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Profire Energy, Inc. (NASDAQ: PFIE)

March 9, 2022

Buy: Reiterate Buy, Raise Price Target to \$2.00

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We have raised our price target on Profire to \$2. 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. We believe the company can achieve its former revenue and EBITDA levels and drive substantial stock price appreciation.

Even prior to the Russian invasion of Ukraine, oil prices had increased sharply. In 2021, West Texas Intermediate (WTI) increased from \$48.35 per barrel at the beginning of the year to \$76.33 at the end of the year. This drove 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 650 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 Biden administration has shown a desire to increase drilling. In [Venezuela](#). But even if this is a serious response to the ban of imports from Russia, this will take time and during that time, as the mid-terms approach, consumers/voters will be looking at much higher gasoline prices. We think this will force (out of the politician's deep urge for self-preservation) the administration's hand to alleviate some of the restrictions and hostility toward U.S. oil and gas production. That and increased prices should provide a very favorable backdrop for Profire this year.

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 \$2.00 is based on an EV/Sales multiple of 2x the midpoint of our 2022 and 2023 revenue estimate of \$38.6 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				\$1.46
Price Target				\$2.00
Estimates	F2021A	F2022E	F2023E	
Revenues (\$000s)	\$ 26,356	\$ 35,832 E	\$ 41,312	
1Q March	\$ 5,092	\$ 8,908 A	\$ 10,270	
2Q June	\$ 6,034	\$ 8,685 A	\$ 10,013	
3Q September	\$ 6,943	\$ 8,685 A	\$ 10,013	
4Q December	\$ 8,286	\$ 9,554 E	\$ 11,015	
	F2021A	F2022E	F2023E	
EBITDA (\$000s)	\$ (192)	\$ 4,307 E	\$ 6,846	
1Q March	\$ (386)	\$ 973 A	\$ 1,593	
2Q June	\$ 3	\$ 938 A	\$ 1,547	
3Q September	\$ 113	\$ 971 A	\$ 1,588	
4Q December	\$ 78	\$ 1,424 E	\$ 2,119	
EV/Sales	2.0 x	1.5 x	1.3 x	
EV/EBITDA	NM	12.1 x	7.6 x	
Stock Data				
52-Week Range	\$0.88	-	\$1.74	
Shares Outstanding (mil.)				47.5
Market Capitalization (mil.)				\$69
Enterprise Value (mil.)				\$52
Debt to Capital				0%
Cash (mil.)				\$17
Cash/Share				\$0.37
Average Three Months Trading Volume (K)				11
Insider Ownership				21.8%
Institutional Ownership				41.3%
Short interest (mil.)				0.0%
Dividend / Yield				\$0.00/0.0%



Outlook

In the smaller and mid-size oilfield applications, demand for burner management systems are 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 2022 of \$35.8 million, up from \$26.4 million in 2021. For 2023, we forecast revenue of \$41.3 million, based on stable oil and gas prices and continued improvement in drilling and completion activity

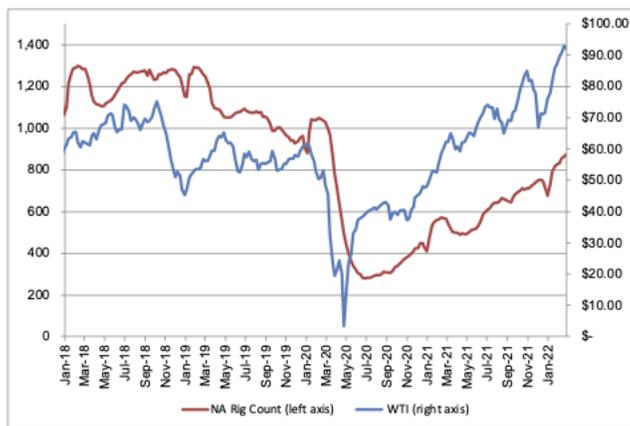
We believe Profire is in a better position than many of its competitors, with a strong balance sheet and positive cash flow. However, it remains at the mercy of oil prices, and its attempts to reduce its dependence on the upstream BMS market have met with limited success.

Profire Energy, Inc. Comparable Group

	Price	TEV (\$M)	FTM Sales (\$M)	EV/Sales	FTM EBITDA (\$M)	EV/EBITDA
ChampionX Corporation	\$ 24.58	\$ 5,559.0	\$ 3,524.9	1.58	\$ 607.6	9.1
Core Laboratories NV	35.04	1,858.7	536.2	3.47	92.7	20.1
DMC Global Inc.	29.77	942.9	578.0	1.63	64.2	14.7
Enservco Corporation	4.20	63.7	30.1	2.12	2.4	27.1
Hunting PLC	£ 2.87	£ 404.2	£ 482.6	0.84	£ 39.2	10.3
Liberty Oilfield Services Inc. Clk	14.82	2,962.5	3,402.2	0.87	356.0	8.3
Oil States International, Inc.	7.47	614.3	722.6	0.85	72.8	8.4
Superior Drilling Products, Inc.	1.60	49.4	14.6	3.39	2.9	16.9
Superior Energy Services Median				1.84		14.4
Profire Energy, Inc.	\$ 1.46	\$ 52.0	\$ 36.9	1.41	\$ 4.8	10.9

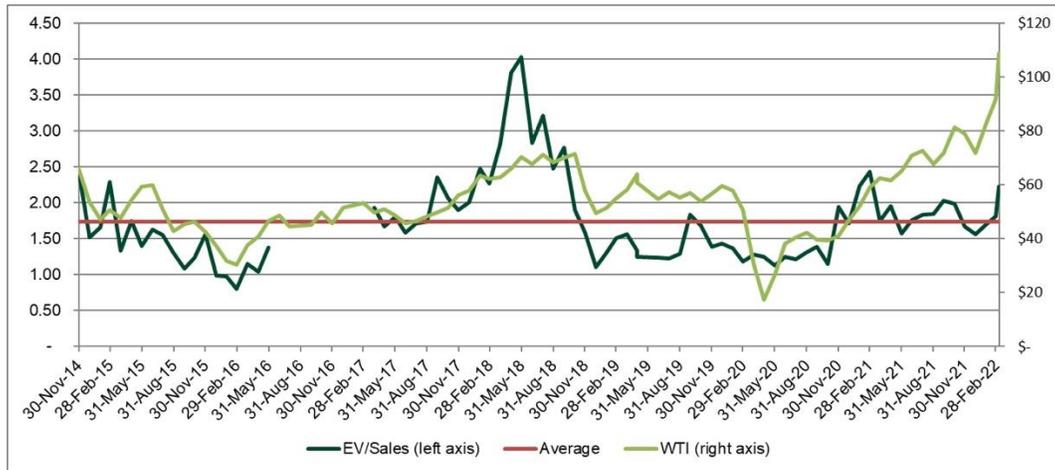
Source: FactSet and Dawson James Securities estimates.

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 650, 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%, compared to the 2018-2019 period. There was a 32% increase in completions in 2021 vs. 2020 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

Profire’s shares have moved up with the increase in oil prices, but the company’s current EV/Sales is lower than levels achieved at much lower oil prices and we think there is further room for improvement.



Source: Dawson James Securities, EIA, Factset

Valuation:

Our price target of \$2.00 is based on an EV/Sales multiple of 2x the midpoint of our 2022 and 2023 revenue estimate of \$38.6 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 19	FY 20	FY 21	Mar-22 Q1 22 E	Jun-22 Q2 22 E	Sep-22 Q3 22 E	Dec-22 Q4 22 E	FY 22E	FY 23E
Sales of Goods	36,208	19,396	23,691	7,914	7,716	7,716	8,488	31,835	36,704
Sales of Services	2,773	2,063	2,665	993	969	969	1,066	3,996	4,607
Total Revenues	\$ 38,981	\$ 21,459	\$ 26,356	\$ 8,908	\$ 8,685	\$ 8,685	\$ 9,554	\$ 35,832	\$ 41,312
Cost of Goods	17,588	10,378	12,826	3,878	3,742	3,704	3,989	15,314	17,656
Cost of Services	1,865	1,554	2,129	685	668	659	725	2,737	3,156
Total COGS	19,453	11,932	14,955	4,564	4,411	4,363	4,714	18,051	20,812
Gross Profit-Goods	18,620	9,017	10,865	4,036	3,974	4,013	4,499	16,522	19,048
Gross Profit-Services	908	509	536	308	300	310	341	1,259	1,452
Gross Profit-Total	19,528	9,526	11,401	4,344	4,274	4,323	4,840	17,781	20,500
G&A	13,454	10,641	11,533	3,214	3,164	3,164	3,214	12,757	12,757
R&D	1,933	1,299	1,120	271	286	301	316	1,174	1,354
Depreciation	977	666	762	262	262	262	262	1,048	1,048
Opex	16,364	12,606	13,416	3,747	3,712	3,727	3,792	14,979	15,159
Operating income	3,164	(3,080)	(2,015)	597	562	595	1,047	2,802	5,341
Interest and Other	403	421	334	106	106	106	106	422	422
Pretax income	3,567,561	(2,659)	(1,681)	703	668	701	1,153	3,224	5,764
Taxes	1,546	(484)	(629)	183	174	182	300	838	1,499
Net Income	\$ 2,021	\$ (2,176)	\$ (1,052)	\$ 520	\$ 494	\$ 519	\$ 853	\$ 2,386	\$ 4,265
Basic Shares	47,491	47,778	48,071	47,763	47,565	47,665	47,765	48,014	47,705
Diluted Shares	48,134	47,778	48,071	48,163	47,965	48,065	48,165	48,312	48,084
Basic EPS	\$ 0.04	\$ (0.05)	\$ (0.02)	\$ (0.01)	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.05	\$ 0.09
Diluted EPS	\$ 0.04	\$ (0.05)	\$ (0.02)	\$ (0.01)	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.05	\$ 0.09
Operating Income	3,164	(3,080)	(2,015)	597	562	595	1,047	2,802	5,341
D&A	1,467	1,177	1,256	284	284	284	284	1,136	1,136
Stock Comp	391	443	567	92	92	92	92	369	369
EBITDA	\$ 5,022	\$ (1,460)	\$ (192)	\$ 973	\$ 938	\$ 971	\$ 1,424	\$ 4,307	\$ 6,846
WTI \$/barrel	\$ 56.98	\$ 39.12	\$ 68.09						
	FY 19	FY 20	FY 21	Q1 22 E	Q2 22 E	Q3 22 E	Q4 22 E	FY 22E	FY 23E
Sales of Goods	92.9%	90.4%	89.9%	88.8%	88.8%	88.8%	88.8%	88.8%	88.8%
Sales of Services	7.1%	9.6%	10.1%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods	48.6%	53.5%	54.1%	49.0%	48.5%	48.0%	47.0%	48.1%	48.1%
Cost of services	67.3%	75.3%	79.9%	69.0%	69.0%	68.0%	68.0%	68.5%	68.5%
Total COGS	49.9%	55.6%	56.7%	51.2%	50.8%	50.2%	49.3%	50.4%	50.4%
Gross Profit-Goods	51.4%	46.5%	45.9%	51.0%	51.5%	52.0%	53.0%	51.9%	51.9%
Gross Profit-Services	32.7%	24.7%	20.1%	31.0%	31.0%	32.0%	32.0%	31.5%	31.5%
Gross Profit-Total	50.1%	44.4%	43.3%	48.8%	49.2%	49.8%	50.7%	49.6%	49.6%
G&A	34.5%	49.6%	43.8%	36.1%	36.4%	36.4%	33.6%	35.6%	30.9%
Payroll Expense	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation	2.5%	3.1%	2.9%	2.9%	3.0%	3.0%	2.7%	2.9%	2.5%
Opex	42.0%	58.7%	50.9%	42.1%	42.7%	42.9%	39.7%	41.8%	36.7%
Operating income	8.1%	-14.4%	-7.6%	6.7%	6.5%	6.9%	11.0%	7.8%	12.9%
Interest and Other	1.0%	2.0%	1.3%	1.2%	1.2%	1.2%	1.1%	1.2%	1.0%
Pretax income	9.2%	-12.4%	-6.4%	7.9%	7.7%	8.1%	12.1%	9.0%	14.0%
Tax Rate	43.3%	18.2%	37.4%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
Net Income	5.2%	-10.1%	-4.0%	5.8%	5.7%	6.0%	8.9%	6.7%	10.3%
EBITDA	12.9%	-6.8%	-0.7%	10.9%	10.8%	11.2%	14.9%	12.0%	16.6%

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

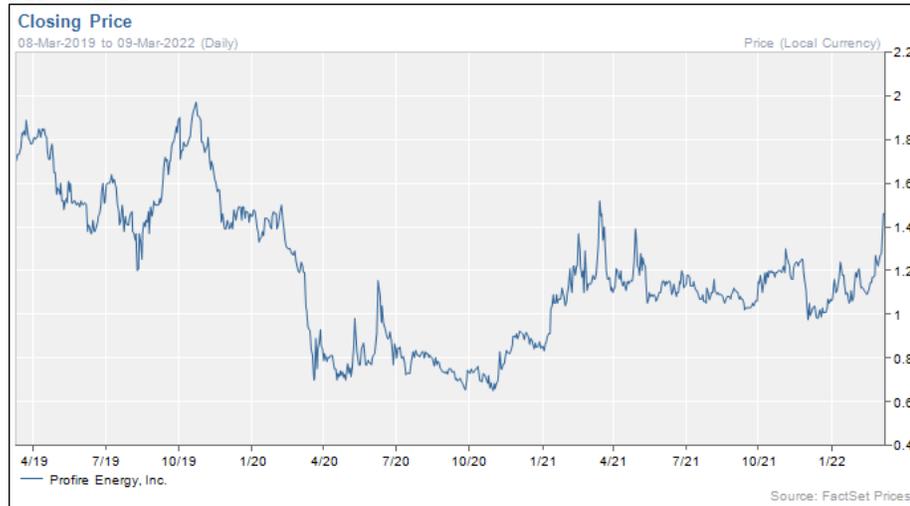
Exhibit 2. Balance Sheet and Cash Flow Statement

\$ in 000's	FY 19	FY 20	FY 21	FY 22E	FY 23E
Cash	7,359	9,148	8,188	11,287	14,117
ST Investments	3,822	2,389	1,014	1,014	1,014
A/R	5,598	3,720	6,263	6,369	7,343
Inventories	9,572	8,415	7,185	7,542	8,696
Prepaid Expenses & Other	1,750	2,165	1,586	1,828	2,108
Current Assets	\$ 28,100	\$ 25,836	\$ 24,236	\$ 28,041	\$ 33,277
LT Investments	7,400	6,064	8,260	8,260	8,260
Financing right of use asset	108	50	65	65	65
PP&E	12,071	12,022	11,186	10,550	10,414
Deferred Tax Asset	0	0	163	163	163
Intangible Assets	1,990	1,772	1,549	1,549	1,549
Goodwill	2,579	2,579	2,579	2,579	2,579
Total Assets	\$ 52,248	\$ 48,323	\$ 48,038	\$ 51,207	\$ 56,308
A/P	2,634	1,179	1,823	2,101	2,423
Accrued liabilities	2,089	1,197	1,872	2,008	2,154
Financing lease	59	39	30	30	30
Income tax payable	403	0	0	0	0
Current Liabilities	\$ 5,185	\$ 2,415	\$ 3,725	\$ 4,140	\$ 4,607
Deferred Tax Liability	439	523	136	136	136
Financing Lease Liability	52	13	36	36	36
Equity	46,572	45,372	44,141	46,896	51,530
Total Equity & Liab.	\$ 52,248	\$ 48,323	\$ 48,038	\$ 51,207	\$ 56,308
	FY 19	FY 20	FY 21	FY 22E	FY 23E
Net	2,021	(2,176)	(1,052)	2,386	4,265
D&A	1,467	1,177	1,256	1,136	1,136
Stock issued for services	391	443	567	369	369
Other	201	(123)	(123)	0	0
Working Capital	3,633	943	0	(291)	(1,940)
Operating Cash Flow	\$ 7,713	\$ 264	\$ 649	\$ 3,599	\$ 3,829
Other	1,611	3,314	(649)	0	0
Acquisition	(4,384)	0	0	0	0
CapEx	(4,665)	(1,547)	(169)	(500)	(1,000)
Investing Activities	\$ (7,437)	\$ 1,767	\$ (818)	\$ (500)	\$ (1,000)
Equity	(2,977)	(153)	(795)	0	0
Lease Liability	(74)	(58)	(41)	0	0
Financing Activities	\$ (3,050)	\$ (210)	\$ (836)	\$ -	\$ -
FX	31	(31)	45	0	0
Change in Cash	\$ (2,743)	\$ 1,789	\$ (960)	\$ 3,099	\$ 2,829

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
 Update – Buy – February 18, 2022 – Price Target \$1.65
 Price Target Change – Buy – March 9, 2022 – Price Target changed from \$1.65 to \$2.00

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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... 3-Mar-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	31	76%	4	13%
Market Perform (Neutral)	10	24%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	41	100%	4	10%

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