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

October 18, 2021

### Buy: Rig Count Continues to Rise. Reiterate Buy, \$1.65 Target

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We reiterate our Buy recommendation and \$1.65 price target on Profire Energy based on continued strength in oil prices, the U.S. rig count and improvements in drilling and completion activity. 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.

The [Baker Hughes U.S. rig count](#) has more than doubled over the year-ago level, is up 55% since the beginning of the year and the Q3 quarter-end level was up 15% over the Q2 quarter-end level. West Texas Intermediate (WTI) continues to increase, piercing \$80 per barrel with the [options market betting](#) prices have much room to go.

According to [EIA's Drilling Productivity Report](#), drilling and completion activity continues to recover. Q3 wells drilled, through August, more than doubled over the same months of a year-ago and increased 12% over the average wells drilled in Q2 and rose 5% over the average wells completed in Q2. We believe this supports our revenue estimate for Q3 and suggests possible upside to that estimate.

Despite the improving industry backdrop, shares of Profire have traded flat since mid-May. 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.

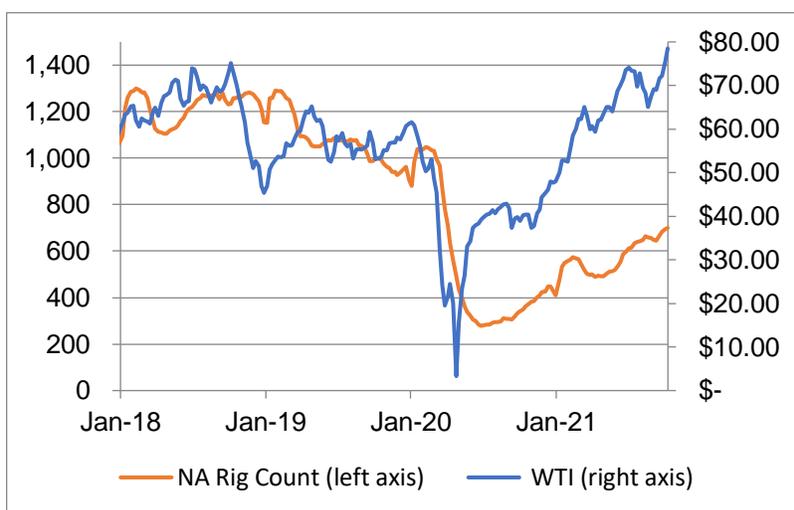
If oil and natural gas prices remain firm, we expect the rig count, drilled wells, and completed wells will continue to increase and the outlook for Profire to improve. WTI exceeds the average price in 2018 of \$65.23 and the average price in 2019 of \$56.99. The Baker Hughes U.S. rig count, however, at 543, remains almost 50% below the average rig counts in 2018 and 2019. Energy Information Administration (EIA) data indicate the number of wells drilled fell 57% in 2020 and the number of completed wells fell 45%. There is substantial room for improvement. The number of drilled wells in August is 60% below its peak level in 2018 and the number of completed wells is 38% below its peak in 2018.

**Valuation:** Our price target of \$1.65 is based on an EV/Sales multiple of 1.9x our 2022 revenue estimate of \$31.9 million. Our EV/sales target multiple is a discount to the 2.4x EV/sales multiple in 2018 when WTI averaged over \$65 per barrel. We believe the discount is warranted to reflect the risks of reaching our revenue 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				\$1.19
Price Target				\$1.65
<b>Estimates</b>	<b>F2020A</b>	<b>F2021E</b>	<b>F2022E</b>	
Revenues (\$000s)	\$ 21,459	\$ 23,799 E	\$ 31,871	
1Q March	\$ 7,447	\$ 5,092 A	\$ 7,449	
2Q June	\$ 4,359	\$ 6,034 A	\$ 7,822	
3Q September	\$ 4,000	\$ 6,034 E	\$ 7,822	
4Q December	\$ 5,652	\$ 6,638 E	\$ 8,779	
	<b>F2020A</b>	<b>F2021E</b>	<b>F2022E</b>	
EBITDA (\$000s)	\$ (1,460)	\$ 69 E	\$ 4,319	
1Q March	\$ (339)	\$ (386)A	\$ 853	
2Q June	\$ (587)	\$ 3 A	\$ 1,005	
3Q September	\$ (935)	\$ 4 E	\$ 983	
4Q December	\$ 400	\$ 448 E	\$ 1,478	
EV/Sales	1.8 x	1.6 x	1.2 x	
EV/EBITDA	NM	557.8 x	8.9 x	
<b>Stock Data</b>				
52-Week Range	\$0.64	-	\$1.74	
Shares Outstanding (mil.)	48.2			
Market Capitalization (mil.)	\$57			
Enterprise Value (mil.)	\$38			
Debt to Capital	0%			
Book Value/Share	\$0.93			
Price/Book	1.3x			
Average Three Months Trading Volume (K)	63			
Insider Ownership	37.8%			
Institutional Ownership	35.7%			
Short interest (mil.)	0.1%			
Dividend / Yield	\$0.00/0.0%			





Source: Baker Hughes, EIA

### 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 7,371 in 2020. Q1 2021 well completions were about two-thirds of the year-ago quarter's count but up about 57% from the trough of Q3. Q2 2021 well completions increased 19% versus Q1. For Q3, through August, average monthly well completions have increased about 5% over Q2 and doubled over Q3 2020.

We project revenue for Profire in 2021 of \$23.8 million, up from \$21.4 million in 2020. For 2022, we forecast revenue of \$31.9 million, based on stable oil and gas prices and continued improvement in drilling and completion activity

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
CHX	ChampionX Corporation	\$ 26.38	\$ 6,047.7	\$ 3,316.7	1.82	\$ 564.3	10.7
CLB	Core Laboratories NV	\$ 31.54	\$ 1,707.6	\$ 527.4	3.24	\$ 90.1	18.9
BOOM	DMC Global Inc.	41.55	608.2	319.1	1.91	47.1	12.9
ENSV	Enservco Corporation	1.41	32.1	27.8	1.15	1.8	18.1
HTG-GB	Hunting PLC	£ 1.99	£ 288.1	£ 472.7	0.61	£ 40.6	7.1
LBRT	Liberty Oilfield Services Inc. Cl	15.22	2,947.9	2,866.3	1.03	309.9	9.5
OIS	Oil States International, Inc.	6.90	574.8	652.3	0.88	63.4	9.1
SDPI	Superior Drilling Products, Inc.	1.36	39.8	13.9	2.87	2.5	16.2
	Superior Energy Services						
	Median				1.69		12.8
PFIE	Profire Energy, Inc.	\$ 1.19	\$ 38.3	\$ 30.2	1.27	\$ 3.4	11.1

Source: FactSet and Dawson James Securities estimates.

### Valuation:

Our price target of \$1.65 is based on an EV/Sales multiple of 1.9x our 2022 revenue estimate of \$31.9 million. Our EV/sales target multiple is a discount to the 2.4x EV/sales multiple in 2018 when WTI averaged over \$65 per barrel. We believe the discount is warranted to reflect the risks of reaching our revenue 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 A	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	5,375	5,375	5,912	21,319	28,475
Sales of Services	2,744	2,773	2,063	435	660	660	726	2,480	3,397
<b>Total Revenues</b>	<b>\$ 45,615</b>	<b>\$ 38,981</b>	<b>\$ 21,459</b>	<b>\$ 5,092</b>	<b>\$ 6,034</b>	<b>\$ 6,034</b>	<b>\$ 6,638</b>	<b>\$ 23,799</b>	<b>\$ 31,871</b>
Cost of Goods	20,789	17,588	10,378	2,538	2,911	2,849	2,897	11,194	13,691
Cost of Services	1,924	1,865	1,554	380	466	462	508	1,816	2,326
<b>Total COGS</b>	<b>22,713</b>	<b>19,453</b>	<b>11,932</b>	<b>2,918</b>	<b>3,377</b>	<b>3,310</b>	<b>3,405</b>	<b>13,009</b>	<b>16,017</b>
Gross Profit-Goods	22,081	18,620	9,017	2,120	2,464	2,526	3,015	10,125	14,784
Gross Profit-Services	820	908	509	55	194	198	218	664	1,071
<b>Gross Profit-Total</b>	<b>22,901</b>	<b>19,528</b>	<b>9,526</b>	<b>2,175</b>	<b>2,658</b>	<b>2,724</b>	<b>3,233</b>	<b>10,789</b>	<b>15,854</b>
G&A	13,029	13,454	10,641	2,555	2,784	2,834	2,884	11,056	11,835
R&D	1,397	1,933	1,299	257	301	316	331	1,206	1,416
Depreciation	501	977	666	167	167	167	167	668	667
Opex	14,927	16,364	12,606	2,979	3,252	3,317	3,382	12,930	13,919
<b>Operating income</b>	<b>7,974</b>	<b>3,164</b>	<b>(3,080)</b>	<b>(804)</b>	<b>(594)</b>	<b>(593)</b>	<b>(149)</b>	<b>(2,141)</b>	<b>1,936</b>
Interest and Other	624	403	421	95	72	72	72	311	288
Pretax income	8,598	3,567	(2,659)	(709)	(523)	(521)	(77)	(1,831)	2,223
Taxes	2,517	1,546	(484)	(108)	(125)	(136)	(20)	(389)	578
<b>Net Income</b>	<b>\$ 6,081</b>	<b>\$ 2,021</b>	<b>\$ (2,176)</b>	<b>\$ (602)</b>	<b>\$ (397)</b>	<b>\$ (386)</b>	<b>\$ (57)</b>	<b>\$ (1,442)</b>	<b>\$ 1,645</b>
Basic Shares	48,471	47,491	47,778	47,990	48,054	48,239	48,289	47,878	48,094
Diluted Shares	49,222	48,134	47,778	47,990	48,054	48,639	48,689	47,878	48,334
Basic EPS	\$ 0.13	\$ 0.04	\$ (0.05)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ 0.03
Diluted EPS	\$ 0.12	\$ 0.04	\$ (0.05)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ 0.03
Operating Income	7,974	3,164	(3,080)	(804)	(594)	(593)	(149)	(2,141)	1,936
D&A	897	1,467	1,177	294	390	390	390	1,464	1,555
Stock Comp	1,059	391	443	125	207	207	207	746	828
<b>EBITDA</b>	<b>\$ 9,930</b>	<b>\$ 5,022</b>	<b>\$ (1,460)</b>	<b>\$ (386)</b>	<b>\$ 3</b>	<b>\$ 4</b>	<b>\$ 448</b>	<b>\$ 69</b>	<b>\$ 4,319</b>
<b>WTI \$/barrel</b>	<b>\$ 65.23</b>	<b>\$ 56.98</b>	<b>\$ 39.12</b>	<b>\$ 58.09</b>	<b>\$ 66.19</b>	<b>\$ 70.58</b>			
	FY 18	FY 19	FY 20	Q1 21 A	Q2 21 A	Q3 21 E	Q4 21 E	FY 21E	FY 22E
Sales of Goods	94.0%	92.9%	90.4%	91.5%	89.1%	89.1%	89.1%	89.6%	89.3%
Sales of Services	6.0%	7.1%	9.6%	8.5%	10.9%	10.9%	10.9%	10.4%	10.7%
<b>Total Revenues</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Cost of goods	48.5%	48.6%	53.5%	54.5%	54.2%	53.0%	49.0%	52.5%	48.1%
Cost of services	70.1%	67.3%	75.3%	87.4%	70.6%	70.0%	70.0%	73.2%	68.5%
<b>Total COGS</b>	<b>49.8%</b>	<b>49.9%</b>	<b>55.6%</b>	<b>57.3%</b>	<b>56.0%</b>	<b>54.9%</b>	<b>51.3%</b>	<b>54.7%</b>	<b>50.3%</b>
Gross Profit-Goods	51.5%	51.4%	46.5%	45.5%	45.8%	47.0%	51.0%	47.5%	51.9%
Gross Profit-Services	29.9%	32.7%	24.7%	12.6%	29.4%	30.0%	30.0%	26.8%	31.5%
<b>Gross Profit-Total</b>	<b>50.2%</b>	<b>50.1%</b>	<b>44.4%</b>	<b>42.7%</b>	<b>44.0%</b>	<b>45.1%</b>	<b>48.7%</b>	<b>45.3%</b>	<b>49.7%</b>
G&A	28.6%	34.5%	49.6%	50.2%	46.1%	47.0%	43.4%	46.5%	37.1%
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%	2.8%	2.8%	2.5%	2.8%	2.1%
Opex	32.7%	42.0%	58.7%	58.5%	53.9%	55.0%	51.0%	54.3%	43.7%
<b>Operating income</b>	<b>17.5%</b>	<b>8.1%</b>	<b>-14.4%</b>	<b>-15.8%</b>	<b>-9.9%</b>	<b>-9.8%</b>	<b>-2.2%</b>	<b>-9.0%</b>	<b>6.1%</b>
Interest and Other	1.4%	1.0%	2.0%	1.9%	1.2%	1.2%	1.1%	1.3%	0.9%
Pretax income	18.8%	9.2%	-12.4%	-13.9%	-8.7%	-8.6%	-1.2%	-7.7%	7.0%
Tax Rate	29.3%	43.3%	18.2%	15.2%	24.0%	26.0%	26.0%	21.2%	26.0%
<b>Net Income</b>	<b>13.3%</b>	<b>5.2%</b>	<b>-10.1%</b>	<b>-11.8%</b>	<b>-6.6%</b>	<b>-6.4%</b>	<b>-0.9%</b>	<b>-6.1%</b>	<b>5.2%</b>
<b>EBITDA</b>	<b>21.8%</b>	<b>12.9%</b>	<b>-6.8%</b>	<b>-7.6%</b>	<b>0.0%</b>	<b>0.1%</b>	<b>6.7%</b>	<b>0.3%</b>	<b>13.6%</b>

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

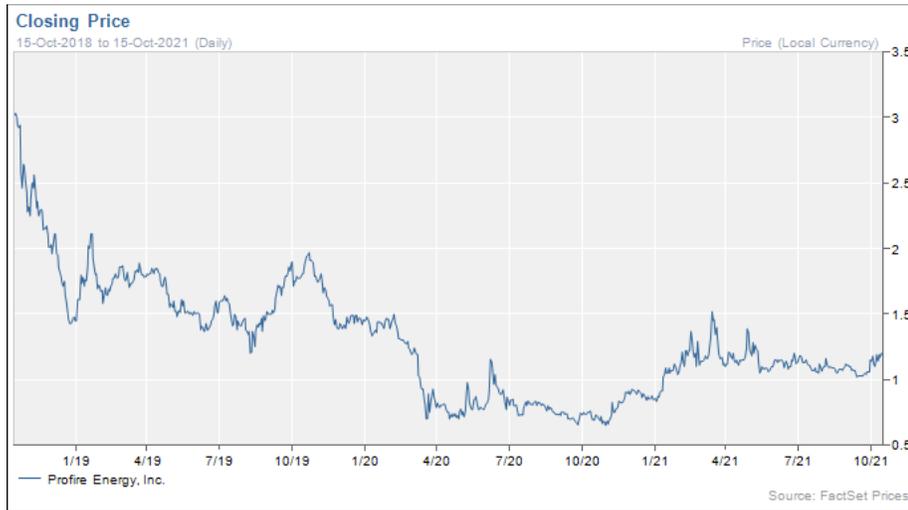
**Exhibit 2. Balance Sheet and Cash Flow Statement**

\$ in 000's	FY 18	FY 19	FY 20	FY 21E	FY 22E
Cash	10,102	7,359	9,148	10,258	11,055
ST Investments	4,558	3,822	2,389	2,087	2,087
A/R	6,885	5,598	3,720	4,166	5,509
Inventories	9,660	9,572	8,415	7,566	8,639
Prepaid Expenses & Other	647	1,750	2,165	1,715	2,268
<b>Current Assets</b>	<b>\$ 31,851</b>	<b>\$ 28,100</b>	<b>\$ 25,836</b>	<b>\$ 25,792</b>	<b>\$ 29,559</b>
LT Investments	7,978	7,400	6,064	7,133	7,133
Financing right of use asset	0	108	50	29	29
PP&E	8,020	12,071	12,022	11,559	11,234
Deferred Tax Asset	85	0	0	0	0
Intangible Assets	430	1,990	1,772	1,543	1,313
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>\$ 48,635</b>	<b>\$ 51,847</b>
A/P	1,178	2,634	1,179	1,383	1,829
Accrued liabilities	1,757	2,089	1,197	1,635	1,927
Financing lease	0	59	39	30	30
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>\$ 3,049</b>	<b>\$ 3,787</b>
Deferred Tax Liability	0	439	523	602	602
Financing Lease Liability	0	52	13	0	0
Equity	45,256	46,572	45,372	44,985	47,458
<b>Total Equity &amp; Liab.</b>	<b>\$ 49,363</b>	<b>\$ 52,248</b>	<b>\$ 48,323</b>	<b>\$ 48,635</b>	<b>\$ 51,847</b>
	FY 18	FY 19	FY 20	FY 21E	FY 22E
Net	6,081	2,021	(2,176)	(1,442)	1,645
D&A	897	1,467	1,177	1,464	1,555
Stock issued for services	1,059	391	443	746	828
Other	69	201	(123)	(222)	0
Working Capital	(2,553)	3,633	943	1,846	(2,231)
<b>Operating Cash Flow</b>	<b>\$ 5,553</b>	<b>\$ 7,713</b>	<b>\$ 264</b>	<b>\$ 2,392</b>	<b>\$ 1,797</b>
Other	359	1,611	3,314	(650)	0
Acquisition	0	(4,384)	0	0	0
CapEx	(1,928)	(4,665)	(1,547)	(593)	(1,000)
<b>Investing Activities</b>	<b>\$ (1,568)</b>	<b>\$ (7,437)</b>	<b>\$ 1,767</b>	<b>\$ (1,243)</b>	<b>\$ (1,000)</b>
Equity	(5,233)	(2,977)	(153)	(43)	0
Lease Liability	0	(74)	(58)	(22)	0
<b>Financing Activities</b>	<b>\$ (5,233)</b>	<b>\$ (3,050)</b>	<b>\$ (210)</b>	<b>\$ (65)</b>	<b>\$ -</b>
FX	(95)	31	(31)	25	0
<b>Change in Cash</b>	<b>\$ (1,344)</b>	<b>\$ (2,743)</b>	<b>\$ 1,789</b>	<b>\$ 1,110</b>	<b>\$ 797</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
- Update – Buy – August 6, 2021 – Price Target \$1.65
- Update – Buy – September 28, 2021 – Price Target \$1.65
- Update – Buy – October 18, 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.

Current as of 10/15/21	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	69%	4	16%
Market Perform (Neutral)	11	31%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	36	100%	4	11%

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