

Foraco International SA

METALS & MINING

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

All figures in C\$, unless otherwise noted.

Rating: Buy

unchanged

12-Month Target: \$5.00

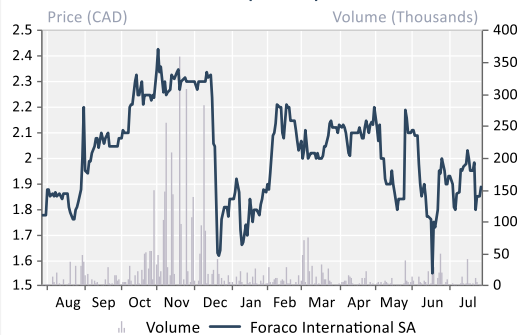
unchanged

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 Value (C\$M)	280.6
Working Capital/sh (C\$)	0.58

*based on in-the-money dilutive securities

Company Data	FY21	FY22e	FY23e
Revenue (US\$M)	270	323 ↑	363 ↑
previously		322	361
EBITDA (US\$M)	43	61 ↑	72 ↑
previously		60	67
Adj-EPS (US\$)	0.01	0.23 ↓	0.37 ↑
Previously		0.26	0.32
CFPS (US\$)	0.34	0.51 ↓	0.71 ↑
Previously		0.54	0.66
EV/EBITDA	5.1x	3.6x	3.0x
P/EPS	108.7x	6.2x	3.8x
P/OpCF	4.1x	2.7x	2.0x

Foraco International SA (FAR-CA)



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

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:

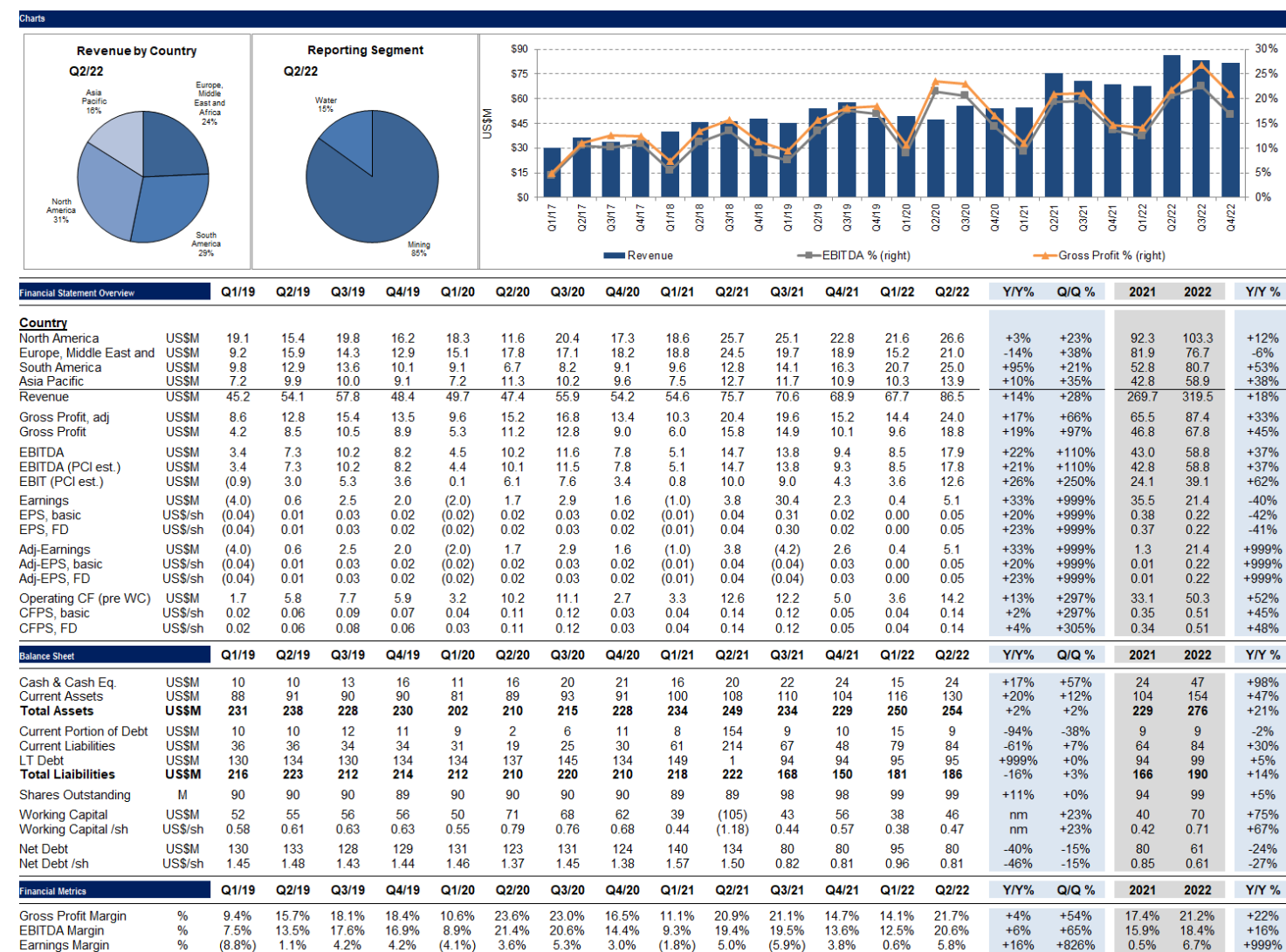
- **Revenue:** \$86.5M vs. \$67.7M in Q1 (\$75.7M last year)
- **Gross Profit (adjusted):** \$24.0M vs. \$14.4M in Q1 (\$20.4M last year)
- **Gross Profit:** \$18.8M vs. \$9.6M in Q1 (\$15.8M last year)
- **EBITDA:** \$17.9M vs. \$8.5M in Q1 (\$14.7M last year)
- **EPS (adjusted):** \$0.05 vs. \$0.00 in Q1 (\$0.04 last year)
- **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


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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- 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.
- Paradigm Capital Inc. expects to receive or intends to seek compensation for investment banking services from the subject companies in the next 3 months.
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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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