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Profire Energy, Inc. (NASDAQ: PFIE)

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Buy: Q3 Revenue Substantially Greater than Expected.

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Profire pre-announced Q3 revenue between \$12.5 and \$12.7 million, substantially higher than our estimate of \$9.6 million. This is the highest quarterly revenue since 2015. Although oil prices have declined recently, well completions remain strong and we believe the company can grow revenue and EBITDA to much higher levels, driving substantial stock price appreciation.

Profire pre-announced Q3 revenue of \$12.5 million to \$12.7 million. \$1 million of the quarter's results were from products developed under the company's diversification efforts. The remaining \$11.5 million is from the company's legacy products and is up over 25% from Q2 levels.

We have raised our estimates for Q3 and the year and believe our Q4 estimates can be exceeded. Recent OPEC action suggests continued elevated oil prices and could lead to continued strong well completions and revenue for Profire.

Valuation is favorable, but there are risks. The equity markets have struggled with the change in Fed policy since March, and more interest rate increases are assumed since the Fed projects a year-end Fed Funds rate of 4.4% versus the current target range of 3% to 3.25%, and a year-end 2023 Fed Funds rate of 4.6%. This could imply a Fed Funds rate exceeding 5% sometime during 2023. All hinges on inflation, which spiked this year, and while the rate could be flattening, the Fed will continue to increase rates until it sees declines in inflation that put the economy back on a path to 2% inflation.

The EIA's reference case estimates tight oil production in the U.S. will increase almost 25% from 2021 to 2025, (assuming wellhead prices of about \$65 per barrel). EIA expects natural gas production from shale gas and tight oil plays to increase 14% from 2021 to 2025. This is based on Henry Hub spot prices declining to \$3.00 per million BTU from \$4.11 in 2021 and far below current prices.

The Biden administration's animus towards oil and gas production and consumption has increased costs to consumers. Whether this is a sustainable policy supported by voters we will discover in November. Also, natural gas accounts for 38% of electricity generation in the U.S., and it will remain above 35% for the next decade even if the massive subsidies to solar and wind remain (a question mark if there is a change in control of Congress and/or the White House, and if budget deficits put these subsidies under closer scrutiny). The move to electric vehicles is still nascent and even optimistic consumer adoption projections will result in increased electricity demand and the necessity of robust natural gas production.

Valuation: Our price target of \$2.00 is based on an EV/Sales multiple of less than 2x the 2022 revenue estimate of \$42 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.

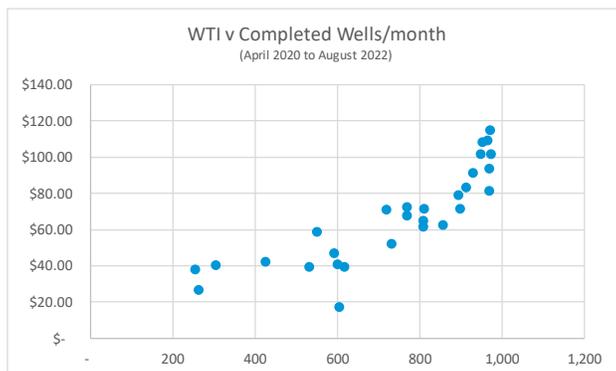
Risks: Risks to achieving our price target include changes in oil and gas prices, global economic growth and its impact on demand for oil and gas, regulation that could impact the ability to drill for oil and gas, and regulation that could impede the development of pipelines in the U.S.

Current Price	\$0.93		
Price Target	\$2.00		
Estimates	F2021A	F2022E	F2023E
Revenues (\$000s)	\$ 26,356	\$ 42,458 E	\$ 46,916
1Q March	\$ 5,092	\$ 9,503 A	\$ 11,663
2Q June	\$ 6,034	\$ 9,633 A	\$ 11,372
3Q September	\$ 6,943	\$ 12,472 E	\$ 11,372
4Q December	\$ 8,286	\$ 10,850 E	\$ 12,509
	F2021A	F2022E	F2023E
EBITDA (\$000s)	\$ (192)	\$ 4,817 E	\$ 8,103
1Q March	\$ (386)	\$ 1,109 A	\$ 1,837
2Q June	\$ 3	\$ 647 A	\$ 1,828
3Q September	\$ 113	\$ 1,759 E	\$ 1,910
4Q December	\$ 78	\$ 1,302 E	\$ 2,528
EV/Sales	1.0 x	0.6 x	0.6 x
EV/EBITDA	NM	5.7 x	3.4 x
Stock Data			
52-Week Range	\$0.85	-	\$1.59
Shares Outstanding (mil.)	47.0		
Market Capitalization (mil.)	\$44		
Enterprise Value (mil.)	\$27		
Debt to Capital	0%		
Cash (mil.)	\$17		
Cash/Share	\$0.35		
Average Three Months Trading Volume (K)	31		
Insider Ownership	23.0%		
Institutional Ownership	44.2%		
Short interest (mil.)	0.1%		
Dividend / Yield	\$0.00/0.0%		



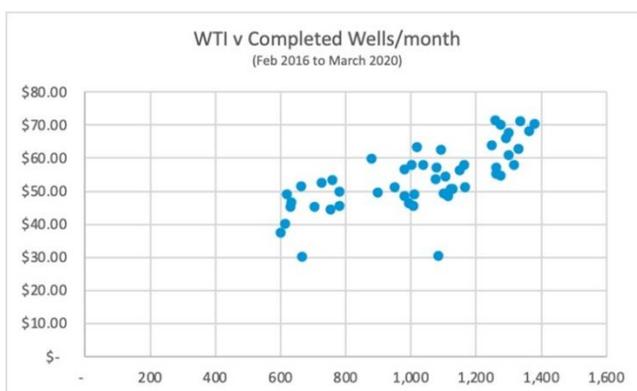
Well Completions

According to the EIA Drilling Productivity Report, well completions since April of 2020 have recovered sharply, to an average of over 952 per month for the first eight months of this year.



Source: [EIA](#) and [EIA Drilling Productivity Report](#).

However, there has clearly been a supply shift to the left as well completions were much *higher* when WTI and natural gas prices were much *lower* than it is currently



Source: [EIA](#) and [EIA Drilling Productivity Report](#).

While oil prices are currently high, a change in the political situation in Russia could change the supply situation in either direction. The increase in interest rates will have an impact on the economy and if inflation remains stubbornly high, we expect the Fed to become even more restrictive. We do not believe consumers/voters will tolerate sustained high gas prices and they will demand policymakers encourage supply increases domestically. If this occurs simultaneous with an easing of the drilling industry’s labor and equipment shortage, the outlook for Profire could improve considerably.

Outlook

In the smaller and mid-size oilfield applications, demand for burner management systems 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, 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 \$42.4 million, up from \$26.4 million in 2021. For 2023, we forecast revenue of \$46.9 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	\$ 21.08	\$ 4,887.3	\$ 3,868.7	1.26	\$ 704.6	6.9
CLB	Core Laboratories NV	16.10	978.5	536.1	1.83	76.9	12.7
BOOM	DMC Global Inc.	17.44	717.0	675.5	1.06	95.5	7.5
HTG-GB	Hunting PLC	£ 2.56	£ 364.6	£ 686.9	0.53	£ 65.0	5.6
LBRT	Liberty Energy, Inc. Class A	14.38	3,028.1	4,688.4	0.65	983.8	3.1
OIS	Oil States International, Inc.	4.39	459.5	810.8	0.57	87.8	5.2
	Median				0.98		6.8
PFIE	Profire Energy, Inc.	\$ 0.93	\$ 27.2	\$ 45.9	0.59	\$ 7.4	3.7

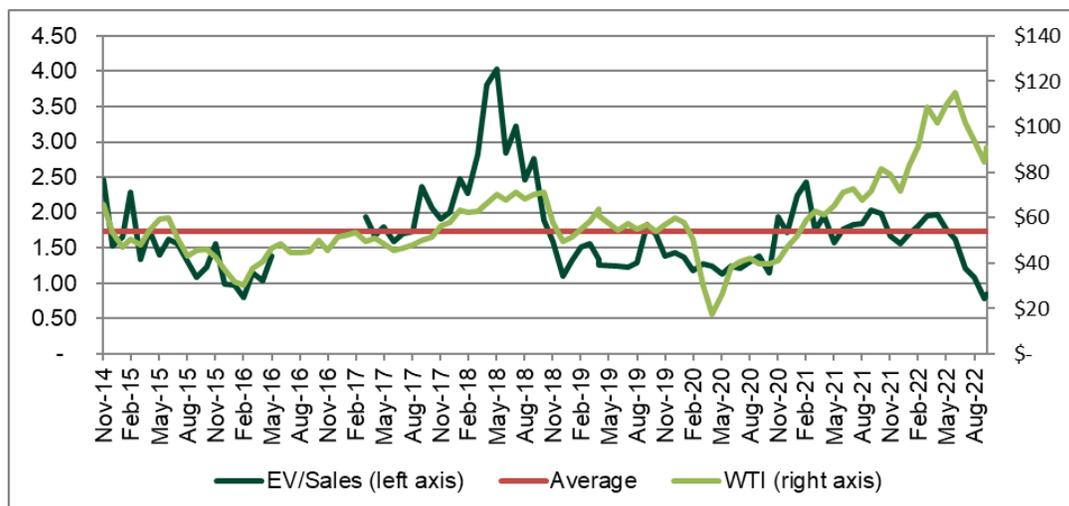
Source: FactSet and Dawson James Securities estimates.

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 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 762, remains about 25% 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 Q2 2022 is almost 30% below its peak level in 2018.



Source: Baker Hughes, EIA

Profire's shares have moved up with the changes 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 less than 2x our 2022 revenue estimate of \$42.4 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 A	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	8,861	11,700	10,000	39,439	43,242
Sales of Services	2,773	2,063	2,665	625	772	772	850	3,019	3,674
Total Revenues	\$ 38,981	\$ 21,459	\$ 26,356	\$ 9,503	\$ 9,633	\$ 12,472	\$ 10,850	\$ 42,458	\$ 46,916
Cost of Goods	17,588	10,378	12,826	4,383	4,530	5,850	5,000	19,763	20,801
Cost of Services	1,865	1,554	2,129	564	700	695	765	2,724	2,892
Total COGS	19,453	11,932	14,955	4,946	5,230	6,545	5,765	22,486	23,692
Gross Profit-Goods	18,620	9,017	10,865	4,496	4,331	5,850	5,000	19,676	22,441
Gross Profit-Services	908	509	536	61	73	77	85	296	783
Gross Profit-Total	19,528	9,526	11,401	4,557	4,403	5,927	5,085	19,972	23,224
G&A	13,454	10,641	11,533	3,392	3,787	4,187	3,787	15,152	15,046
R&D	1,933	1,299	1,120	308	362	377	392	1,440	1,659
Depreciation	977	666	762	167	160	160	160	646	638
Opex	16,364	12,606	13,416	3,868	4,308	4,723	4,338	17,238	17,343
Operating income	3,164	(3,080)	(2,015)	689	95	1,204	747	2,734	5,881
Interest and Other	403	421	334	99	217	217	217	750	869
Pretax income	3,567.561	(2,659)	(1,681)	788	312	1,421	964	3,485	6,749
Taxes	1,546	(484)	(629)	160	27	369	251	808	1,755
Net Income	\$ 2,021	\$ (2,176)	\$ (1,052)	\$ 627	\$ 285	\$ 1,052	\$ 713	\$ 2,677	\$ 4,994
Basic Shares	47,491	47,778	48,071	47,481	47,092	47,033	47,083	47,958	47,312
Diluted Shares	48,134	47,778	48,071	48,536	48,699	47,433	47,483	48,387	47,959
Basic EPS	\$ 0.04	\$ (0.05)	\$ (0.02)	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.06	\$ 0.11
Diluted EPS	\$ 0.04	\$ (0.05)	\$ (0.02)	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.06	\$ 0.10
Operating Income	3,164	(3,080)	(2,015)	689	95	1,204	747	2,734	5,881
D&A	1,467	1,177	1,256	281	278	281	281	1,121	1,124
Stock Comp	391	443	567	139	274	274	274	962	1,098
EBITDA	\$ 5,022	\$ (1,460)	\$ (192)	\$ 1,109	\$ 647	\$ 1,759	\$ 1,302	\$ 4,817	\$ 8,103
WTI \$/barrel	\$ 56.98	\$ 39.12	\$ 68.09	\$ 95.18	\$ 108.72	\$ 93.06			
	FY 19	FY 20	FY 21	Q1 22 A	Q2 22 A	Q3 22 E	Q4 22 E	FY 22E	FY 23E
Sales of Goods	92.9%	90.4%	89.9%	93.4%	92.0%	93.8%	92.2%	92.9%	92.2%
Sales of Services	7.1%	9.6%	10.1%	6.6%	8.0%	6.2%	7.8%	7.1%	7.8%
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%	51.1%	50.0%	50.0%	50.1%	48.1%
Cost of services	67.3%	75.3%	79.9%	90.2%	90.6%	90.0%	90.0%	90.2%	78.7%
Total COGS	49.9%	55.6%	56.7%	52.1%	54.3%	52.5%	53.1%	53.0%	50.5%
Gross Profit-Goods	51.4%	46.5%	45.9%	50.6%	48.9%	50.0%	50.0%	49.9%	51.9%
Gross Profit-Services	32.7%	24.7%	20.1%	9.8%	9.4%	10.0%	10.0%	9.8%	21.3%
Gross Profit-Total	50.1%	44.4%	43.3%	47.9%	45.7%	47.5%	46.9%	47.0%	49.5%
G&A	34.5%	49.6%	43.8%	35.7%	39.3%	33.6%	34.9%	35.7%	32.1%
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%	1.7%	1.3%	1.5%	1.5%	1.4%
Opex	42.0%	58.7%	50.9%	40.7%	44.7%	37.9%	40.0%	40.6%	37.0%
Operating income	8.1%	-14.4%	-7.6%	7.3%	1.0%	9.7%	6.9%	6.4%	12.5%
Interest and Other	1.0%	2.0%	1.3%	1.0%	2.3%	1.7%	2.0%	1.8%	1.9%
Pretax income	9.2%	-12.4%	-6.4%	8.3%	3.2%	11.4%	8.9%	8.2%	14.4%
Tax Rate	43.3%	18.2%	37.4%	20.4%	8.7%	26.0%	26.0%	23.2%	26.0%
Net Income	5.2%	-10.1%	-4.0%	6.6%	3.0%	8.4%	6.6%	6.3%	10.6%
EBITDA	12.9%	-6.8%	-0.7%	11.7%	6.7%	14.1%	12.0%	11.3%	17.3%

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

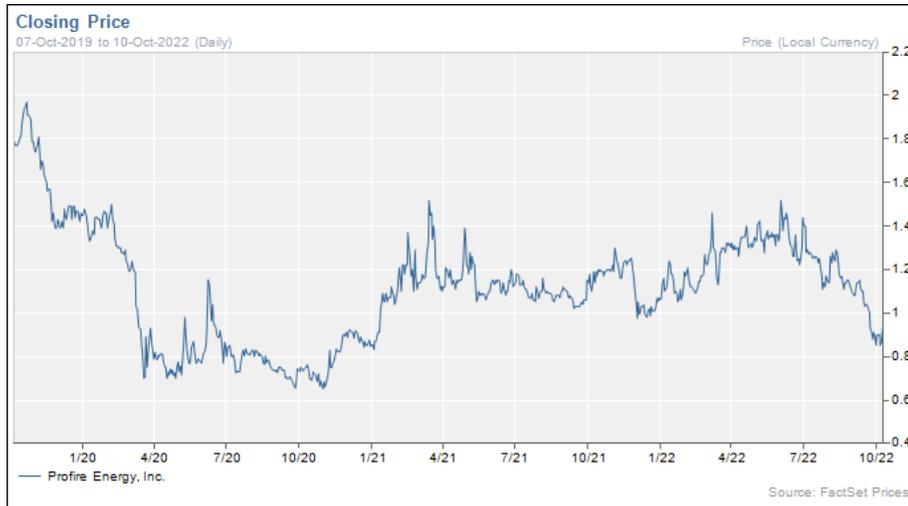
Exhibit 2. Balance Sheet and Cash Flow Statement

\$ in 000's	FY 19	FY 20	FY 21	FY 22E	FY 23E
Cash	7,359	9,148	8,188	10,274	15,015
ST Investments	3,822	2,389	1,014	463	463
A/R	5,598	3,720	6,263	7,233	8,339
Inventories	9,572	8,415	7,185	9,026	9,846
Prepaid Expenses & Other	1,750	2,165	1,586	1,332	1,535
Current Assets	\$ 28,100	\$ 25,836	\$ 24,236	\$ 28,328	\$ 35,199
LT Investments	7,400	6,064	8,260	8,619	8,619
Financing right of use asset	108	50	65	146	146
PP&E	12,071	12,022	11,186	10,487	10,362
Deferred Tax Asset	0	0	163	161	161
Intangible Assets	1,990	1,772	1,549	1,438	1,438
Goodwill	2,579	2,579	2,579	2,579	2,579
Total Assets	\$ 52,248	\$ 48,323	\$ 48,038	\$ 51,759	\$ 58,505
A/P	2,634	1,179	1,823	3,318	3,825
Accrued liabilities	2,089	1,197	1,872	2,020	2,167
Financing lease	59	39	30	53	53
Income tax payable	403	0	0	0	0
Current Liabilities	\$ 5,185	\$ 2,415	\$ 3,725	\$ 5,392	\$ 6,046
Deferred Tax Liability	439	523	136	136	136
Financing Lease Liability	52	13	36	95	95
Equity	46,572	45,372	44,141	46,137	52,229
Total Equity & Liab.	\$ 52,248	\$ 48,323	\$ 48,038	\$ 51,759	\$ 58,505
	FY 19	FY 20	FY 21	FY 22E	FY 23E
Net	2,021	(2,176)	(1,052)	2,677	4,994
D&A	1,467	1,177	1,256	1,121	1,124
Stock issued for services	391	443	567	962	1,098
Other	201	(123)	(176)	(282)	0
Working Capital	3,633	943	54	(750)	(1,475)
Operating Cash Flow	\$ 7,713	\$ 264	\$ 649	\$ 3,727	\$ 5,741
Other	1,611	3,314	(649)	181	0
Acquisition	(4,384)	0	0	0	0
CapEx	(4,665)	(1,547)	(169)	(473)	(1,000)
Investing Activities	\$ (7,437)	\$ 1,767	\$ (818)	\$ (292)	\$ (1,000)
Equity	(2,977)	(153)	(795)	(1,297)	0
Lease Liability	(74)	(58)	(41)	(20)	0
Financing Activities	\$ (3,050)	\$ (210)	\$ (836)	\$ (1,317)	\$ -
FX	31	(31)	45	(32)	0
Change in Cash	\$ (2,743)	\$ 1,789	\$ (960)	\$ 2,086	\$ 4,741

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
- Update – Buy – July 5, 2022 – Price Target \$2.00
- Update – Buy – August 4, 2022 – Price Target \$2.00
- Update – Buy – August 8, 2022 – Price Target \$2.00
- Update – Buy – September 22, 2022 – Price Target \$2.00
- Update – Buy – October 11, 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 20-Sep-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	83%	3	12%
Market Perform (Neutral)	4	13%	1	25%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	4	13%

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