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Profire Energy, Inc. (NASDAQ: PFIE)

November 14, 2023

Buy: Raising Price Target.

We are raising our price target on Profire Energy from \$2.00 to \$2.50. The company is the market share leader in burner management systems for oil and gas production. It is expanding its addressable market with deployment of burner management systems for midstream and upstream applications, and ancillary markets.

We are raising our price target on Profire Energy from \$2.00 to \$2.50. Our target assumes an EV/Sales multiple of 1.63x, the multi-year average, on our 2024 revenue estimate of \$62 million. Our price target is equivalent to 7.5x our 2024 EBITDA estimate of \$13.4 million.

We expect revenue growth this year of 29% and 5% next year on stable commodity prices, modest increases in well completions and continued success in opening new markets with the PF 2200.

EBITDA margin has exceeded 20% in four of the past five quarters. We estimate operating cash flow this year of \$7.7 million even after a \$4 million increase in working capital. Next year, without additional working capital increases, operating cash flow can exceed \$10 million and free cash flow slightly less given modest capital spending needs. Cash at quarter-end was \$11 million and the company holds another \$6 million in long-term investments.

Valuation is favorable, as is the long-term outlook. The EIA's reference case estimates tight oil production in the U.S. will increase almost 14% from 2022 to 2026. EIA expects natural gas production from shale gas and tight oil plays to increase 5% from 2022 to 2026.

Valuation: Our price target of \$2.50 is based on an EV/Sales multiple of 1.63x the 2024 revenue estimate of \$62.0 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 and equal to its multi-year average.

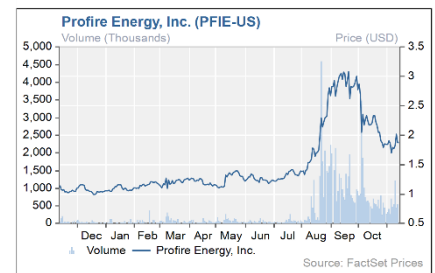
Risks: Risks to achieving our price target include changes in oil and gas prices, global economic growth and its impact on demand for oil and gas, regulation that could impact the ability to drill for oil and gas, and regulation that could impede the development of pipelines in the U.S.

James McIlree, CFA

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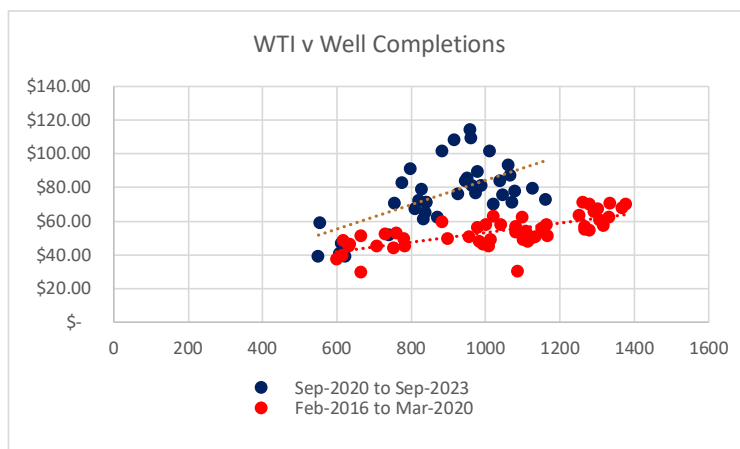
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Current Price			\$1.88
Price Target			\$2.50
Estimates	F2022A	F2023E	F2024E
Revenues (\$Ms)	\$ 45.9	\$ 59.1 E	\$ 62.0
1Q March	\$ 9.5	\$ 14.6 A	\$ 15.3
2Q June	\$ 9.6	\$ 14.4 A	\$ 15.2
3Q September	\$ 12.8	\$ 14.8 A	\$ 15.6
4Q December	\$ 14.0	\$ 15.3 E	\$ 16.0
	F2022A	F2023E	F2024E
EBITDA (\$Ms)	\$ 7.1	\$ 14.4 E	\$ 13.4
1Q March	\$ 1.1	\$ 3.8 A	\$ 3.2
2Q June	\$ 0.6	\$ 3.9 A	\$ 3.5
3Q September	\$ 2.6	\$ 3.1 A	\$ 2.9
4Q December	\$ 2.8	\$ 3.6 E	\$ 3.8
EV/Sales	1.6 x	1.2 x	1.2 x
EV/EBITDA	10.2 x	5.0 x	5.4 x
Stock Data			
52-Week Range	\$0.98	-	\$3.29
Shares Outstanding (mil.)			47.6
Market Capitalization (mil.)			\$89
Enterprise Value (mil.)			\$72
Debt to Capital			0%
Cash (mil.)			\$17
Cash/Share			\$0.36
Average Three Months Trading Volume (K)			459
Insider Ownership			31.6%
Institutional Ownership			41.6%
Short interest (mil.)			2.9%
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 almost 1,000 per month. However, the supply curve has shifted to the left, and elasticity decreased. We attribute this shift to government policies and market pressures to improve producer balance sheets. Well completions were much higher when WTI and natural gas prices were much lower than it is currently as can be seen on the graph below that compares well completions to WTI for the period before the pandemic and the period after the pandemic started.



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 that 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 about 7,500 in 2020. However, well completions in 2021 increased 26% and 19% in 2022.

We project revenue for Profire in 2023 of \$59.1 million, up from \$45.9 million in 2022. For 2023, our forecast assumes stable oil and gas prices and current levels of 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

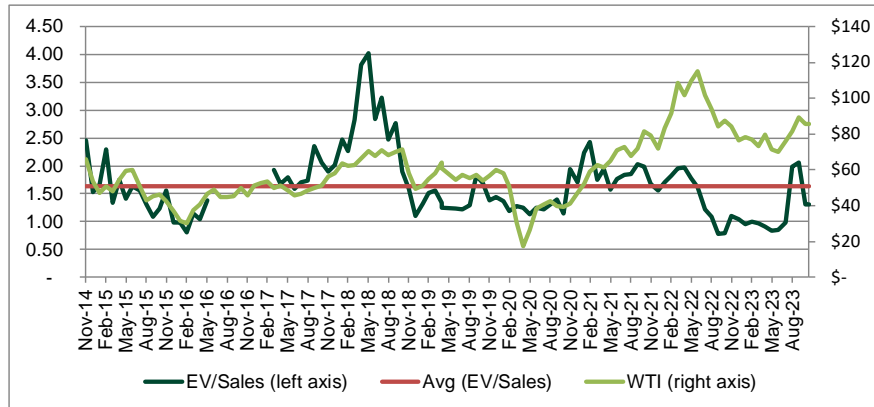
		Price	TEV (\$M)	FTM Sales (\$M)	EV/ Sales	FTM EBITDA (\$M)	EV/ EBITDA
CHX	ChampionX Corporation	\$ 29.20	\$ 6,059.7	\$ 3,939.5	1.54	\$ 817.5	7.4
CLB	Core Laboratories Inc.	18.87	1,098.4	549.6	2.00	92.0	11.9
BOOM	DMC Global Inc.	15.95	634.6	739.2	0.86	104.8	6.1
HTG-GB	Hunting PLC	£ 2.77	£ 450.9	£ 860.3	0.52	£ 100.6	4.5
LBRT	Liberty Energy, Inc. Class A	19.33	3,679.1	4,763.1	0.77	1,195.6	3.1
OIS	Oil States International, Inc.	7.16	565.8	860.3	0.66	101.1	5.6
	Median				1.06		6.4
PFIE	Profire Energy, Inc.	\$ 1.88	\$ 72.3	\$ 64.6	1.12	\$ 12.6	5.7

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 remain stable and the outlook for Profire to remain favorable. 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 616, remains over 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 26% increase in completions in 2021 vs. 2020 and a

19% increase in 2022, but there is substantial room for improvement. The number of completed wells in the first half of 2023 is 22% below its peak level in 2018.

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 \$2.50 is based on an EV/Sales multiple of 1.63x the 2024 revenue estimate of \$62.0 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 and equal to its multi-year average.

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 20	FY 21	FY 22	Mar-23 Q1 23 A	Jun-23 Q2 23 A	Sep-23 Q3 23 A	Dec-23 Q4 23 E	FY 23E	FY 24E
Sales of Goods	19,396	23,691	42,318	13,629	13,603	13,970	14,319	55,521	58,297
Sales of Services	2,063	2,665	3,618	925	841	859	945	3,569	3,748
Total Revenues	\$ 21,459	\$ 26,356	\$ 45,937	\$ 14,553	\$ 14,444	\$ 14,829	\$ 15,264	\$ 59,090	\$ 62,045
Cost of Goods	10,378	12,826	21,425	5,974	6,270	6,552	7,016	25,813	28,565
Cost of Services	1,554	2,129	2,860	746	759	800	779	3,084	2,998
Total COGS	11,932	14,955	24,285	6,720	7,029	7,352	7,796	28,897	31,564
Gross Profit-Goods	9,017	10,865	20,893	7,654	7,333	7,418	7,303	29,708	29,731
Gross Profit-Services	509	536	758	179	82	59	165	485	750
Gross Profit-Total	9,526	11,401	21,651	7,833	7,414	7,477	7,468	30,193	30,481
G&A	10,641	11,533	14,397	4,048	3,792	4,572	3,816	16,229	17,040
R&D	1,299	1,120	1,432	336	258	215	343	1,153	1,211
Depreciation	666	762	628	143	140	146	146	574	583
Opex	12,606	13,416	16,457	4,527	4,191	4,933	4,304	17,956	18,833
Operating income	(3,080)	(2,015)	5,195	3,306	3,224	2,544	3,164	12,237	11,648
Interest and Other	421	334	492	101	267	107	107	582	427
Pretax income	(2,659)	(1,681)	5,686	3,406	3,491	2,650	3,271	12,819	12,075
Taxes	(484)	(629)	1,738	817	634	611	850	2,912	3,139
Net Income	\$ (2,176)	\$ (1,052)	\$ 3,948	\$ 2,590	\$ 2,857	\$ 2,039	\$ 2,420	\$ 9,906	\$ 8,935
Basic Shares	47,778	48,071	47,161	47,175	47,394	47,521	47,630	47,107	47,417
Diluted Shares	47,778	48,071	48,447	48,613	49,473	49,504	48,030	48,358	48,640
Basic EPS	\$ (0.05)	\$ (0.02)	\$ 0.08	\$ 0.05	\$ 0.06	\$ 0.04	\$ 0.05	\$ 0.21	\$ 0.19
Diluted EPS	\$ (0.05)	\$ (0.02)	\$ 0.08	\$ 0.05	\$ 0.06	\$ 0.04	\$ 0.05	\$ 0.20	\$ 0.18
Operating Income	(3,080)	(2,015)	5,195	3,306	3,224	2,544	3,164	12,237	11,648
D&A	1,177	1,256	1,101	262	286	274	146	968	583
Stock Comp	443	567	815	223	360	295	295	1,173	1,180
EBITDA	\$ (1,460)	\$ (192)	\$ 7,110	\$ 3,791	\$ 3,870	\$ 3,113	\$ 3,604	\$ 14,378	\$ 13,410

WTI \$/barrel	\$ 39.12	\$ 68.09	\$ 94.90	\$ 75.93	\$ 73.54	\$ 82.24			
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	FY 20	FY 21	FY 22	Q1 23 A	Q2 23 A	Q3 23 A	Q4 23 E	FY 23E	FY 24E
Sales of Goods	90.4%	89.9%	92.1%	93.6%	94.2%	94.2%	93.8%	94.0%	94.0%
Sales of Services	9.6%	10.1%	7.9%	6.4%	5.8%	5.8%	6.2%	6.0%	6.0%
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods	53.5%	54.1%	50.6%	43.8%	46.1%	46.9%	49.0%	46.5%	49.0%
Cost of services	75.3%	79.9%	79.0%	80.7%	90.3%	93.1%	82.5%	86.4%	80.0%
Total COGS	55.6%	56.7%	52.9%	46.2%	48.7%	49.6%	51.1%	48.9%	50.9%
Gross Profit-Goods	46.5%	45.9%	49.4%	56.2%	53.9%	53.1%	51.0%	53.5%	51.0%
Gross Profit-Services	24.7%	20.1%	21.0%	19.3%	9.7%	6.9%	17.5%	13.6%	20.0%
Gross Profit-Total	44.4%	43.3%	47.1%	53.8%	51.3%	50.4%	48.9%	51.1%	49.1%
G&A	49.6%	43.8%	31.3%	27.8%	26.3%	30.8%	25.0%	27.5%	27.5%
Payroll Expense	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation	3.1%	2.9%	1.4%	1.0%	1.0%	1.0%	1.0%	1.0%	0.9%
Opex	58.7%	50.9%	35.8%	31.1%	29.0%	33.3%	28.2%	30.4%	30.4%
Operating income	-14.4%	-7.6%	11.3%	22.7%	22.3%	17.2%	20.7%	20.7%	18.8%
Interest and Other	2.0%	1.3%	1.1%	0.7%	1.9%	0.7%	0.7%	1.0%	0.7%
Pretax income	-12.4%	-6.4%	12.4%	23.4%	24.2%	17.9%	21.4%	21.7%	19.5%
Tax Rate	18.2%	37.4%	30.6%	24.0%	18.2%	23.1%	26.0%	22.7%	26.0%
Net Income	-10.1%	-4.0%	8.6%	17.8%	19.8%	13.8%	15.9%	16.8%	14.4%
EBITDA	-6.8%	-0.7%	15.5%	26.0%	26.8%	21.0%	23.6%	24.3%	21.6%

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

Exhibit 2. Balance Sheet and Cash Flow Statement

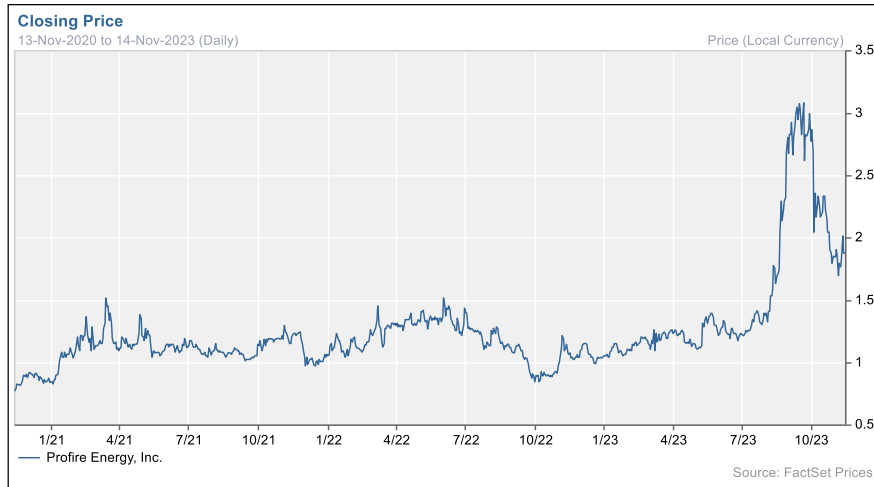
\$ in 000's	FY 20	FY 21	FY 22	FY 23E	FY 24E
Cash	9,148	8,188	7,385	13,138	23,697
ST Investments	2,389	1,014	1,154	2,795	2,795
A/R	3,720	6,263	10,886	11,101	11,656
Inventories	8,415	7,185	10,294	14,436	13,057
Prepaid Expenses & Other	2,165	1,586	2,315	2,825	2,966
Current Assets	\$ 25,836	\$ 24,236	\$ 32,034	\$ 44,295	\$ 54,171
LT Investments	6,064	8,260	7,503	6,221	6,221
Financing right of use asset	50	65	120	136	136
PP&E	12,022	11,186	10,424	10,755	11,172
Deferred Tax Asset	0	163	0	0	0
Intangible Assets	1,772	1,549	1,269	1,143	1,143
Goodwill	2,579	2,579	2,579	2,579	2,579
Total Assets	\$ 48,323	\$ 48,038	\$ 53,930	\$ 65,130	\$ 75,423
A/P	1,179	1,823	2,956	1,229	1,290
Accrued liabilities	1,197	1,872	3,574	4,503	4,600
Financing lease	39	30	54	65	65
Income tax payable	0	0	205	914	933
Current Liabilities	\$ 2,415	\$ 3,725	\$ 6,788	\$ 6,711	\$ 6,889
Deferred Tax Liability	523	136	489	955	955
Financing Lease Liability	13	36	68	74	74
Equity	45,372	44,141	46,584	57,389	67,504
Total Equity & Liab.	\$ 48,323	\$ 48,038	\$ 53,930	\$ 65,130	\$ 75,423

	FY 20	FY 21	FY 22	FY 23E	FY 24E
Net	(2,176)	(1,052)	3,948	9,906	8,935
D&A	1,177	1,256	1,101	968	583
Stock issued for services	443	567	815	1,173	1,180
Other	(123)	(176)	(240)	169	0
Working Capital	943	54	(5,107)	(4,499)	861
Operating Cash Flow	\$ 264	\$ 649	\$ 516	\$ 7,718	\$ 11,558
Other	3,314	(649)	612	(55)	0
Acquisition	0	0	0	0	0
CapEx	(1,547)	(169)	(601)	(1,224)	(1,000)
Investing Activities	\$ 1,767	\$ (818)	\$ 11	\$ (1,279)	\$ (1,000)
Equity	(153)	(795)	(1,341)	(663)	0
Lease Liability	(58)	(41)	(34)	(27)	0
Financing Activities	\$ (210)	\$ (836)	\$ (1,375)	\$ (690)	\$ -
FX	(31)	45	45	5	0
Change in Cash	\$ 1,789	\$ (960)	\$ (804)	\$ 5,754	\$ 10,558

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
 Update – Buy – November 4, 2022 – Price Target \$2.00
 Update – Buy – December 20, 2022 – Price Target \$2.00
 Update – Buy – May 11, 2023 – Price Target \$2.00
 Update – Buy – August 11, 2023 – Price Target \$2.00
 Price Target Change – Buy – November 14, 2023 – Price Target changed from \$2.00 to \$2.50

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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-Nov-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	22	64.70%	3	8.80%
Market Perform (Neutral)	12	35.30%	2	5.90%
Market Underperform (Sell)	0	0%	0	0.00%
Total	34	100%	5	14.70%

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