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Profire Energy, Inc. (NASDAQ: PFIE)

May 4, 2022

Buy: Q1 Better than Expected. Reiterate Buy, \$2 Target.
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Q1 was better than expected and we have raised our estimates for the year. 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.

Q1 results were better than expected with revenue of \$9.5 million higher than our \$8.9 million estimate and EBITDA of \$1.1 million exceeding our \$1.0 million estimate. The supply chain remains an issue and could impact results for the remainder of the year but the company has purchased ahead on key components and continues to seek alternative suppliers and aggressively manage its supplier relationships. We reiterate our Buy recommendation and \$2 price target.

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 that at stable oil prices the rig count will continue to increase, as will well completions and revenue for Profire. EIA data shows well completions in Q1 30% higher than Q1 of 2021 and at the Q1 run-rate well completions would increase 13% over 2021 levels. We think these factors provide a very favorable backdrop for Profire.

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 2022 revenue estimate of \$38.2 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				\$1.33
Price Target				\$2.00
Estimates	F2021A	F2022E	F2023E	
Revenues (\$000s)	\$ 26,356	\$ 38,226 E	\$ 44,073	
1Q March	\$ 5,092	\$ 9,503 A	\$ 10,957	
2Q June	\$ 6,034	\$ 9,266 E	\$ 10,683	
3Q September	\$ 6,943	\$ 9,266 E	\$ 10,683	
4Q December	\$ 8,286	\$ 10,192 E	\$ 11,751	
	F2021A	F2022E	F2023E	
EBITDA (\$000s)	\$ (192)	\$ 5,379 E	\$ 8,319	
1Q March	\$ (386)	\$ 1,109 A	\$ 1,951	
2Q June	\$ 3	\$ 1,234 E	\$ 1,899	
3Q September	\$ 113	\$ 1,268 E	\$ 1,941	
4Q December	\$ 78	\$ 1,768 E	\$ 2,528	
EV/Sales	1.8 x	1.2 x	1.1 x	
EV/EBITDA	NM	8.8 x	5.7 x	
Stock Data				
52-Week Range	\$0.88	-	\$1.59	
Shares Outstanding (mil.)				47.1
Market Capitalization (mil.)				\$63
Enterprise Value (mil.)				\$47
Debt to Capital				0%
Cash (mil.)				\$15
Cash/Share				\$0.32
Average Three Months Trading Volume (K)				22
Insider Ownership				22.4%
Institutional Ownership				40.4%
Short interest (mil.)				0.1%
Dividend / Yield				\$0.00/0.0%



Actual v Estimates

Revenue of \$9.5 million was 7% higher than our \$8.9 million estimate and increased 87% over the (depressed) year-ago quarter and was up 15% over Q4. Gross margin was a bit lower than expected, and operating expenses were a bit higher than expected. However, operating income and EBITDA were, respectively, 15% and 14% higher than forecast. EBITDA margin of 11.7% was the first time in two years the company achieved double digit EBITDA margins.

Q1 22	Actual	Est.	Delta	% Delta
Sales of Goods	8,878	7,914	964	12%
Sales of Services	625	993	(369)	-37%
Total Revenues	9,503	8,908	595	7%
Cost of Goods	4,383	3,878	505	13%
Cost of Services	564	685	(122)	-18%
Total COGS	4,946	4,564	383	8%
Gross Profit-Goods	4,496	4,036	459	11%
Gross Profit-Services	61	308	(247)	-80%
Gross Profit-Total	4,557	4,344	212	5%
G&A	3,392	3,214	178	
R&D	308	271	37	
Depreciation	167	262	(95)	
Opex	3,868	3,747	121	3%
Operating income	689	597	92	15%
Interest and Other	99	106	(7)	
Pretax income	788	703	85	12%
Taxes	160	183	(22)	
Net Income	627	520	107	21%
Basic Shares	47,481	47,763		
Diluted Shares	48,536	48,163		
Basic EPS	\$ 0.01	\$ 0.01	\$ 0.00	21%
Diluted EPS	\$ 0.01	\$ 0.01	\$ 0.00	20%
Operating Income	689	597	92	15%
D&A	281	284		
Stock Comp	139	92		
EBITDA	1,109	973	135	14%
EBITDA Margin	11.7%	10.9%		

Source: Profire Energy and Dawson James Securities estimates.

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, which 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 \$38.2 million, up from \$26.4 million in 2021. For 2023, we forecast revenue of \$44.1 million, based on stable oil and gas prices and continued improvement in drilling and completion activity.

	2022E		2023E	
	Old	New	Old	New
Revenue (\$M)	\$ 35.8	\$ 38.2	\$ 41.3	\$ 44.1
EPS	\$ 0.05	\$ 0.06	\$ 0.09	\$ 0.11
EBITDA (\$M)	\$ 4.3	\$ 5.4	\$ 6.8	\$ 8.3

Source: Dawson James Securities estimates

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	\$ 22.22	\$ 5,147.4	\$ 3,604.0	1.43	\$ 614.1	8.4
Core Laboratories NV	25.11	1,394.1	529.5	2.63	81.0	17.2
DMC Global Inc.	20.16	759.2	587.3	1.29	76.3	10.0
Hunting PLC	£ 3.05	£ 433.1	£ 535.5	0.81	£ 57.0	7.6
Liberty Energy Inc. Class A	16.67	3,416.8	3,748.2	0.91	523.3	6.5
Oil States International, Inc.	6.83	583.2	750.8	0.78	79.3	7.4
Median				1.31		9.5
Profire Energy, Inc.	\$ 1.33	\$ 47.5	\$ 40.2	1.18	\$ 6.4	7.4

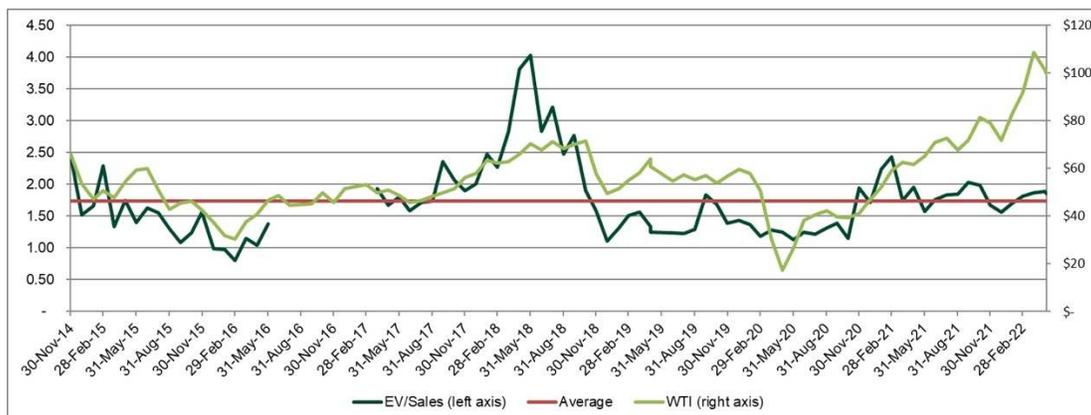
Source: FactSet and Dawson James Securities estimates.

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 698, 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 Q1 2022 is 30% 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 our 2022 revenue estimate of \$38.2 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 A	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	8,878	8,656	8,656	9,522	35,713	41,175
Sales of Services	2,773	2,063	2,665	625	609	609	670	2,513	2,897
Total Revenues	\$ 38,981	\$ 21,459	\$ 26,356	\$ 9,503	\$ 9,266	\$ 9,266	\$ 10,192	\$ 38,226	\$ 44,073
Cost of Goods	17,588	10,378	12,826	4,383	4,198	4,155	4,475	17,212	19,807
Cost of Services	1,865	1,554	2,129	564	420	414	456	1,854	1,984
Total COGS	19,453	11,932	14,955	4,946	4,619	4,569	4,931	19,065	21,791
Gross Profit-Goods	18,620	9,017	10,865	4,496	4,458	4,501	5,047	18,502	21,369
Gross Profit-Services	908	509	536	61	189	195	214	659	913
Gross Profit-Total	19,528	9,526	11,401	4,557	4,647	4,696	5,261	19,161	22,282
G&A	13,454	10,641	11,533	3,392	3,342	3,342	3,392	13,470	13,470
R&D	1,933	1,299	1,120	308	323	338	353	1,323	1,503
Depreciation	977	666	762	167	167	167	167	668	668
Opex	16,364	12,606	13,416	3,868	3,833	3,848	3,913	15,461	15,641
Operating income	3,164	(3,080)	(2,015)	689	814	849	1,348	3,700	6,641
Interest and Other	403	421	334	99	99	99	99	394	394
Pretax income	3,567,561	(2,659)	(1,681)	788	913	947	1,447	4,095	7,035
Taxes	1,546	(484)	(629)	160	237	246	376	1,020	1,829
Net Income	\$ 2,021	\$ (2,176)	\$ (1,052)	\$ 627	\$ 675	\$ 701	\$ 1,071	\$ 3,074	\$ 5,206
Basic Shares	47,491	47,778	48,071	47,481	47,200	47,177	47,277	47,958	47,401
Diluted Shares	48,134	47,778	48,071	48,536	47,600	47,577	47,677	48,387	47,807
Basic EPS	\$ 0.04	\$ (0.05)	\$ (0.02)	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.06	\$ 0.11
Diluted EPS	\$ 0.04	\$ (0.05)	\$ (0.02)	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.06	\$ 0.11
Operating Income	3,164	(3,080)	(2,015)	689	814	849	1,348	3,700	6,641
D&A	1,467	1,177	1,256	281	281	281	281	1,124	1,124
Stock Comp	391	443	567	139	139	139	139	554	554
Other									
EBITDA	\$ 5,022	\$ (1,460)	\$ (192)	\$ 1,109	\$ 1,234	\$ 1,268	\$ 1,768	\$ 5,379	\$ 8,319
WTI \$/barrel	\$ 56.98	\$ 39.12	\$ 68.09	\$ 95.18					
	FY 19	FY 20	FY 21	Q1 22 A	Q2 22 E	Q3 22 E	Q4 22 E	FY 22E	FY 23E
Sales of Goods	92.9%	90.4%	89.9%	93.4%	93.4%	93.4%	93.4%	93.4%	93.4%
Sales of Services	7.1%	9.6%	10.1%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
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%	49.4%	48.5%	48.0%	47.0%	48.2%	48.1%
Cost of services	67.3%	75.3%	79.9%	90.2%	69.0%	68.0%	68.0%	73.8%	68.5%
Total COGS	49.9%	55.6%	56.7%	52.1%	49.8%	49.3%	48.4%	49.9%	49.4%
Gross Profit-Goods	51.4%	46.5%	45.9%	50.6%	51.5%	52.0%	53.0%	51.8%	51.9%
Gross Profit-Services	32.7%	24.7%	20.1%	9.8%	31.0%	32.0%	32.0%	26.2%	31.5%
Gross Profit-Total	50.1%	44.4%	43.3%	47.9%	50.2%	50.7%	51.6%	50.1%	50.6%
G&A	34.5%	49.6%	43.8%	35.7%	36.1%	36.1%	33.3%	35.2%	30.6%
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%	1.8%	1.8%	1.8%	1.6%	1.7%	1.5%
Opex	42.0%	58.7%	50.9%	40.7%	41.4%	41.5%	38.4%	40.4%	35.5%
Operating income	8.1%	-14.4%	-7.6%	7.3%	8.8%	9.2%	13.2%	9.7%	15.1%
Interest expense	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other									
Rental income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest income	0.7%	0.8%	0.5%	0.2%	0.0%	0.0%	0.0%	0.7%	0.8%
Interest and Other	1.0%	2.0%	1.3%	1.0%	1.1%	1.1%	1.0%	1.0%	0.9%
Pretax income	9.2%	-12.4%	-6.4%	8.3%	9.9%	10.2%	14.2%	10.7%	16.0%
Tax Rate	43.3%	18.2%	37.4%	20.4%	26.0%	26.0%	26.0%	24.9%	26.0%
Net Income	5.2%	-10.1%	-4.0%	6.6%	7.3%	7.6%	10.5%	8.0%	11.8%
EBITDA	12.9%	-6.8%	-0.7%	11.7%	13.3%	13.7%	17.3%	14.1%	18.9%

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

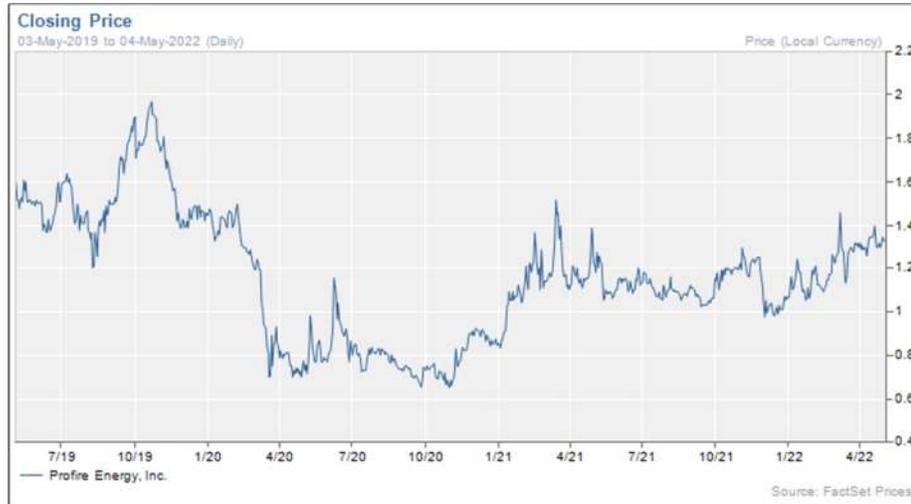
Exhibit 2. Balance Sheet and Cash Flow Statement

\$ in 000's	FY 19	FY 20	FY 21	FY 22E	FY 23E
Cash	7,359	9,148	8,188	11,913	15,581
ST Investments	3,822	2,389	1,014	454	454
A/R	5,598	3,720	6,263	6,795	7,834
Inventories	9,572	8,415	7,185	7,721	9,096
Prepaid Expenses & Other	1,750	2,165	1,586	1,274	1,469
Current Assets	\$ 28,100	\$ 25,836	\$ 24,236	\$ 28,157	\$ 34,434
LT Investments	7,400	6,064	8,260	7,853	7,853
Financing right of use asset	108	50	65	53	53
PP&E	12,071	12,022	11,186	10,697	10,573
Deferred Tax Asset	0	0	163	166	166
Intangible Assets	1,990	1,772	1,549	1,493	1,493
Goodwill	2,579	2,579	2,579	2,579	2,579
Total Assets	\$ 52,248	\$ 48,323	\$ 48,038	\$ 50,999	\$ 57,152
A/P	2,634	1,179	1,823	1,614	1,861
Accrued liabilities	2,089	1,197	1,872	2,008	2,154
Financing lease	59	39	30	22	22
Income tax payable	403	0	0	0	0
Current Liabilities	\$ 5,185	\$ 2,415	\$ 3,725	\$ 3,645	\$ 4,037
Deferred Tax Liability	439	523	136	183	183
Financing Lease Liability	52	13	36	31	31
Equity	46,572	45,372	44,141	47,140	52,900
Total Equity & Liab.	\$ 52,248	\$ 48,323	\$ 48,038	\$ 50,999	\$ 57,152
	FY 19	FY 20	FY 21	FY 22E	FY 23E
Net	2,021	(2,176)	(1,052)	3,074	5,206
D&A	1,467	1,177	1,256	1,124	1,124
Stock issued for services	391	443	567	554	554
Other	201	(123)	(176)	(67)	0
Working Capital	3,633	943	54	(469)	(2,217)
Operating Cash Flow	\$ 7,713	\$ 264	\$ 649	\$ 4,217	\$ 4,667
Other	1,611	3,314	(649)	793	0
Acquisition	(4,384)	0	0	0	0
CapEx	(4,665)	(1,547)	(169)	(583)	(1,000)
Investing Activities	\$ (7,437)	\$ 1,767	\$ (818)	\$ 210	\$ (1,000)
Equity	(2,977)	(153)	(795)	(713)	0
Lease Liability	(74)	(58)	(41)	(13)	0
Financing Activities	\$ (3,050)	\$ (210)	\$ (836)	\$ (726)	\$ -
FX	31	(31)	45	25	0
Change in Cash	\$ (2,743)	\$ 1,789	\$ (960)	\$ 3,725	\$ 3,667

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
 Update – Buy – May 4, 2022 – Price Target \$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 26-Apr-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	32	74%	4	13%
Market Perform (Neutral)	11	26%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	43	100%	4	9%

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