

Foraco International SA

METALS & MINING

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All figures in C\$, unless otherwise noted.

Rating: Buy

unchanged

12-Month Target: \$5.00 ↑

previously \$4.50

Price	C\$2.11
Ticker	FAR-T
FYE	31-Dec
Potential ROR (incl. dividend)	137%
Shares O/S	Basic (M) 98.5
	FD (M)* 101.1
Market Cap	Basic (C\$M) 207.8
	FD (C\$M) 213.3
Net Debt (C\$M)	100.8
Enterprise Value (C\$M)	308.6
Working Capital/sh (C\$)	0.50

*based on in-the-money dilutive securities

Company Data	FY21	FY22e	FY23e
Revenue (US\$M)	270	314.2 ↑	352.1
previously		292.1	na
EBITDA (US\$M)	42.8	59.3 ↑	61.6
previously		53.7	na
Adj-EPS (US\$)	0.01	0.34 ↑	0.36
Previously		0.30	na
CFPS (US\$)	0.34	0.59 ↑	0.61
Previously		0.55	na
EV/EBITDA	5.7x	4.1x	4.0x
P/EPS	129.0x	4.9x	4.6x
P/OpCF	4.9x	2.8x	2.7x

Q4/22 Beats; Increasing Target

Investment Thesis. Foraco International SA (FAR), based in Marseille, France, is the third-largest global mineral driller providing innovative solutions for mining and water projects across 22 countries and five continents. With the third-largest global fleet of drilling rigs, best-in-class safety standards and a versatile, well-trained international workforce with a proven track record in geologically complex formations, Foraco is uniquely positioned to satisfy the needs of customers operating around the world.

Event

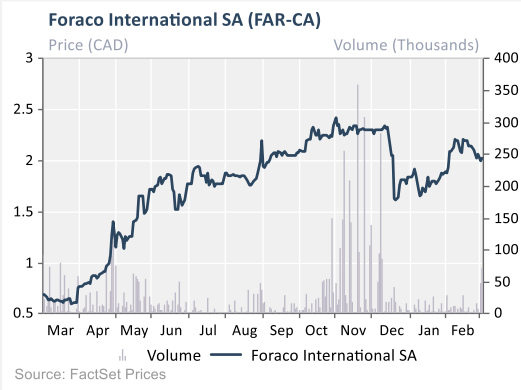
Foraco released Q4 operational and financial results which exceeded our expectations and showed that even in the company's seasonally weak quarter, its well-diversified segments continue to offset vulnerability from one region to another. In particular, the company recently announced that it was awarded a long-term contract with Rio Tinto in the iron ore Pilbara region of Western Australia. We believe this contract will further help with the seasonality typically exhibited by a company with about one-third of its revenue sourced from North America where winter tends to slow productivity.

Highlights

- ▶ **Financial Results** | Figure 1 details Q4 results; highlights are as follows:
 - **Revenue:** \$68.9M vs. \$70.6M in Q3 and \$54.2M last year
 - **Gross Profit:** \$10.1M vs. \$14.9M in Q3 and \$9.0M last year
 - **EBITDA:** \$9.3M vs. \$13.8M in Q3 and \$7.8M last year
 - **Adjusted EPS:** \$0.03 vs. -\$0.04 in Q3 and \$0.02 last year
 - **CFPS:** \$0.30 vs. \$0.12 in Q3 and \$0.03 last year
- ▶ **Segmented Results** | Consolidated y/y revenue growth was once again a healthy 27% in Q4 versus 26% in Q3 and 60% in Q2, a quarter that corresponded with the worst of the COVID-19 downturn in Q2/20. The highest-performing regional segment continues to be South America which has averaged ~80% y/y growth for the past three quarters despite ongoing COVID concerns. While the laggard has been the Asia-Pacific segment with 2021/2020 y/y growth of 12%, we model the Rio Tinto contract to significantly boost this segment for 2022.
- ▶ **Going Forward** | With the company's financial re-organization behind it, we believe Foraco is in the best position for growth that we have seen in many years. This is further highlighted by the new US\$110M contract with Rio Tinto that includes seven rigs of both diamond and RC drills for a period of three years and an option to expand to five years. As Foraco continues to add longer-term contracts to its portfolio, we contend that its protection from market turmoil has greatly improved. We will continue to forecast a 15% growth rate for North and South America (vs. 37% and 20% in 2021, respectively), 5% for the Asia-Pacific segment plus the additional Rio Tinto contract (vs. 12% in 2021) and 5% for the EMEA segment (vs. 20% in 2021), down from 10% owing to our expectations of a slowdown related to the current Russian invasion of Ukraine.

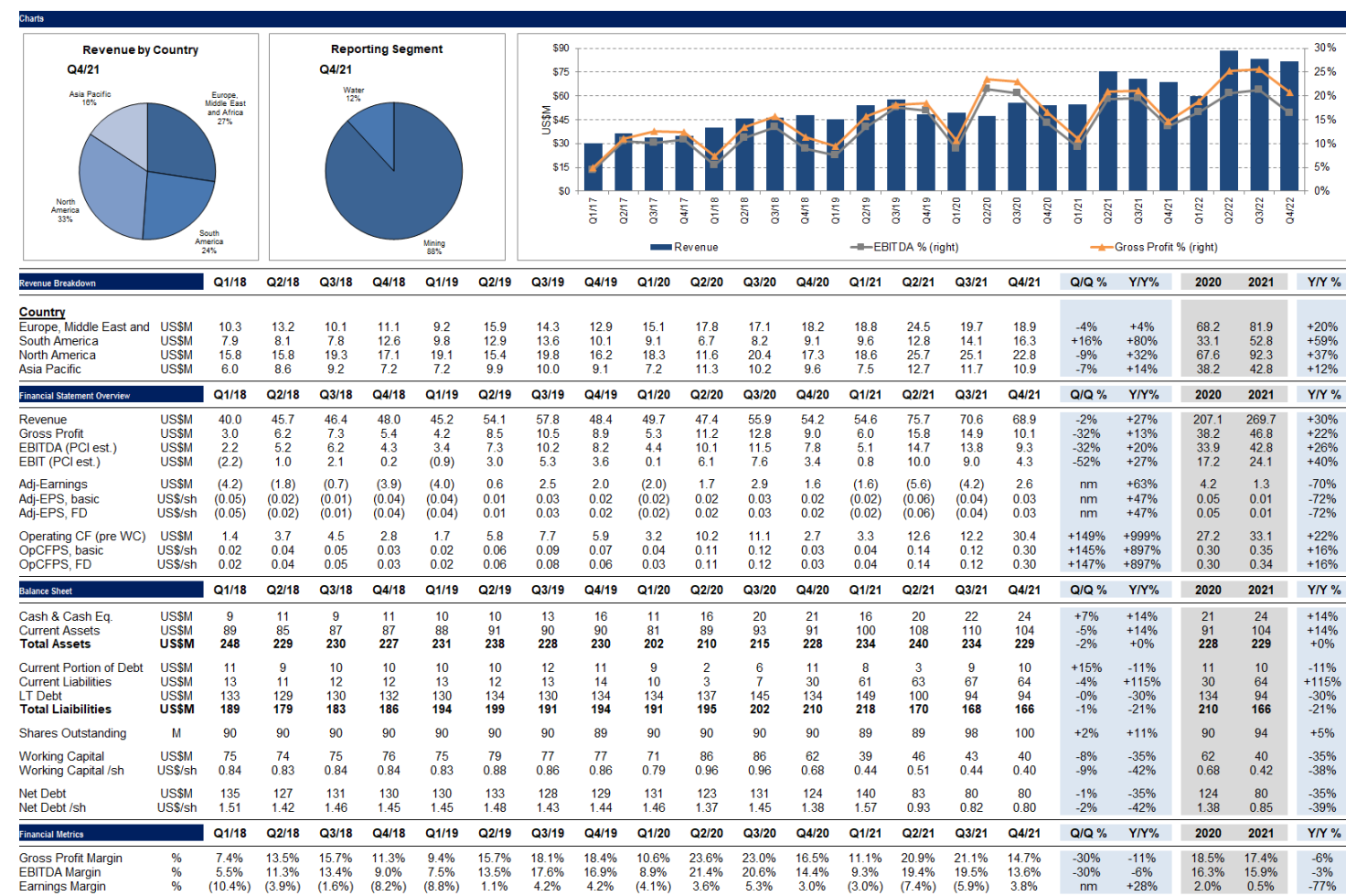
Valuation & Conclusion

Based on the successful 2021 results, our modest growth expectations have increased our estimates for 2022 accordingly. Using an 8x EV/EBITDA multiple, in line with drilling companies of similar size and structure, our target price has increased to \$5.00 (was C\$4.50). We maintain our Buy recommendation. Our positive outlook on FAR stems from the company's excellent management team with a proven track record and its diversified business model that is poised for growth.



Source: FactSet, Company filings, Paradigm Capital Inc.

Company description: Foraco specializes in drilling in harsh environments and isolated locations including the Arctic, desert and mountainous regions, generally under conditions where operations are challenged by logistical matters and geographic barriers. The company's engineers and technicians have developed special drilling methods which respond to the requirements of certain areas in which geology prevents the use of standard techniques and equipment. The company has specialized equipment for, among other uses, helicopter-based drilling campaigns, combination rigs able to perform multi-drilling technique contracts, desert-suited rigs and large diameter core sampling systems

Figure 1: Operational & Financial Summary


Source: Paradigm Capital Inc., Company filings

DISCLAIMER SECTION

Company	Ticker	Disclosures
Foraco International SA	FAR-CA	3

Note: Please refer to above table for applicable disclosure numbers.

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Stock Coverage History

Date	Target	Rating	Estimates
10/18/2021	\$4.50	Buy	Initiating Coverage

Research Rating System

Paradigm Capital Inc. uses the following rating recommendation guidelines in its research:

Recommendation	Number of Companies	Percentage Breakdown	
Buy	111	61%	Buy – Expected returns of 20% or more over 12 months.
Spec. Buy	46	25%	Speculative Buy - Expected returns of 20% or more over the next 12 months on high-risk development or pre-revenue companies, such as junior mining and other early stage companies.
Hold	16	6%	Hold - Expected returns of less than +/- 20% over the next 12 months. Includes companies Under Review.
Sell*	0	0%	Sell - Expected returns of -20% or more over the next 12 months.
Total	173		

*Includes companies with a "Tender" recommendation

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