

INSTITUTIONAL RESEARCH

Emerging Growth

UPDATE REPORT

Profire Energy, Inc. (NASDAQ: PFIE)

February 18, 2022

Buy: Reiterate Buy, \$1.65 Target

Oil prices, the rig count and well completions continue to rise, providing a favorable backdrop for Profire. We believe the company has significant leverage to higher prices in oil and natural gas, and if prices are sustained at current levels, we believe the company can achieve its former revenue and EBITDA levels and drive substantial stock price appreciation.

Oil prices increased sharply in 2021. West Texas Intermediate (WTI) increased from \$48.35 per barrel at the end of 2020 to \$76.33 at the end of Q4 and is over \$91 currently. This has driven a significant increase in the Baker Hughes U.S. rig count from 351 at the end of 2020 to 586 at the end of 2021 and 635 as of last week. EIA data shows the number of completed wells increased 32% in 2021.

The Baker Hughes North American rig count is still far below the 800-1,000 level it achieved in 2018 and 2019 when WTI ranged from \$70 to \$80 per barrel. We believe at stable oil prices the rig count will continue to increase, as will well completions and revenue for Profire.

The balance sheet remains strong with cash and long-term investments of \$18.5 million. This gives the company the ability to expand its product offering via acquisitions. To date, Profire has been selective and conservative in its acquisition strategy.

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.

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	Current Price	\$1.12
	Price Target	\$1.65
Estimates	F2020A	F2021E
Revenues (\$000s)	\$ 21,459	\$ 25,707 E
1Q March	\$ 7,447	\$ 5,092 A
2Q June	\$ 4,359	\$ 6,034 A
3Q September	\$ 4,000	\$ 6,943 A
4Q December	\$ 5,652	\$ 7,638 E
	F2022E	\$ 33,026
EBITDA (\$000s)	\$ (1,460)	\$ 332 E
1Q March	\$ (339)	\$ (386)A
2Q June	\$ (587)	\$ 3 A
3Q September	\$ (935)	\$ 113 A
4Q December	\$ 400	\$ 603 E
	\$ 4,372	\$ 997
EV/Sales	1.6 x	1.4 x
EV/EBITDA	NM	105.8 x
Stock Data		
52-Week Range	\$0.88	-
Shares Outstanding (mil.)		48.1
Market Capitalization (mil.)		\$54
Enterprise Value (mil.)		\$35
Debt to Capital		0%
Cash (mil.)		\$18
Cash/Share		\$0.38
Average Three Months Trading Volume (K)		106
Insider Ownership		38.6%
Institutional Ownership		41.3%
Short interest (mil.)		0.0%
Dividend / Yield		\$0.00/0.00%



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 7,400 in 2020. However, well completions in 2021 increased 32% to 9,793.

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

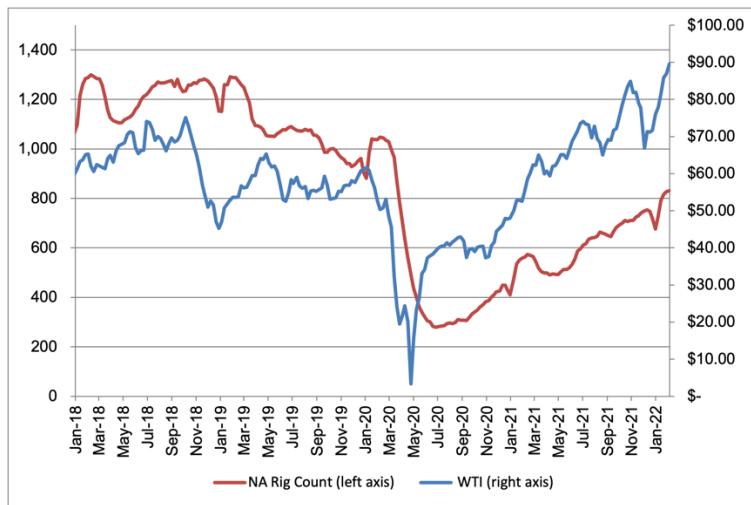
We believe Profire is in a better position than many of its competitors, with a strong balance sheet and positive cash flow. However, it remains at the mercy of oil prices, and its attempts to reduce its dependence on the upstream BMS market have met with limited success.

Profire Energy, Inc. Comparable Group

		Price	TEV (\$M)	FTM Sales (\$M)	EV/ Sales	FTM EBITDA (\$M)	EV/ EBITDA
CHX	ChampionX Corporation	\$ 20.55	\$ 4,737.2	\$ 3,515.8	1.35	\$ 601.1	7.9
CLB	Core Laboratories NV	26.85	1,479.7	535.5	2.76	91.8	16.1
BOOM	DMC Global Inc.	36.03	504.1	457.7	1.10	61.9	8.1
ENSV	Enservco Corporation	0.59	22.4	30.1	0.75	2.4	9.6
HTG-GB	Hunting PLC	£ 2.55	£ 378.9	£ 461.8	0.82	£ 41.6	9.1
LBRT	Liberty Oilfield Services Inc. Cl:	11.79	2,292.5	3,392.5	0.68	354.4	6.5
OIS	Oil States International, Inc.	6.36	535.1	725.9	0.74	74.5	7.2
SDPI	Superior Drilling Products, Inc.	0.90	29.5	14.6	2.03	2.9	10.1
	Superior Energy Services						
	Median				1.28		9.3
PFIE	Profire Energy, Inc.	\$ 1.12	\$ 35.2	\$ 34.0	1.03	\$ 4.9	7.2

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 is currently far above 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 635, remains about 35% 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 was a 32% increase in completions in 2021 but there is substantial room for improvement. The number of completed wells in January 2022 is 35% below its peak level 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

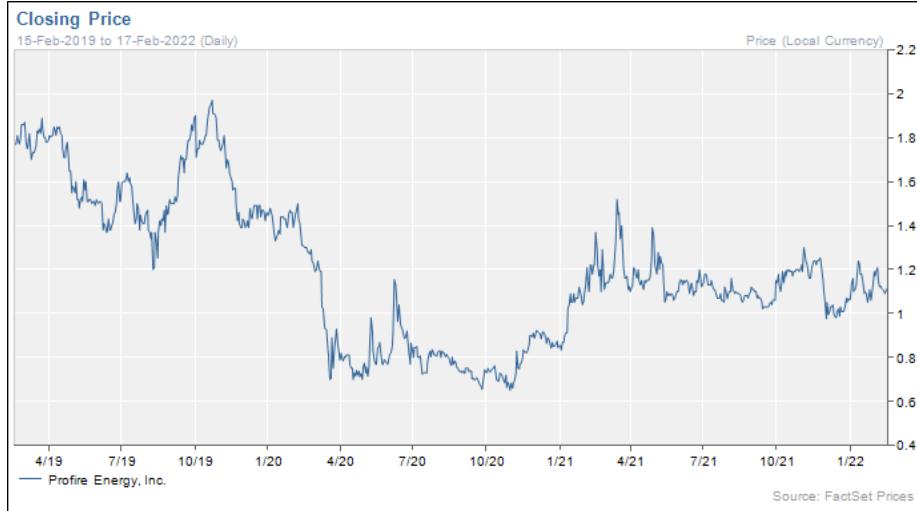
\$ in 000's except per share data	FY 18	FY 19	FY 20	Mar-21 Q1 21 A	Jun-21 Q2 21 A	Sep-21 Q3 21 A	Dec-21 Q4 21 E	FY 21E	FY 22E
Sales of Goods	42,870	36,208	19,396	4,658	5,375	6,297	6,926	23,255	29,951
Sales of Services	2,744	2,773	2,063	435	660	646	711	2,452	3,075
Total Revenues	\$ 45,615	\$ 38,981	\$ 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	\$ 77.27	\$ 68.09	
	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
 Update – Buy – February 18, 2022 – 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... 8-Feb-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	31	76%	6	19%
Market Perform (Neutral)	10	24%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	41	100%	6	15%

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