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Profire Energy, Inc. (NASDAQ: PFIE)

November 5, 2021

Buy: Q3 Better than Expected. Reiterate Buy, \$1.65 Target

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Q3 results were better than expected due to 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.

Q3 revenue rose 74% over the year-ago level, 15% over Q2 and was 15% better than our estimate. Gross margin improved to 44.9% from 44% in Q2, operating expenses fell, as a percentage of revenue and EBITDA was \$113 thousand, better than the break-even level of Q2 and ahead of our estimate of break-even.

The balance sheet remains strong with cash and long-term investments of \$18.5 million. A/R turnover was in line with historical levels. Inventory turns improved even with economy-wide supply chain issues and the company's strategy of holding more than optimal inventory in order to provide rapid delivery for its customers.

West Texas Intermediate (WTI) averaged over \$70 per barrel in the quarter, up 6% over the average Q2 amount, and is currently about \$80 per barrel. We believe strong oil and gas prices will drive continued improvement in drilling and completion activity and drive continued growth for Profire.

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 more than doubled over the year-ago quarter and increased 14% over the average wells drilled in Q2. Completed wells in Q3 rose 6% over the average wells completed in Q2. Strength in oil prices, we believe, supports continued growth in drilling and completion activity and our Q4 revenue estimate.

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.

Valuation: Our price target of \$1.65 is based on an EV/Sales multiple of 1.85x our 2022 revenue estimate of \$33.0 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				\$1.30
Price Target				\$1.65
Estimates	F2020A	F2021E	F2022E	
Revenues (\$000s)	\$ 21,459	\$ 25,707 E	\$ 33,026	
1Q March	\$ 7,447	\$ 5,092 A	\$ 8,210	
2Q June	\$ 4,359	\$ 6,034 A	\$ 8,005	
3Q September	\$ 4,000	\$ 6,943 A	\$ 8,005	
4Q December	\$ 5,652	\$ 7,638 E	\$ 8,806	
	F2020A	F2021E	F2022E	
EBITDA (\$000s)	\$ (1,460)	\$ 332 E	\$ 4,372	
1Q March	\$ (339)	\$ (386)A	\$ 997	
2Q June	\$ (587)	\$ 3 A	\$ 967	
3Q September	\$ (935)	\$ 113 A	\$ 996	
4Q December	\$ 400	\$ 603 E	\$ 1,412	
EV/Sales	2.1 x	1.7 x	1.3 x	
EV/EBITDA	NM	132.6 x	10.1 x	
Stock Data				
52-Week Range	\$0.66	-	\$1.74	
Shares Outstanding (mil.)				48.1
Market Capitalization (mil.)				\$63
Enterprise Value (mil.)				\$44
Debt to Capital				0%
Book Value/Share				\$0.93
Price/Book				1.4x
Average Three Months Trading Volume (K)				48
Insider Ownership				38.8%
Institutional Ownership				37.6%
Short interest (mil.)				0.1%
Dividend / Yield				\$0.00/0.0%



Q3 Results
Profire Energy Q3 21 Actual v. Estimates
 (\$ in thousands, except per share data)

Q3 21	Actual	Est.	Delta	% Delta
Sales of Goods	6,297	5,375	922	17%
Sales of Services	646	660	(13)	-2%
Total Revenues	6,943	6,034	909	15%
Cost of Goods	3,218	2,849	369	13%
Cost of Services	606	462	144	31%
Total COGS	3,824	3,310	513	16%
Gross Profit-Goods	3,079	2,526	553	22%
Gross Profit-Services	40	198	(158)	-80%
Gross Profit-Total	3,119	2,724	396	15%
G&A	2,981	2,834	147	
R&D	291	316	(26)	
Depreciation	166	167	(1)	
Opex	3,438	3,317	121	4%
Operating income	(318)	(593)	275	46%
Interest and Other	62	72	(10)	
Pretax income	(257)	(521)	265	51%
Taxes	(349)	(136)	(213)	
Net Income	92	(386)	478	124%
Basic Shares (000)	48,239	48,239		
Diluted Shares (000)	49,329	48,639		
Basic EPS	\$ 0.00	\$ (0.01)	\$ 0.01	
Diluted EPS	\$ 0.00	\$ (0.01)	\$ 0.01	
Operating Income	(318)	(593)	275	46%
D&A	288	390		
Stock Comp	143	207		
EBITDA	113	4	109	Lge
EBITDA Margin	1.6%	0.1%		

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

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 2020. Q2 2021 well completions increased 19% versus Q1. For Q3, well completions increased about 6% over Q2 and more than doubled over Q3 2020.

We project revenue for Profire in 2021 of \$25.7 million, up from \$21.4 million in 2020. For 2022, we forecast revenue of \$33.0 million, based on stable oil and gas prices and continued improvement in drilling and completion activity

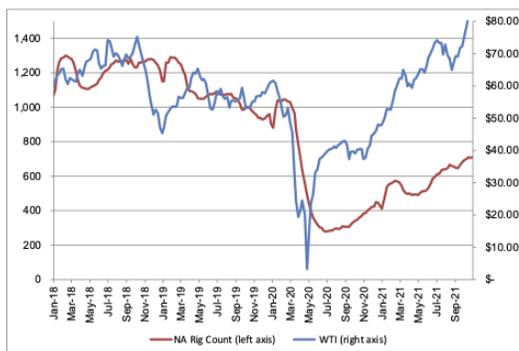
We believe Profire is in a better position than many of its competitors, with a strong balance sheet and positive cash flow. However, it remains at the mercy of oil prices, and its attempts to reduce its dependence on the upstream BMS market have met with limited success.

Profire Energy, Inc. Comparable Group

		Price	TEV	FTM	EV/	FTM	EV/
			(\$M)	Sales (\$M)	Sales	EBITDA (\$M)	EBITDA
CHX	ChampionX Corporation	\$ 26.57	\$ 5,972.9	\$ 3,446.2	1.73	\$ 576.7	10.4
CLB	Core Laboratories NV	\$ 27.18	\$ 1,504.4	\$ 517.3	2.91	\$ 88.1	17.1
BOOM	DMC Global Inc.	40.65	591.3	308.6	1.92	38.8	15.2
ENSV	Enservco Corporation	1.37	31.6	28.4	1.11	2.0	16.1
HTG-GB	Hunting PLC	£ 1.69	£ 238.6	£ 442.0	0.54	£ 35.4	6.7
LBRT	Liberty Oilfield Services Inc. Clk	12.50	2,471.6	3,145.3	0.79	313.8	7.9
OIS	Oil States International, Inc.	6.53	545.5	685.1	0.80	63.6	8.6
SDPI	Superior Drilling Products, Inc.	1.18	38.6	13.9	2.77	2.5	15.7
	Superior Energy Services						
	Median				1.57		12.2
PFIE	Profire Energy, Inc.	\$ 1.30	\$ 44.1	\$ 31.9	1.38	\$ 3.8	11.7

Source: FactSet and Dawson James Securities estimates.

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 544, 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 September is almost 60% below its peak level in 2018 and the number of completed wells is 36% below its peak in 2018.



Source: Baker Hughes, EIA

Valuation:

Our price target of \$1.65 is based on an EV/Sales multiple of 1.85x our 2022 revenue estimate of \$33.0 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 A	Dec-21 Q4 21 E	FY 21E	FY 22E
Sales of Goods	42,870	36,208	19,396	4,658	5,375	6,297	6,926	23,255	29,951
Sales of Services	2,744	2,773	2,063	435	660	646	711	2,452	3,075
Total Revenues	\$ 45,615	\$ 38,981	\$ 21,459	\$ 5,092	\$ 6,034	\$ 6,943	\$ 7,638	\$ 25,707	\$ 33,026
Cost of Goods	20,789	17,588	10,378	2,538	2,911	3,218	3,394	12,060	14,407
Cost of Services	1,924	1,865	1,554	380	466	606	604	2,056	2,106
Total COGS	22,713	19,453	11,932	2,918	3,377	3,824	3,998	14,116	16,513
Gross Profit-Goods	22,081	18,620	9,017	2,120	2,464	3,079	3,532	11,195	15,544
Gross Profit-Services	820	908	509	55	194	40	107	396	969
Gross Profit-Total	22,901	19,528	9,526	2,175	2,658	3,119	3,639	11,591	16,513
G&A	13,029	13,454	10,641	2,555	2,784	2,981	3,031	11,350	12,024
R&D	1,397	1,933	1,299	257	301	291	306	1,155	1,313
Depreciation	501	977	666	167	167	166	166	667	665
Opex	14,927	16,364	12,606	2,979	3,252	3,438	3,503	13,172	14,001
Operating income	7,974	3,164	(3,080)	(804)	(594)	(318)	136	(1,581)	2,512
Interest and Other	624	403	421	95	72	62	62	290	247
Pretax income	8,598	3,567.561	(2,659)	(709)	(523)	(257)	198	(1,290)	2,759
Taxes	2,517	1,546	(484)	(108)	(125)	(349)	52	(530)	717
Net Income	\$ 6,081	\$ 2,021	\$ (2,176)	\$ (602)	\$ (397)	\$ 92	\$ 147	\$ (760)	\$ 2,041
Basic Shares	48,471	47,491	47,778	47,990	48,054	48,239	48,174	47,878	48,071
Diluted Shares	49,222	48,134	47,778	47,990	48,054	49,329	48,574	47,878	48,449
Basic EPS	\$ 0.13	\$ 0.04	\$ (0.05)	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ 0.00	\$ (0.02)	\$ 0.04
Diluted EPS	\$ 0.12	\$ 0.04	\$ (0.05)	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ 0.00	\$ (0.02)	\$ 0.04
Operating Income	7,974	3,164	(3,080)	(804)	(594)	(318)	136	(1,581)	2,512
D&A	897	1,467	1,177	294	390	288	324	1,295	1,290
Stock Comp	1,059	391	443	125	207	143	143	618	571
EBITDA	\$ 9,930	\$ 5,022	\$ (1,460)	\$ (386)	\$ 3	\$ 113	\$ 603	\$ 332	\$ 4,372
WTI \$/barrel	\$ 65.23	\$ 56.98	\$ 39.12	\$ 58.09	\$ 66.19	\$ 70.58			
	FY 18	FY 19	FY 20	Q1 21 A	Q2 21 A	Q3 21 A	Q4 21 E	FY 21E	FY 22E
Sales of Goods	94.0%	92.9%	90.4%	91.5%	89.1%	90.7%	90.7%	90.5%	90.7%
Sales of Services	6.0%	7.1%	9.6%	8.5%	10.9%	9.3%	9.3%	9.5%	9.3%
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%	54.2%	51.1%	49.0%	51.9%	48.1%
Cost of services	70.1%	67.3%	75.3%	87.4%	70.6%	93.8%	85.0%	83.9%	68.5%
Total COGS	49.8%	49.9%	55.6%	57.3%	56.0%	55.1%	52.4%	54.9%	50.0%
Gross Profit-Goods	51.5%	51.4%	46.5%	45.5%	45.8%	48.9%	51.0%	48.1%	51.9%
Gross Profit-Services	29.9%	32.7%	24.7%	12.6%	29.4%	6.2%	15.0%	16.1%	31.5%
Gross Profit-Total	50.2%	50.1%	44.4%	42.7%	44.0%	44.9%	47.6%	45.1%	50.0%
G&A	28.6%	34.5%	49.6%	50.2%	46.1%	42.9%	39.7%	44.2%	36.4%
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%	2.4%	2.2%	2.6%	2.0%
Opex	32.7%	42.0%	58.7%	58.5%	53.9%	49.5%	45.9%	51.2%	42.4%
Operating income	17.5%	8.1%	-14.4%	-15.8%	-9.9%	-4.6%	1.8%	-6.1%	7.6%
Interest and Other	1.4%	1.0%	2.0%	1.9%	1.2%	0.9%	0.8%	1.1%	0.7%
Pretax income	18.8%	9.2%	-12.4%	-13.9%	-8.7%	-3.7%	2.6%	-5.0%	8.4%
Tax Rate	29.3%	43.3%	18.2%	15.2%	24.0%	136.0%	26.0%	41.1%	26.0%
Net Income	13.3%	5.2%	-10.1%	-11.8%	-6.6%	1.3%	1.9%	-3.0%	6.2%
EBITDA	21.8%	12.9%	-6.8%	-7.6%	0.0%	1.6%	7.9%	1.3%	13.2%

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

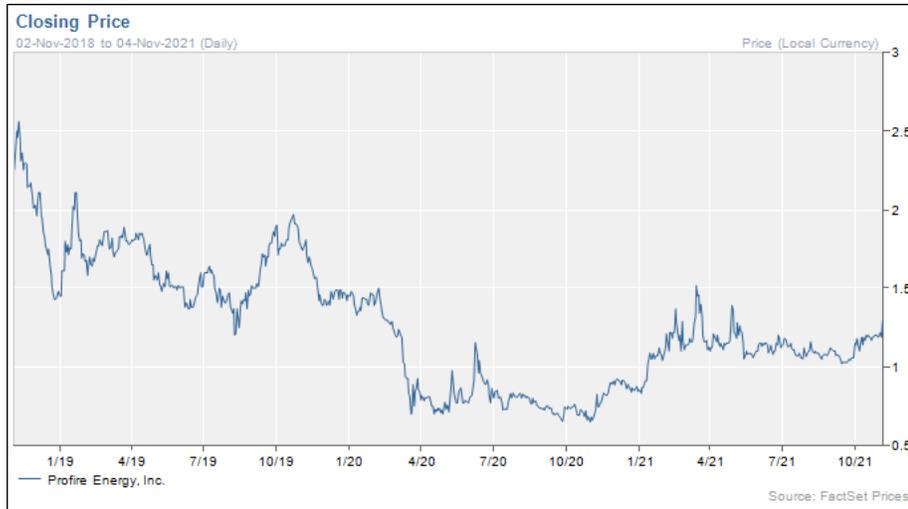
Exhibit 2. Balance Sheet and Cash Flow Statement

\$ in 000's	FY 18	FY 19	FY 20	Q1 21 A	Q2 21 A	Q3 21 A	Q4 21 E	FY 21E	FY 22E
Cash	10,102	7,359	9,148	10,475	9,921	9,129	7,751	7,751	10,125
ST Investments	4,558	3,822	2,389	2,294	2,087	1,421	1,421	1,421	1,421
A/R	6,885	5,598	3,720	2,772	3,787	4,632	5,095	5,095	5,875
Inventories	9,660	9,572	8,415	8,105	7,912	7,473	8,885	8,885	8,622
Prepaid Expenses & Other	647	1,750	2,165	1,405	1,559	2,277	2,505	2,505	2,888
Current Assets	\$ 31,851	\$ 28,100	\$ 25,836	\$ 25,051	\$ 25,267	\$ 24,932	\$ 25,658	\$ 25,658	\$ 28,930
LT Investments	7,978	7,400	6,064	6,589	7,133	7,940	7,940	7,940	7,940
Financing right of use asset	0	108	50	39	29	20	20	20	20
PP&E	8,020	12,071	12,022	11,926	11,722	11,402	11,387	11,387	11,327
Deferred Tax Asset	85	0	0	0	0	0	0	0	0
Intangible Assets	430	1,990	1,772	1,716	1,661	1,605	1,546	1,546	1,316
Goodwill	998	2,579	2,579	2,579	2,579	2,579	2,579	2,579	2,579
Total Assets	\$ 49,363	\$ 52,248	\$ 48,323	\$ 47,901	\$ 48,390	\$ 48,478	\$ 49,130	\$ 49,130	\$ 52,112
A/P	1,178	2,634	1,179	976	1,257	1,495	1,645	1,645	1,896
Accrued liabilities	1,757	2,089	1,197	1,361	1,487	1,422	1,635	1,635	1,754
Financing lease	0	59	39	36	30	21	21	21	21
Income tax payable	1,172	403	0	0	0	0	0	0	0
Current Liabilities	\$ 4,107	\$ 5,185	\$ 2,415	\$ 2,374	\$ 2,774	\$ 2,939	\$ 3,301	\$ 3,301	\$ 3,671
Deferred Tax Liability	0	439	523	522	602	573	573	573	573
Financing Lease Liability	0	52	13	4	0	0	0	0	0
Equity	45,256	46,572	45,372	45,001	45,014	44,967	45,256	45,256	47,868
Total Equity & Liab.	\$ 49,363	\$ 52,248	\$ 48,323	\$ 47,901	\$ 48,390	\$ 48,478	\$ 49,130	\$ 49,130	\$ 52,112
Net	6,081	2,021	(2,176)	(602)	(397)	92	147	(760)	2,041
D&A	897	1,467	1,177	294	390	288	324	1,295	1,290
Stock issued for services	1,059	391	443	125	207	143	143	618	571
Other	69	201	(123)	(77)	(145)	80	0	(141)	0
Working Capital	(2,553)	3,633	943	2,080	(320)	(1,202)	(1,741)	(1,182)	(529)
Operating Cash Flow	\$ 5,553	\$ 7,713	\$ 264	\$ 1,821	\$ (265)	\$ (598)	\$ (1,128)	\$ (170)	\$ 3,374
Other	359	1,611	3,314	(411)	(239)	(130)	0	(780)	0
Acquisition	0	(4,384)	0	0	0	0	0	0	0
CapEx	(1,928)	(4,665)	(1,547)	(58)	(35)	(46)	(250)	(389)	(1,000)
Investing Activities	\$ (1,568)	\$ (7,437)	\$ 1,767	\$ (469)	\$ (275)	\$ (176)	\$ (250)	\$ (1,169)	\$ (1,000)
Equity	(5,233)	(2,977)	(153)	(27)	(16)	3	0	(40)	0
Lease Liability	0	(74)	(58)	(11)	(11)	(10)	0	(32)	0
Financing Activities	\$ (5,233)	\$ (3,050)	\$ (210)	\$ (38)	\$ (27)	\$ (7)	\$ -	\$ (72)	\$ -
FX	(95)	31	(31)	0	25	(11)	0	14	0
Change in Cash	\$ (1,344)	\$ (2,743)	\$ 1,789	\$ 1,314	\$ (541)	\$ (792)	\$ (1,378)	\$ (1,397)	\$ 2,374

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
 Update – Buy – November 5, 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%

Analyst Certification:

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