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RESEARCH NOTE

July 28, 2022

CALFRAC WELL SERVICES (CFW–TSX, $4.75)

Rating: N/R
Target Price: N/R

Q2 FINANCIALS BEAT EXPECTATIONS

Calfrac Well Services			CFW
(Currency is C$ unless noted otherwise)			
Last Price ($)			$4.75
52-Week Trading Range ($)			$2.75 / $6.45
Average Daily Volume (90-Day)			42.6K
MARKET INFO			
Basic Shares Outstanding (M)			38.5
Fully Diluted Shares Outstanding (M)			84.5
Market Capitalization ($M)			$401.4
Debt ($M)			$421.1
Cash ($M)			$17.4
Enterprise Value ($M)			$805.1
FYE: DEC 31	**F2021A**	**F2022E**	**F2023E**
Revenue ($M)	$1,002.4	$1,310.5	$1,550.0
EBITDA ($M)	$48.3	$147.8	$251.0
EBITDA Margin (%)	5%	11%	16%
MOST RECENT QUARTER			**Mar-22**
Revenue ($M)			$318.5
Operating Income ($M)			$36.6
Adjusted EBITDA ($M)			$39.3
Adjusted EBITDA Margin (%)			12%
VALUATION	**F2021A**	**F2022E**	**F2023E**
EV/EBITDA	16.7x	5.4x	3.2x
Avg Peers EV/EBITDA	8.8x	5.4x	4.3x
DISCLOSURE CODE:			None
(Please refer to applicable disclosures on the back page)			
Source: M Partners, CapitalIQ, Bloomberg, Company Documents			

Calfrac Well Services Ltd provides specialized oilfield services, including hydraulic fracturing, coiled tubing, cementing and other well completion services to the oil and natural gas industries in Canada, the United States, Russia and Argentina. The company Canadian segment is focused on the provision of fracturing and coiled tubing services to a group of oil and natural gas exploration and production companies. The company United States segment provides fracturing services to oil companies operating in the Bakken oil shale play in North Dakota.

Calfrac Well Services reported Q2/22 financial results this morning that beat expectations on both revenue and EBITDA. The beat was driven by strong pricing and volume growth in all regions, especially the U.S. segment that activated a ninth fleet during the quarter. Last quarter, management guided for sequential growth in Q2 and exceeded that guidance today, growing revenue 8% QoQ.

Highlights from the quarter include:

- Revenue of $319M vs. consensus of $304M (+8% QoQ, +83% YoY)
- EBITDA of $39M vs. consensus of $23M (+89% QoQ)
- Net income of -$7M
- Operating cash flow of $9M and capex of $11M
- Cash and equivalents of $17M

Regional Commentary

CFW's Canadian segment posted $71M in revenue (+40% YoY) driven by a 1% increase in pricing and a 31% increase in the number of fracturing jobs. The Canadian segment also reported $4M in operating income (-10% YoY), equating to an annualized $4M/fleet. CFW is anticipating full utilization in Q3 for the Canadian segment and management is already beginning to receive inquiries for equipment availability in 2023. Management is committed to its current fleet capacity and will only consider fleet reactivations if it is supported by a customer agreement.

The U.S. segment posted $194M in revenue (+124% YoY), led by a 69% increase in pricing and 32% increase in the number of jobs (due to the ninth fleet being activated). Operating income came in at $36M compared to -$3M in Q2/21, equating to an annualized $16M/fleet. The U.S. division overcame weather disruptions early in the quarter and exited the quarter with the highest fleet profitability since Q2/17. Management expects the U.S. market to remain tight through 2023 and has the option to reactivate idle equipment (but remains focused on improving cash flows first).

The Argentina division posted $54M in revenue (+48% YoY) and $2M in operating income (-67% YoY). CFW signed a multi-year contract with a major client in Argentina and expects profitability to improve significantly in H2. Management announced that it has made progress on the sale of its Russian subsidiary and is seeking to close the transaction as soon as possible.

Valuation

Calfrac currently trades at 3.2x 2023E EBITDA compared to its peers at 3.7x 2023E EBITDA. We think the current consensus of $203M in EBITDA is too low given that management has been comparing the current environment to 2017/2018 when CFW posted $300M+ in EBITDA using the same assets (which it also posted in 2011 and 2014). If CFW can run 13 U.S. fleets and 4 Canadian fleets in 2023, priced at $15M/fleet, CFW will be able to reach $250M in EBITDA (assuming -$30M in corporate expenses). While we think the entire oil services market is undervalued, CFW remains a key standout due to the upside to the current consensus. If CFW were to trade back to a mid-cycle multiple of 6-7x EBITDA, the stock would be worth over $10.00/share.

Disclosure Code: None

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Rating System	
Buy:	Price expected to rise
Speculative Buy:	Buy rating with increased risk
Hold:	Properly priced
Sell:	Price is inflated and expected to decrease
Under Review (U/R):	Under review
Not Rated (N/R):	Not currently rated

Summary of Recommendations	
Buy	17
Speculative Buy	1
Hold	0
Sell	0
U/R	1
Total	19