

Foraco International SA

METALS & MINING

All figures in C\$, unless otherwise noted.

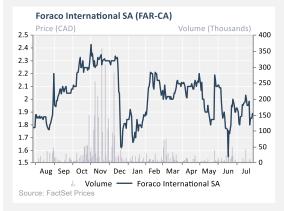
Rating: Buy

unchanged

12-Month Target: \$5.00

unchanged

Price				C\$1.80	
Ticker				FAR-T	
FYE				31-Dec	
Potential ROR	(incl. dividend)			178%	
Shares O/S	Basic (M)			98.8	
	FD (M)*			101.5	
Market Cap	Basic (C\$M)			177.9	
	FD (C\$M)			182.7	
Net Debt (C\$M)			102.6	
Enterprise Valu	ie (C\$M)			280.6	
Working Capita	al/sh (C\$)			0.58	
*based on in-th	e-money dilutive	securities			
Company Data	a FY21	FY22e		FY23e	
Company Data Revenue (US\$I		FY22e 323	Î	FY23e 363	
			Î		Î
Revenue (US\$I	M) 270	323	↑ ↑	363	↑ ↑
Revenue (US\$I previously	M) 270	323 322		363 361	
Revenue (US\$I previously EBITDA (US\$M	M) 270 1) 43	323 322 61 60		363 361 72	
Revenue (US\$I previously EBITDA (US\$M previously	M) 270 1) 43	323 322 61 60	ſ	363 361 72 67	†
Revenue (US\$1 previously EBITDA (US\$M previously Adj-EPS (US\$)	M) 270 1) 43	323 322 61 60 0.23	ſ	363 361 72 67 0.37	†
Revenue (US\$I previously EBITDA (US\$N previously Adj-EPS (US\$) Previously	M) 270 1) 43 0.01	323 322 61 60 0.23 0.26	, ↓	363 361 72 67 0.37 0.32	↑ ↑
Revenue (US\$I previously EBITDA (US\$M previously Adj-EPS (US\$) Previously CFPS (US\$)	M) 270 1) 43 0.01	323 322 61 60 0.23 0.26 0.51 0.54	, ↑ ↓ ↓	363 361 72 67 0.37 0.32 0.71	↑ ↑
Revenue (US\$I previously EBITDA (US\$M previously Adj-EPS (US\$) Previously CFPS (US\$) Previously	M) 270 1) 43 0.01 0.34	323 322 61 60 0.23 0.26 0.51 0.54	↑ ↓ ↓	363 361 72 67 0.37 0.32 0.71 0.66	↑ ↑
Revenue (US\$I previously EBITDA (US\$M previously Adj-EPS (US\$) Previously CFPS (US\$) Previously EV/EBITDA	M) 270 1) 43 0.01 0.34 5.1x	323 322 61 60 0.23 0.26 0.51 0.54 3.6x	, ↓ ↓	363 361 72 67 0.37 0.32 0.71 0.66 3.0x	↑ ↑



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 Gordon Lawson, MBA, Analyst | 416.363.5476 | glawson@paradigmcap.com David Davidson, Sr. Analyst | 416.360.3462 | ddavidson@paradigmcap.com Jeff Woolley, CFA, Analyst | 416.361.9557 | jwoolley@paradigmcap.com Matthew Chong, Associate | 416.361.6053 | mchong@paradigmcap.com

Q2/22: Company Continues to Outperform

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 Q2 operational and financial results that once again exceeded expectations, growing both revenue and margins in an environment that continues to be challenging owing to high inflation, supply chain disruptions and workforce availability. Drilling demand remained strong with the order book growing over the quarter, even as uncertainty regarding global growth has impacted the commodity sector. The company benefitted from adding rigs to long-term contracts of tier one clients and thus offset financial difficulties experienced by the junior exploration companies. We believe Foraco is well positioned to continue providing stable earnings and cash flow, pay off debt and possibly introduce a regular dividend.

Highlights

- ► Financial Results | Figure 1 details quarterly results; highlights are as follows:
 - Revenue: \$86.5M vs. \$67.7M in Q1 (\$75.7M last year)
 - Gross Profit (adjusted): \$24.0M vs. \$14.4M in Q1 (\$20.4M last year)
 - o Gross Profit: \$18.8M vs. \$9.6M in Q1 (\$15.8M last year)
 - o EBITDA: \$17.9M vs. \$8.5M in Q1 (\$14.7M last year)
 - o EPS (adjusted): \$0.05 vs. \$0.00 in Q1 (\$0.04 last year)
 - o CFPS: \$0.14 vs. \$0.04 in Q1 (\$0.14 last year)
- Segmented Results | The company continues to expand with total revenue growing 14% y/y and maintaining utilization at 60%, in line with Q1. The highest growth segment was once again South America at 95% y/y which more than offset reduced activity in the Europe, Middle East and Africa (EMEA) segment impacted by contract phasing and logistic challenges.
- Going Forward | The company continues to strengthen the balance sheet, paying down debt and improving its leverage ratio. Expertise in water-related services, particularly in production well drilling, put the company in a position to allow it to capitalize from growth in lithium exploration programs in South America. 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 (vs. 12% in 2021) and 5% for the EMEA segment (vs. 20% in 2021) owing to our expectations of headwinds related to the ongoing Russian invasion of Ukraine.

Valuation & Conclusion

Our 2022 EBITDA estimate has increased to \$61M (was \$60M); using an 8x EV/EBITDA multiple, in line with drilling companies of similar size and structure, our target price is \$5.00. 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.



Figure 1: Operational & Financial Summary

Charts		1				T														
Revenue by Cr Q2/22 Aila Politica Straine Stra	Source So	the the	Q2/22	Water 15%	Segment		\$90 - \$60 - \$45 - \$30 - \$15 - \$0 -	a1/17 02/17	2449 2449 2449 2449 2449 2449 2449 2449	01/18 02/18		6WID		04/19 01/20	03/20	a4:20 a1:21			03/22	30% 25% 20% 15% 10% 5% 0%
Financial Statement Overview		Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21	Q2/21	Q3/21	Q4/21	Q1/22	Q2/22	Y/Y%	Q/Q %	2021	2022	Y/Y %
Operating CF (pre WC) CFPS, basic	US\$M US\$M US\$M US\$M US\$M US\$M US\$M US\$M	19.1 9.2 9.8 7.2 45.2 8.6 4.2 3.4 3.4 (0.9) (0.04) (0.04) (0.04) (0.04) (0.04) (0.04) (0.04) (0.04) (0.04) (0.04) (0.04) (0.04) (0.04) (0.04) (0.04) (0.02)	15.4 15.9 12.9 9.9 54.1 12.8 8.5 7.3 7.3 3.0 0.6 0.01 0.01 0.01 0.01 0.01 0.01 0.0	19.8 14.3 13.6 10.0 57.8 15.4 10.2 10.2 5.3 2.5 0.03 0.03 0.03 0.03 0.03 7.7 0.09 0.08 Q3/19	16.2 12.9 10.1 9.1 48.4 13.5 8.9 8.2 8.2 3.6 2.0 0.02 0.02 0.02 0.02 0.02 0.02 0.0	18.3 15.1 9.1 7.2 49.7 9.6 5.3 4.5 4.4 0.1 (2.0) (0.02) (0	11.6 17.8 6.7 11.3 47.4 15.2 10.2 10.1 6.1 1.7 0.02 0.02 1.7 0.02 0.02 1.7 0.02 0.02 10.2 0.02 10.2 0.11 0.11	20.4 17.1 8.2 10.2 55.9 16.8 12.8 11.6 11.5 7.6 2.9 0.03 0.03 0.03 0.03 0.03 0.03 11.1 0.12 0.12 0.12	17.3 18.2 9.6 54.2 13.4 9.0 7.8 7.8 3.4 1.6 0.02 0.02 0.02 0.02 0.02 0.02 0.02 0.	18.6 18.8 9.6 7.5 54.6 10.3 6.0 5.1 5.1 0.8 (1.0) (0.01) (0.01) (0.01) (0.01) (0.01) (0.01) (0.01) 0.01) 3.3 0.04 Q1/21	25.7 24.5 12.8 12.7 75.7 20.4 15.8 14.7 14.7 10.0 3.8 0.04 0.04 0.04 0.04 0.04 0.04 12.6 0.04 0.04 0.04 0.04 0.04 0.04 0.04 0.	25.1 19.7 14.1 11.7 70.6 19.6 14.9 13.8 13.8 13.8 9.0 30.4 0.31 0.30 (4.2) (0.04) (0.04) 12.2 0.12 0.12 Q3/21	22.8 18.9 16.3 10.9 68.9 15.2 10.1 9.4 9.3 4.3 0.02 0.02 2.6 0.03 0.03 0.03 5.0 0.05 Q4/21	21.6 15.2 20.7 10.3 67.7 14.4 9.6 8.5 8.5 3.6 0.4 0.00 0.00 0.00 0.00 0.00 0.00 0.0	26.6 21.0 25.0 13.9 86.5 24.0 18.8 17.9 17.8 12.6 5.1 0.05 5.1 0.05 5.1 0.05 5.1 0.05 14.2 0.14 20.14	+3% -14% +95% +10% +10% +19% +22% +28% +23% +23% +23% +23% +23% +23% +13% +24% +2% +4%	+23% +38% +21% +21% +35% +28% +66% +110% +110% +10% +250% +999% +999% +999% +999% +999% +297% +297% +297% +207%	92.3 81.9 52.8 42.8 269.7 65.5 46.8 43.0 42.8 24.1 35.5 0.38 0.37 1.3 0.01 33.1 0.01 33.1 0.34 2021	103.3 76.7 80.7 58.9 319.5 87.4 67.8 58.8 58.8 58.8 58.8 58.8 39.1 21.4 0.22 21.4 0.22 21.4 0.22 21.4 0.22 50.3 0.51 0.51	+12% -6% +53% +38% +38% +37% +37% +37% +37% +42% -40% -42% +40% +999% +52% +45% +48%
Cash & Cash Eq. Current Assets Total Assets	US\$M US\$M US\$M	10 88 231	10 91 238	13 90 228	16 90 230	11 81 202	16 89 210	20 93 215	21 91 228	16 100 234	20 108 249	22 110 234	24 104 229	15 116 250	24 130 254	+17% +20% +2%	+57% +12% +2%	2021 24 104 229	47 154 276	+98% +47% +21%
Current Portion of Debt Current Liabilities LT Debt Total Liaibilities	US\$M US\$M US\$M US\$M	10 36 130 216	10 36 134 223	12 34 130 212	11 34 134 214	9 31 134 212	2 19 137 210	6 25 145 220	11 30 134 210	8 61 149 218	154 214 1 222	9 67 94 168	10 48 94 150	15 79 95 181	9 84 95 186	-94% -61% +999% -16%	-38% +7% +0% +3%	9 64 94 166	9 84 99 190	-2% +30% +5% +14%
Shares Outstanding Working Capital Working Capital /sh	M US\$M US\$/sh	90 52 0.58	90 55 0.61	90 56 0.63	89 56 0.63	90 50 0.55	90 71 0.79	90 68 0.76	90 62 0.68	89 39 0.44	89 (105) (1.18)	98 43 0.44	98 56 0.57	99 38 0.38	99 46 0.47	+11% nm nm	+0% +23% +23%	94 40 0.42	99 70 0.71	+5% +75% +67%
Net Debt Net Debt /sh	US \$M US \$ /sh	130 1.45	133 1.48	128 1.43	129 1.44	131 1.46	123 1.37	131 1.45	124 1.38	140 1.57	134 1.50	80 0.82	80 0.81	95 0.96	80 0.81	-40% -46%	-15% -15%	80 0.85	61 0.61	-24% -27%
Financial Metrics		Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21	Q2/21	Q3/21	Q4/21	Q1/22	Q2/22	Y/Y%	Q/Q %	2021	2022	Y/Y %
Gross Profit Margin EBITDA Margin Earnings Margin	% % %	9.4% 7.5% (8.8%)	15.7% 13.5% 1.1%	18.1% 17.6% 4.2%	18.4% 16.9% 4.2%	10.6% 8.9% (4.1%)	23.6% 21.4% 3.6%	23.0% 20.6% 5.3%	16.5% 14.4% 3.0%	11.1% 9.3% (1.8%)	20.9% 19.4% 5.0%	21.1% 19.5% (5.9%)	14.7% 13.6% 3.8%	14.1% 12.5% 0.6%	21.7% 20.6% 5.8%	+4% +6% +16%	+54% +65% +826%	17.4% 15.9% 0.5%	21.2% 18.4% 6.7%	+22% +16% +999%

Source: Paradigm Capital Inc., Company filings

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DISCLAIMER SECTION

Company	Ticker	Disclosures	
Foraco International SA	FAR-CA	3	

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

1. The analyst has an ownership position in the subject company.

- 2. Paradigm Capital Inc. has assumed an underwriting liability for, and/or provided financial advice for consideration to the subject companies during the past 12 months.
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- 5. The analyst has a family relationship with an Officer/Director of subject company.
- 6. A partner, director, officer, employee or agent of Paradigm Capital Inc. is an officer or director of the issuer.

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Stock Coverage History

Date	Target	Rating	Estimates
3/4/2022	\$ 5.00 ↑	Buy	FY22 CFPS↑
11/4/2021	\$4.50	Buy	FY21-22 CFPS↓
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	97	63%	Buy – Expected returns of 20% or more over 12 months.
Spec. Buy	47	31%	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	9	3%	Hold - Expected returns of less than +/- 20% over the next 12 months. Includes companies Under Review.
Sell*	1	1%	Sell - Expected returns of -20% or more over the next 12 months.
Total	154		

*Includes companies with a "Tender" recommendation

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