0
CapEx	(1,928)	(4,665)	(1,547)	(808)	(1,000)
<b>Investing Activities</b>	<b>\$ (1,568)</b>	<b>\$ (7,437)</b>	<b>\$ 1,767</b>	<b>\$ (1,219)</b>	<b>\$ (1,000)</b>
Equity	(5,233)	(2,977)	(153)	(27)	0
Lease Liability	0	(74)	(58)	(11)	0
<b>Financing Activities</b>	<b>\$ (5,233)</b>	<b>\$ (3,050)</b>	<b>\$ (210)</b>	<b>\$ (38)</b>	<b>\$ -</b>
FX	(95)	31	(31)	0	0
<b>Change in Cash</b>	<b>\$ (1,344)</b>	<b>\$ (2,743)</b>	<b>\$ 1,789</b>	<b>\$ (667)</b>	<b>\$ 1,068</b>

Source: Profire Energy, Inc. and Dawson James Securities estimates

## **Important Disclosures:**

### **Price Chart:**



### **Price target and ratings changes over the past three years:**

Initiated – Buy – May 12, 2021 – Price Target \$1.65

Update – Buy – June 21, 2021 – Price Target \$1.65

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- 1) **Buy:** the analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** the analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** the analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

As of: 17-May-21

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	<b># of Companies</b>	<b>% of Total</b>	<b># of Companies</b>	<b>% of Totals</b>
Market Outperform (Buy)	24	71%	5	21%
Market Perform (Neutral)	10	29%	0	0%
Market Underperform (Sell)	0	0%	0	0%
<b>Total</b>	<b>34</b>	<b>100%</b>	<b>5</b>	<b>15%</b>

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