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# THE WELL STREET JOURNAL

Oilfield Services and Industrials Deep Dive

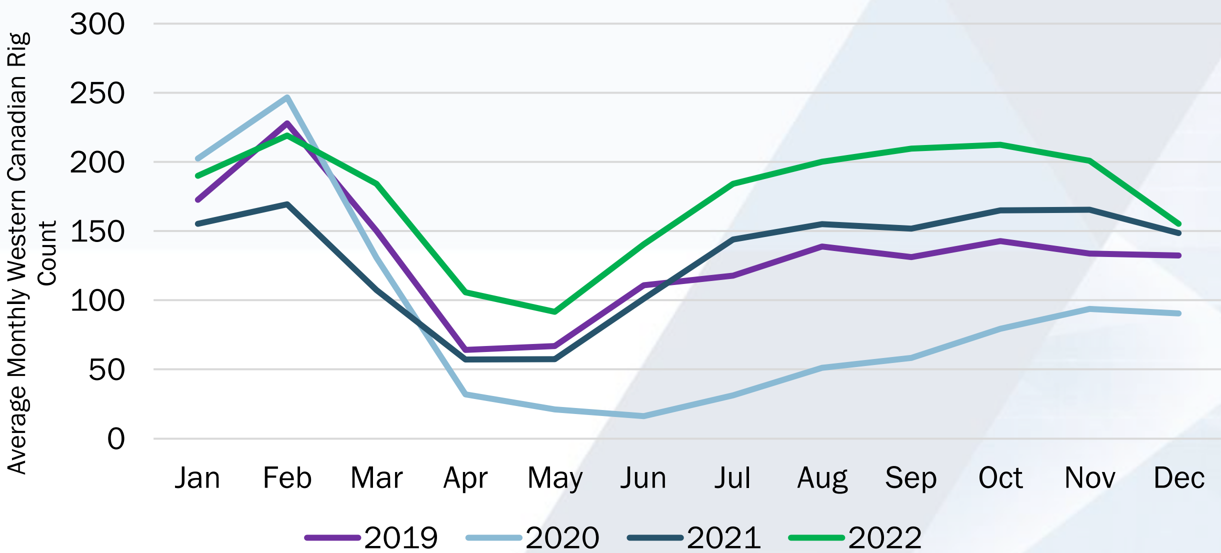
2022 | Q4 Report

# Energy Market Sentiment

In the context of the volatile year for the energy industry that was 2022, Q4 was relatively calm for the sector – largely a reflection of broader macroeconomic conditions. While inflation rates remained stubbornly high in the quarter and interest rates continued to rise, this played out largely as forecast, a welcome deviation in a year when expecting the unexpected became routine. The only expected development that did not transpire was the clear beginning of a recession, as economic activity and underlying indicators remained unexpectedly strong through the end of the year.

After an escalation through October and into November, oil prices ended the quarter largely as they began, a similarly anti-climactic turn of events. The pricing stalemate is fitting considering the division amongst analysts – rarely has there been such an even divide between bullish and bearish camps. Energy bulls would point to an easing of COVID restrictions in China, chronic underinvestment, and the reversal of the U.S's deployment of the SPR. On the other hand, bears remain steadfast in their view that the delayed impact of increased borrowing costs combined with a falling per capita level of oil demand will drive lower prices.

Regardless of where prices may land, oilfield services appear to be strongly positioned heading into 2023. Other than the typical December holiday decline, the Canadian rig count remains well above 2019 trend, with an even greater level of drilling expected in 2023 – the Canadian Association of Energy Contractors (CAOEC) is projecting 6,409 wells to be drilled in Canada next year. While headwinds exist in terms of labor supply, we believe years of capital discipline in the services sector are poised to pay off, as a supply crunch will drive improved pricing and ultimately result in strong returns for those who were sufficiently patient to remain invested in the sector.

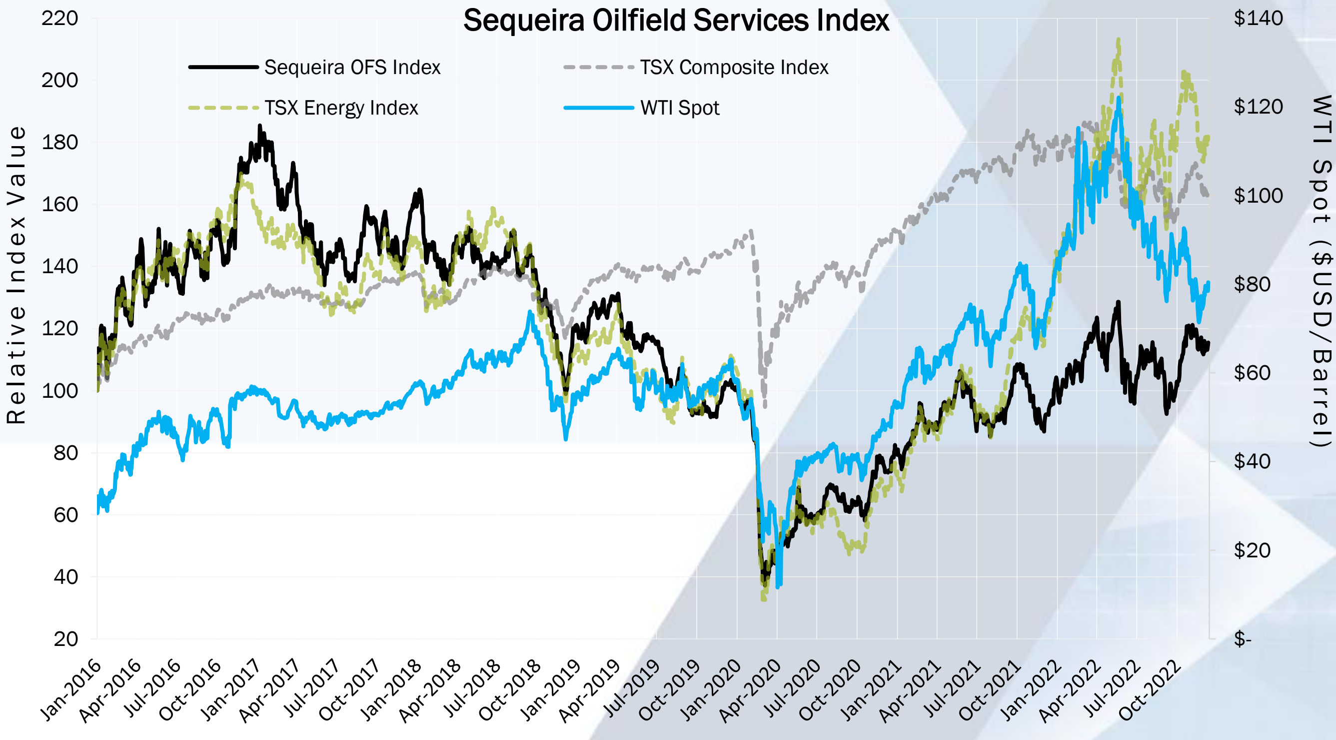



Source: Baker Hughes

# Market Overview

Sequeira's OFS index tracks publicly listed Canadian Oilfield Service company stock price performance. Investor sentiment for OFS companies represented by our index along with Canadian E&P companies represented by the TSX Energy Index have both increased year over year, by 22.8% and 48.4% respectively. The delta in comparative equity performance is consistent with a market that has seen producers enjoy disproportionate gains from higher oil and gas prices.

However, Q4 saw OFS stocks outperform the Energy Index, rising 22.2% vs. 12.9%, raising the question of whether the tide has begun to turn for services investors. The quarterly Dallas Fed Energy Survey provides hints that indicate this could be the case. E&P commentary from the report largely focuses on challenges securing service supply, and an expectation for increased pricing to come – indicating an increasing level of resignment to imminent service sector pricing power. Service companies, on the other hand, are largely focused on the lack of labor supply. As the Fed remains focused on loosening the labor market as it fights inflation, we could see a confluence of factors that allow OFS firms to add labor while increasing pricing, driving stronger profitability and equity performance into 2023.



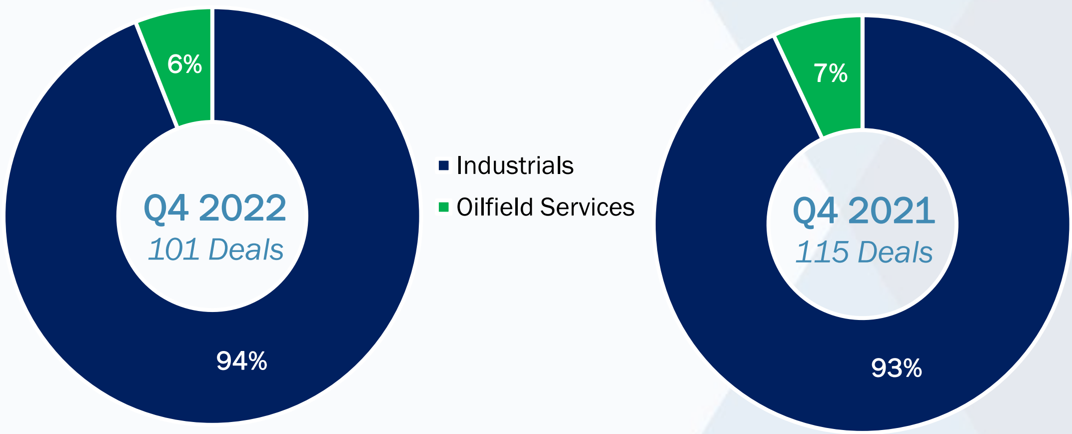

Source: S&P Capital IQ

# Energy Service and Industrial Transactions

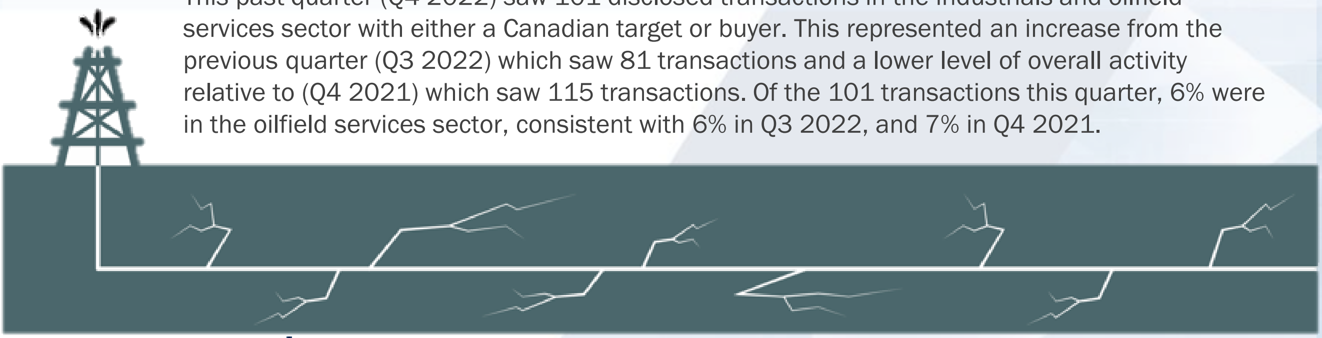
As borrowing costs and long term economic optimism declined through 2022, so did transaction activity. Q4 2022 saw a decline in overall transactions when compared to Q4 2021, both in Oilfield Services as well as in the broader industrial sector. However, this trend was less pronounced in these sectors than in the broader market. 2022 increasingly saw investors return to more stable, “real-economy” businesses as more speculative asset classes saw precipitous declines – something we expect to continue through 2023.

While many expect a recession to come, there is also a growing expectation that 2023 will see a greater number of transactions, particularly amongst strategic acquirers. The combination of organic growth becoming an increasingly up-hill battle, and more highly-leveraged firms becoming constrained by debt service could create many convenient unions of cash-rich acquirers providing an exit ramp for their strapped counterparts.

## Q4 2022 vs 2021 Transaction Mix(1)




This past quarter (Q4 2022) saw 101 disclosed transactions in the industrials and oilfield services sector with either a Canadian target or buyer. This represented an increase from the previous quarter (Q3 2022) which saw 81 transactions and a lower level of overall activity relative to (Q4 2021) which saw 115 transactions. Of the 101 transactions this quarter, 6% were in the oilfield services sector, consistent with 6% in Q3 2022, and 7% in Q4 2021.



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(1) Source: S&P Capital IQ – Includes announced & closed deals

# Buyer Profile

## Industrial & OFS Transactions By Buyer Location[1]

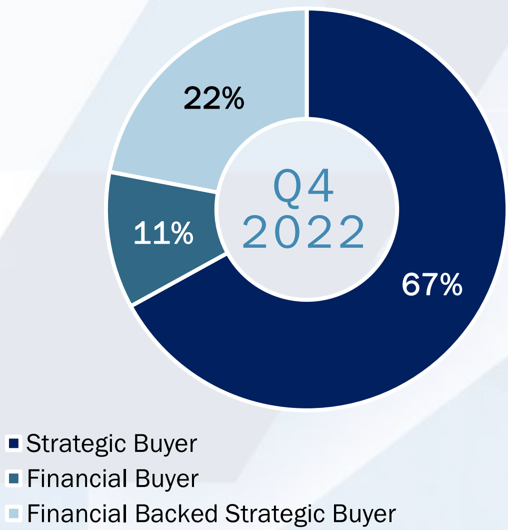
| Buyer Location | Q4 2022 (Count) | Q4 2022 (%) | Q4 2021 (Count) | Q4 2021 (%) |
|---|---|---|---|---|
| Western Canada | 32 | 21% | 24 | 21% |
| Eastern Canada | 49 | 51% | 64 | 56% |
| USA | 22 | 22% | 21 | 18% |
| International | 6 | 6% | 6 | 5% |
| Total | 101 | 100% | 115 | 100% |

Canadian buyers continue to be involved in most domestic acquisition - though we have seen an increasing trend of US buyer activity of late. This can largely be attributed to a stronger dollar and easier access to leverage south of the border, providing a significant purchasing power advantage for motivated buyers competing in Canadian processes.

## By Buyer Type[1]

Transaction activity by buyer type has remained remarkably consistent year over year, with pure strategics representing a little over two thirds of all buyers, with private equity and/or private equity backed buyers representing the balance. We expect to see more add-on acquisition activity in 2023 as firms re-focus on their existing portfolios in the face of increasing uncertainty and a cooler market for initial public offerings.

| Buyer Type | Q4 2022 | Q4 2021 |
|---|---|---|
| Strategic | 67% | 68% |
| Financial | 11% | 10% |
| Financial Backed Strategic | 22% | 22% |





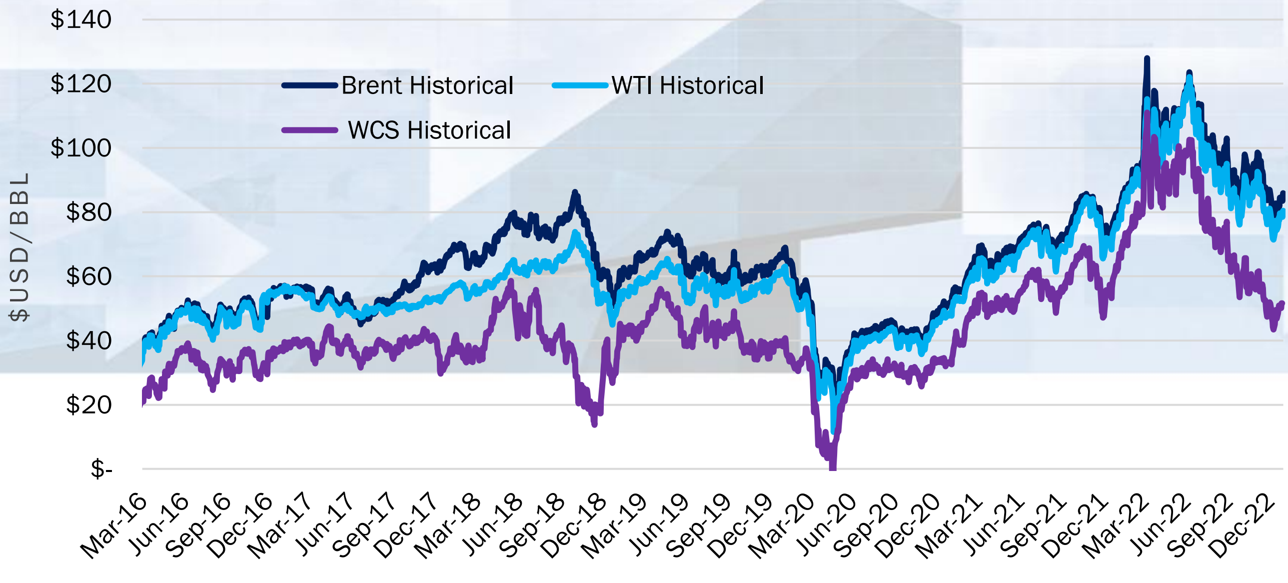

[1] Source: S&P Capital IQ – Includes announced & closed deals

# Commodity Pricing and Analyst Forecasts

Q4 2022 began with WTI and Brent trading at $82.70 and $88.86 USD respectively. Prices accelerated through late October and early November, as supply concerns dominated headlines. OPEC's early October production cut, combined with the threat of reduced Russian supply as a result of the price cap, and optimism about a reopening in China all contributed to the rally. However, pricing fell through the remainder of the quarter back to where it began the month. Hawkish statements from the Fed and an abandonment of the China re-opening play on negative reports about the COVID situation were the key factors in the leg down.

WCS on the other hand saw a 10% decline in price and a widening differential through Q4, ending the month trading at $53.17 USD. Unlike the record discounts we saw in 2018, this largely stemmed from a lack of downstream demand rather than pipeline egress. The flood of sour crude from the SPR onto the market crowded out demand for Canadian heavy barrels which were being produced at record levels, and this was exacerbated by an outage at a key heavy crude refinery in Toledo. Later in the quarter, pipeline issues re-emerged to the fore, as a result of TC Energy shutting the Keystone pipeline for over three weeks following the largest spill in nearly a decade. Canadian crude prices remained relatively stable through this period due to the ample spare capacity in Alberta storage hubs, though any opportunity to regain traction vs. WTI was lost.

Heading into 2023, analysts expect that the macroeconomic demand outlook and geopolitical and investment related supply constraints will continue and drive sentiment in global energy markets. On the other hand, analysts largely agree that the WCS differential should narrow through 2023 – once Trans Mountain provides much needed export capacity to new markets. U.S. refineries will need to improve their bid to maintain their supply of Canadian product.




Source: S&P Capital IQ

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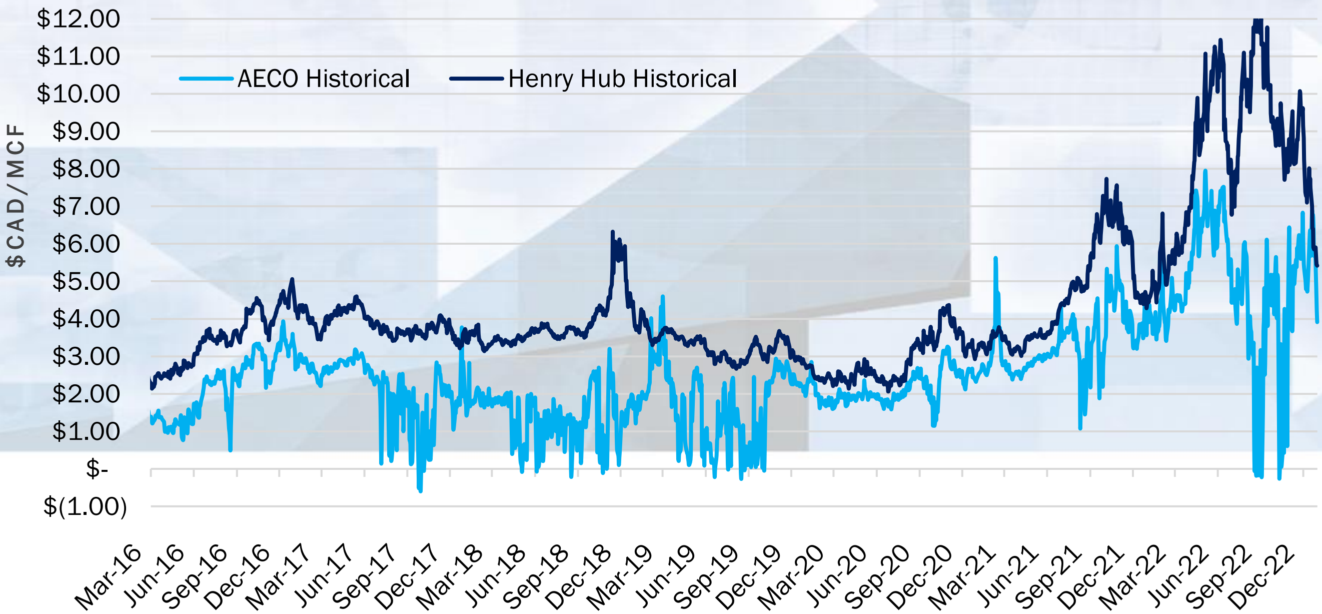
# Commodity Pricing and Analyst Forecasts

Natural gas prices remained volatile in the quarter, with AECO pricing experiencing significant fluctuations while Henry Hub plummeted, ending the quarter down 37% from where it began. Natural gas shortage concerns in the beginning of the year gave way to a glut to end the year, as warm weather was forecast for Christmas through late January, and billions of cubic feet of gas built in storage in the United States. Analyst consensus for U.S. gas pricing is relatively bearish for 2023 compared to the spike seen in 2022, but with a constructive view in the longer term as further domestic export capacity is brought online.

In Canada, infrastructure and a lack of LNG Export terminals continues to be a constraint. In the context of recent history, pricing was relatively strong on average in 2023 and through Q4 as temperatures were cold across much of Western Canada. However, gas prices swung negative multiple times in the quarter as the NGTL was shut down for maintenance, a stark reminder of the egress problems which plague the industry in Canada. With gas production anticipated to continue to reach record levels in 2023, Canada slowly works towards building the required infrastructure, including a large LNG export terminal with an estimated completion date in two years, and a new 33km pipeline project sanctioned by TC Energy to improve connectivity between gas supplies and markets. However, some analysts are not convinced this will be a long-term solution – Canada's capacity to produce far exceeds current levels, and there is a concern Canadian producers will rapidly ramp up to fill any excess capacity that can be provided.




Source: S&P Capital IQ

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# Team Update

Bringing a depth of experience to the valuations team, Jennifer has joined as a new addition to the Edmonton office. Prior to joining Sequeira, Jennifer spent 3 years as a manager at a Big 4 firm in Edmonton and has over 7 years of experience.

Welcome to the team Jen!

**Jennifer Ly, Senior Associate** - Edmonton

Sequeira Partners added more talent to the team with an exciting new addition in the Calgary office. Prior to joining Sequeira, Anna spent 2 years with a Big Four firm in Calgary.

Welcome to the team Anna!

**Anna Watt, Analyst** - Calgary

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# About Us

Sequeira Partners is Western Canada's leading sell-side transaction advisor to private and public industrial, energy services, business services, manufacturing and insurance businesses.

From our offices in Vancouver, Edmonton and Calgary, the team at Sequeira Partners has completed more than 200 mid-market transactions in Canada, the United States, and countries around the world. www.sequeirapartners.com.

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# Sequeira Oilfield Services Index – Sector Drilldown

As at January 25, 2023
Source: Capital IQ

| Company | Ticker | Share Price | Dividend Yield | Market Cap | Enterprise Value | Revenue | TTM EBITDA | EBITDA Margin | EV/EBITDA TTM | EV/EBITDA 2022E | EV/EBITDA 2023E | Price/ Book | Net Debt/ 2022E EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Drilling & Equipment** | | | (%) | ($mm) | ($mm) | ($mm) | ($mm) | (%) | (x) | (x) | (x) | (x) | (x) |
| AKITA Drilling Ltd. | TSX:AKT.A | $ 2.00 | - | 80 | 170 | 176 | 23 | 13.3% | 7.3x | 4.8x | 3.0x | 0.6x | 2.6x |
| Cathedral Energy Services Ltd. | TSX:CET | $ 1.29 | - | 289 | 389 | 194 | 26 | 13.4% | 14.9x | 5.7x | 2.8x | 2.0x | 1.5x |
| CWC Energy Services Corp. | TSXV:CWC | $ 0.23 | - | 117 | 169 | 174 | 33 | 19.0% | 5.1x | NM | NM | 0.6x | ND |
| Ensign Energy Services Inc. | TSX:ESI | $ 3.89 | - | 717 | 2,143 | 1,406 | 287 | 20.4% | 7.5x | 5.9x | 4.0x | 0.6x | 3.9x |
| Essential Energy Services Ltd. | TSX:ESN | $ 0.40 | - | 53 | 66 | 145 | 8 | 5.8% | 8.0x | 2.2x | 2.0x | 0.5x | 0.4x |
| High Arctic Energy Services Inc | TSX:HWO | $ 1.62 | 3.7% | 79 | 64 | 91 | 5 | 5.0% | 14.0x | NM | NM | 0.6x | ND |
| McCoy Global Inc. | TSX:MCB | $ 1.02 | - | 29 | 28 | 44 | 4 | 9.7% | 6.7x | NM | NM | 0.6x | ND |
| Pason Systems Inc. | TSX:PSI | $ 15.37 | 3.1% | 1,253 | 1,048 | 303 | 117 | 38.6% | 9.0x | 6.7x | 5.7x | 3.4x | NM |
| PHX Energy Services Corp. | TSX:PHX | $ 8.25 | 7.3% | 420 | 452 | 490 | 50 | 10.1% | 9.1x | 4.1x | 3.0x | 2.5x | 0.3x |
| Precision Drilling Corporation | TSX:PD | $ 112.99 | - | 1,527 | 2,796 | 1,402 | 250 | 17.8% | 11.2x | 7.1x | 4.1x | 1.2x | 3.3x |
| Total Energy Services Inc. | TSX:TOT | $ 9.00 | 2.7% | 374 | 503 | 683 | 127 | 18.6% | 4.0x | 3.9x | 3.0x | 0.7x | 1.0x |
| Western Energy Services Corp. | TSX:WRG | $ 3.31 | - | 112 | 233 | 181 | 44 | 24.1% | 5.3x | 4.3x | 3.6x | 0.4x | 2.2x |
| **Mean** | | | | | | | | **16.3%** | **8.5x** | **4.9x** | **3.5x** | **1.1x** | **1.9x** |
| **Median** | | | | | | | | **15.6%** | **7.7x** | **4.8x** | **3.0x** | **0.6x** | **1.8x** |
| **Production & Completion** | | | (%) | ($mm) | ($mm) | ($mm) | ($mm) | (%) | (x) | (x) | (x) | (x) | (x) |
| Bri-Chem Corp. | TSX:BRY | $ 0.65 | - | 17 | 52 | 97 | 8 | 8.6% | 6.2x | NM | NM | 0.8x | ND |
| CES Energy Solutions Corp. | TSX:CEU | $ 2.78 | 2.9% | 708 | 1,268 | 1,727 | 175 | 10.1% | 7.2x | 4.9x | 4.2x | 1.2x | 2.2x |
| Computer Modelling Group Ltd. | TSX:CMG | $ 6.03 | 3.3% | 485 | 468 | 70 | 27 | 38.9% | 17.2x | NM | 15.3x | 10.1x | NM |
| Enerflex Ltd. | TSX:EFX | $ 9.77 | 1.0% | 1,208 | 1,432 | 1,409 | 142 | 10.1% | 10.1x | 6.3x | 2.8x | 0.9x | 0.9x |
| Source Energy Services Ltd. | TSX:SHLE | $ 2.95 | - | 40 | 270 | 396 | 14 | 3.5% | 19.7x | 5.2x | 3.2x | 2.3x | 4.3x |
| Wolverine Energy and Infrastructure Inc. | TSXV:WEII | $ 0.07 | - | 8 | 103 | 57 | (4) | NM | NM | NM | 7.6x | 0.3x | 8.7x |
| **Mean** | | | | | | | | **14.2%** | **12.1x** | **5.5x** | **6.6x** | **2.6x** | **4.0x** |
| **Median** | | | | | | | | **14.2%** | **10.1x** | **5.2x** | **4.2x** | **1.0x** | **3.3x** |
| **Oilfield & Facility Construction** | | | (%) | ($mm) | ($mm) | ($mm) | ($mm) | (%) | (x) | (x) | (x) | (x) | (x) |
| Badger Infrastructure Solutions Ltd. | TSX:BDGI | $ 31.46 | 2.1% | 1,085 | 1,311 | 692 | 83 | 12.0% | 15.7x | 9.7x | 7.1x | 3.5x | 1.2x |
| Enterprise Group, Inc. | TSX:E | $ 0.38 | - | 19 | 31 | 24 | 9 | 39.6% | 3.3x | 4.2x | 3.5x | 0.6x | 1.6x |
| North American Construction Group Ltd. | TSX:NOA | $ 19.52 | 1.6% | 516 | 935 | 717 | 171 | 23.9% | 5.5x | 4.2x | 3.8x | 1.8x | 1.9x |
| Shawcor Ltd. | TSX:SCL | $ 13.33 | - | 939 | 1,105 | 1,176 | 84 | 7.1% | 13.2x | 8.3x | 4.2x | 1.4x | 1.2x |
| **Mean** | | | | | | | | **20.7%** | **9.4x** | **6.6x** | **4.6x** | **1.8x** | **1.5x** |
| **Median** | | | | | | | | **18.0%** | **9.3x** | **6.3x** | **4.0x** | **1.6x** | **1.4x** |
| **Pressure Pumping** | | | (%) | ($mm) | ($mm) | ($mm) | ($mm) | (%) | (x) | (x) | (x) | (x) | (x) |
| Calfrac Well Services Ltd. | TSX:CFW | $ 6.79 | - | 548 | 969 | 1,403 | 155 | 11.1% | 6.2x | 4.1x | 2.6x | 0.8x | 1.8x |
| STEP Energy Services Ltd. | TSX:STEP | $ 5.29 | - | 379 | 551 | 896 | 138 | 15.4% | 4.0x | 2.9x | 2.3x | 1.3x | 0.9x |
| Trican Well Service Ltd. | TSX:TCW | $ 3.59 | - | 825 | 835 | 786 | 153 | 19.5% | 5.4x | 4.4x | 3.3x | 1.7x | 0.1x |
| **Mean** | | | | | | | | **15.3%** | **5.2x** | **3.8x** | **2.7x** | **1.3x** | **0.9x** |
| **Median** | | | | | | | | **15.4%** | **5.4x** | **4.1x** | **2.6x** | **1.3x** | **0.9x** |
| **Transportation & Logistics** | | | (%) | ($mm) | ($mm) | ($mm) | ($mm) | (%) | (x) | (x) | (x) | (x) | (x) |
| Gibson Energy Inc. | TSX:GEI | $ 24.08 | 6.1% | 3,467 | 5,018 | 10,655 | 449 | 4.2% | 11.2x | 9.7x | 9.7x | 5.7x | 3.0x |
| Mullen Group Ltd. | TSX:MTL | $ 14.08 | 5.1% | 1,309 | 2,090 | 1,939 | 264 | 13.6% | 7.9x | 6.2x | 6.8x | 1.4x | 2.3x |
| **Mean** | | | | | | | | **8.9%** | **9.5x** | **7.9x** | **8.2x** | **3.5x** | **2.7x** |
| **Median** | | | | | | | | **8.9%** | **9.5x** | **7.9x** | **8.2x** | **3.5x** | **2.7x** |
| **Environmental & Geophysical** | | | (%) | ($mm) | ($mm) | ($mm) | ($mm) | (%) | (x) | (x) | (x) | (x) | (x) |
| Pulse Seismic Inc. | TSX:PSD | $ 1.87 | 2.7% | 100 | 95 | 23 | 16 | 66.2% | 6.1x | 15.9x | 7.9x | 2.8x | NM |
| Secure Energy Services Inc. | TSX:SES | $ 7.99 | 5.0% | 2,469 | 3,578 | 7,317 | 497 | 6.8% | 7.2x | 6.6x | 6.0x | 2.0x | 2.0x |
| Vertex Resource Group Ltd. | TSXV:VTX | $ 0.45 | - | 52 | 180 | 205 | 18 | 9.0% | 9.8x | 5.3x | 4.5x | 0.8x | 3.7x |
| **Mean** | | | | | | | | **27.3%** | **7.7x** | **9.2x** | **6.1x** | **1.8x** | **2.9x** |
| **Median** | | | | | | | | **9.0%** | **7.2x** | **6.6x** | **6.0x** | **2.0x** | **2.9x** |
| **Camps & Catering** | | | (%) | ($mm) | ($mm) | ($mm) | ($mm) | (%) | (x) | (x) | (x) | (x) | (x) |
| Black Diamond Group Limited | TSX:BDI | $ 5.05 | 1.6% | 305 | 482 | 332 | 68 | 20.6% | 7.1x | 5.8x | 5.3x | 1.2x | 2.1x |
| Civeo Corporation | NYSE:CVEO | $ 34.06 | - | 696 | 969 | 954 | 169 | 17.7% | 5.7x | 6.3x | 7.6x | 1.7x | 1.2x |
| Dexterra Group Inc. | TSX:DXT | $ 5.50 | 6.4% | 359 | 497 | 919 | 37 | 4.0% | 13.4x | 7.1x | 5.4x | 1.2x | 1.9x |
| **Mean** | | | | | | | | **14.1%** | **8.7x** | **6.4x** | **6.1x** | **1.4x** | **1.7x** |
| **Median** | | | | | | | | **17.7%** | **7.1x** | **6.3x** | **5.4x** | **1.2x** | **1.9x** |
| **Mean - All Subsectors** | | | | | | | | **16.8%** | **9.6x** | **6.5x** | **5.5x** | **1.9x** | **2.1x** |
| **Median - All Subsectors** | | | | | | | | **13.5%** | **7.9x** | **5.8x** | **4.3x** | **1.4x** | **1.9x** |