

Action Summary – 23 August 2023

Analyst Theodore R. O'Neill – Record revenue in F3Q23 – *Reiterate Buy and \$10 target.*

- **Record single quarter revenue.** ESOA reported F3Q23 revenue of \$85.5MM and an EPS of \$0.21. Our estimates were revenue of \$53.3MM and an EPS of \$0.07. There is no consensus. The \$0.14 favorable EPS variance is driven by record revenue across segments in a single quarter in the company's history, resulting from an investment in personnel earlier in the year to increase business opportunities and the bankruptcy of a competitor. The company reported a backlog of \$185.9 million as of June 30, 2023, continues to see opportunities across all of its business lines, and expects a strong close to fiscal year 2023.
- **Restatement due to PPP loan forgiveness.** The latest financial report indicates the government's ongoing review of the company's loan forgiveness claim. With a six-year audit window for PPP loans and potential non-forgiveness, the company has accrued interest for all presented periods. This adjustment impacts the interest expense in other income but has no impact on operations.
- **Adjusting Estimates.** Based on F3Q23 results, we are adjusting our FY23 revenue estimate from \$237MM to \$269.2MM, and our EPS forecast from \$0.05 to \$0.19. For 2024, we are maintaining our revenue estimate at \$245.5MM and EPS at \$0.36. Given the success in F3Q23 just reported, we may be revising these estimates up in future quarters.
- **Attractive Valuation.** Based on our discounted future earnings model, the value of all future earnings is \$10/share. In reviewing comparables, we observe that as the market cap increases, the market tends to assign a higher valuation. A regression analysis comparing Market Cap/Sales against Market Cap yields an R2 of 47%. If the stock were trading purely on a multiple based on its size, its valuation would be 100% higher than its current level. This observation aligns with our view that the shares are undervalued, as suggested by our discounted earnings model.

8/22 Closing price: US\$3.75	Market cap: \$63 million	Multiple of book: 2.2	EV/2024 Sales: 0.43
Diluted shares outstanding: 16.6 million	Insider ownership: 42%	3-mo avg. daily trading volume: >14,000	Special Dividend 2023 /Yield: \$0.05/1.3%

GAAP estimates (EPS in USD – Revenue in USD millions)

Period	EPS	Revenue	Op Margin
1Q22A	\$0.07	\$42.7	
2Q22A	(\$0.04)	\$35.4	
3Q22A	\$0.10	\$51.2	
4Q22A	<u>\$0.10</u>	<u>\$68.3</u>	
FY22A	<u>\$0.23</u>	<u>\$197.6</u>	<u>3.3%</u>
1Q23A	\$0.01	\$60.0	
2Q23A	(\$0.11)	\$53.6	
3Q23A	\$0.21	\$85.5	
4Q23E	<u>\$0.09</u>	<u>\$70.0</u>	
FY23E	<u>\$0.19</u>	<u>\$269.2</u>	<u>2.4%</u>
1Q24E	\$0.09	\$59.5	
2Q24E	\$0.07	\$49.0	
3Q24E	\$0.09	\$63.0	
4Q24E	<u>\$0.11</u>	<u>\$74.0</u>	
FY24E	<u>\$0.36</u>	<u>\$245.5</u>	<u>3.5%</u>

Note: Numbers may not add due to rounding. See our full model at the back of this report.

Cash balance (in USD millions)

• 2021A	• \$8.2
• 2022A	• \$7.3
• 2023E	• \$7.4
• 2024E	• \$7.4

Adj. EBITDA (in USD millions)

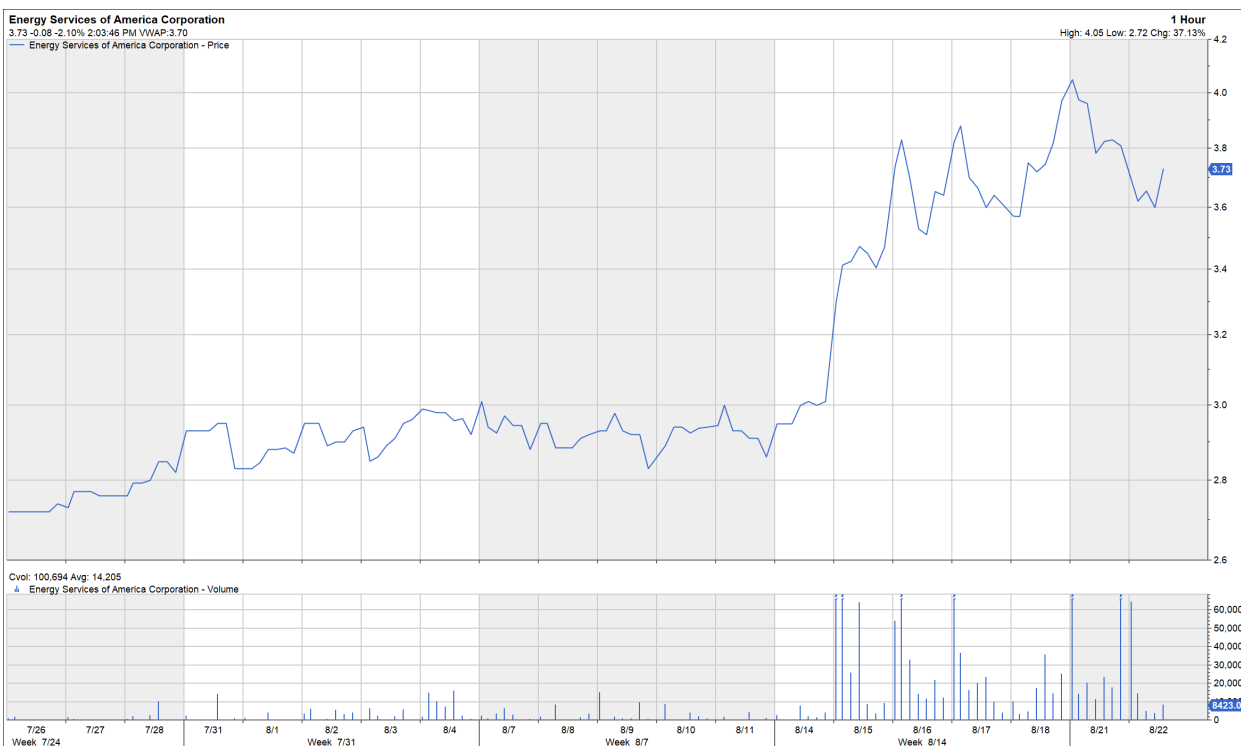
• 2021A	• \$3.8
• 2022A	• \$12.1
• 2023E	• \$12.4
• 2024E	• \$15.1

Risks/Valuation

- Risks: competitive marketplace, weather
- Our \$10 price target is derived from our discounted future earnings model.

Company description: Energy Services of America Corporation is a contractor and service company that operates primarily in the mid-Atlantic and Central regions of the United States and provides services to customers in the natural gas, petroleum, water distribution, automotive, chemical, and power industries. Energy Services employs 1,000+ employees regularly. The Company's core values are safety, quality, and production.

Figure 1 – Energy Services of America Corporation – One-Year Trading snapshot



Source: FactSet

Quarterly Results

Record single quarter revenue. ESOA reported F3Q23 revenue of \$85.5MM and an EPS of \$0.21. Our estimates (see Figure 2) were a revenue of \$53.3MM and an EPS of \$0.07. There is no consensus. This marks the largest amount of revenue generated in a single quarter in the Company's history. Additionally, the net income for the quarter, at \$3.4MM, ranks as the second highest in the company's history. Adjusted EBITDA for Q3 2023 was \$7.5MM, reflecting the company's strong cash generating activity.

The \$0.14 favorable EPS variance is driven by higher revenue in all segments. The company attributes these strong results to an investment in personnel earlier in the year to increase business opportunities and we note the bankruptcy of one of its competitors, Williams Industrial Services Group. The company reported a backlog of \$185.9 million as of June 30, 2023. The company continues to see opportunities across all of its business lines and expects a strong close to fiscal year 2023.

Figure 2 –Energy Services of America Corporation – Quarterly Variance Analysis (\$000)

	FY23	FY23	Better/(worse)
	Q3E	Q3A	than forecast
Income Statement			
Total Revenue	\$53,326	\$85,530	\$32,204
Total cost of products sold	47,460	74,651	(27,191)
Total Gross Profit	5,866	10,879	5,013
Operating expenses:			
SG&A	4,266	5,284	(1,018)
Total Expenses	4,266	5,284	(1,018)
Earnings (loss) from Operations	1,600	5,595	3,996
Total Other income/(expense)	0	(682)	(682)
Earnings before taxes	1,600	4,913	3,314
Tax expense/(benefit)	480	1,498	1,018
Net income	\$1,120	\$3,416	\$2,296
		0	
EPS	\$0.07	\$0.21	\$0.14
Diluted common shares	16,700	16,603	

Source: Company filings and Litchfield Hills Research LLC

Valuation and Price Target

Valuation Methodology

We believe ESOA is undervalued, and we support that belief with two valuation techniques. To determine our price target, we use a discounted future earnings model and then compare its valuation to that of its peers.

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$10 is based on a discounted earnings model. For valuation purposes, we sum up all future earnings on a GAAP basis and discount them at 8%. We assume earnings will grow in double digits until 2027, after which growth will eventually slow to GDP levels. Our valuation model is depicted in Figure 3 below. Note that this model might understate future new services, growth through acquisitions, and potential tax benefits. However, offsetting this, the earnings are projected to never experience a down year. The implied share price is \$10.16, which we round to \$10.00.

Figure 3 – Energy Services of America Corporation – Price Target Calculation

Discounted future earnings		\$10.16
Years	EPS	Discounted EPS
FY23	\$0.19	\$0.19
1	\$0.36	\$0.33
2	\$0.40	\$0.34
3	\$0.48	\$0.38
4	\$0.55	\$0.40
5	\$0.60	\$0.41
	Terminal Value	\$8.10

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

Figure 4 summarizes our ESOA peer comparison. In reviewing comparables, we note that the comparable companies are all larger. As market cap increases, the market tends to assign a higher valuation. A regression analysis comparing Market Cap/Sales against Market Cap yields an R^2 of 47%. If this were a determining factor, the stock would currently be trading at a 100% premium. As shown in Figure 4, the shares are trading at a 53% - 67% discount compared to their peers. Collectively, these findings, along with our discounted earnings model, underscore our belief that the shares are undervalued.

Figure 4 – Energy Services of America Corporation – Valuation of Peers

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2024 Consensus Multiples	
					Market Cap / Sales	EV /Sales
PWR-US	Quanta Services Inc	\$203.07	29,486	34,368	1.37	1.59
J-US	Jacobs Solutions Inc.	\$133.55	16,816	20,505	0.99	1.21
ACM-US	AECOM	\$86.89	12,054	13,902	1.68	1.96
EME-US	EMCOR Group, Inc.	\$214.19	10,096	10,215	0.77	0.79
KBR-US	KBR Inc.	\$59.61	8,042	9,492	0.98	1.26
MTZ-US	MasTec Inc	\$94.16	7,425	10,946	0.54	0.79
FLR-US	Fluor Corp.	\$33.40	4,789	4,592	0.29	0.23
DY-US	Dycom Industries Inc	\$94.14	2,761	3,624	0.64	0.84
STRL-US	Sterling Infrastructure, Inc.	\$77.02	2,374	2,539	1.09	1.16
MYRG-US	MYR Group Inc.	\$141.84	2,370	2,438	0.63	0.65
PRIM-US	Primoris Services Corp.	\$34.71	1,851	3,123	0.31	0.52
GVA-US	Granite Construction	\$40.44	1,776	2,092	0.49	0.62
IESC-US	IES Holdings Inc	\$70.79	1,429	1,527		
AGX-US	Argan Inc.	\$40.39	542	265	0.82	0.42
	AVERAGE				<u>0.82</u>	<u>0.93</u>
ESOA-US	Energy Services of America Corp.	\$3.97	66	106	0.27	0.43
	ESOA Discount to peers:				-67%	-53%

Source: Litchfield Hills Research LLC and FactSet

Figure 5 – Energy Services of America Corporation – Income Statement (\$000 except per share)

September ending year	2021A	2022A				2022A	2023E				2023E	2024E				2024E
Year	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1A	Q2A	Q3A	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
Total revenue	\$122,466	\$42,659	\$35,393	\$51,172	\$68,366	\$197,590	\$60,043	\$53,673	\$85,530	\$70,000	\$269,246	\$59,500	\$49,000	\$63,000	\$74,000	\$245,500
<i>Growth</i>	56%	33%	38%	102%	73%	61%	41%	52%	67%	2%	36%	-1%	-9%	-26%	6%	-9%
Cost of Goods	109,545	37,351	32,527	44,754	60,587	175,219	54,056	49,773	74,651	62,300	240,780	52,658	43,365	55,755	65,490	217,268
Gross Profit	12,921	5,308	2,866	6,418	7,779	22,371	5,986	3,901	10,879	7,700	28,466	6,843	5,635	7,245	8,510	28,233
Gross Margin	10.6%	12.4%	8.1%	12.5%	11.4%	11.3%	10.0%	7.3%	12.7%	11.0%	10.6%	11.5%	11.5%	11.5%	11.5%	11.5%
SG&A	\$14,044	\$3,633	\$3,417	\$3,821	\$5,007	\$15,878	\$5,316	\$5,888	\$5,284	\$5,600	\$22,088	\$4,760	\$3,920	\$5,040	\$5,920	\$19,640
Total Operating Expenses	14,044	3,633	3,417	3,821	5,007	15,878	5,316	5,888	5,284	5,600	22,088	4,760	3,920	5,040	5,920	19,640
Operating Income	(1,123)	1,676	(551)	2,597	2,772	6,493	670	(1,987)	5,595	2,100	6,378	2,083	1,715	2,205	2,590	8,593
Operating Margin	-0.9%	3.9%	-1.6%	5.1%	4.1%	3.3%	1.1%	-3.7%	6.5%	3.0%	2.4%	3.5%	3.5%	3.5%	3.5%	3.5%
Adj. EBITDA	\$3,823					\$12,062					\$12,378					\$15,093
Total Other Items	9,907	(36)	(259)	(323)	138	(480)	(611)	(537)	(682)	0	(1,830)	0	0	0	0	0
Pre-Tax Income	8,784	1,640	(811)	2,274	2,910	6,013	59	(2,524)	4,913	2,100	4,548	2,083	1,715	2,205	2,590	8,593
Pre-Tax Margin	7.2%	3.8%	-2.3%	4.4%	4.3%	3.0%	0.1%	-4.7%	5.7%	3.0%	1.7%	3.5%	3.5%	3.5%	3.5%	3.5%
Taxes (benefit)	(29)	494	(200)	651	1,317	2,263	(80)	(650)	1,498	630	1,398	625	515	662	777	2,578
Tax Rate	-0.3%	30.1%	24.7%	28.7%	45.3%	37.6%	-135.5%	25.8%	30.5%	30.0%	30.7%	30.0%	30.0%	30.0%	30.0%	30.0%
Net Income (loss)	8,813	1,146	(610)	1,622	1,593	3,750	138	(1,874)	3,416	1,470	3,150	1,458	1,201	1,544	1,813	6,015
Net Margin	7.2%	2.7%	-1.7%	3.2%	2.3%	1.9%	0.2%	-3.5%	4.0%	2.1%	1.2%	2.5%	2.5%	2.5%	2.5%	2.5%
EPS, as reported	0.52	0.07	(0.04)	0.10	0.10	0.23	0.01	(0.11)	0.21	0.09	0.19	0.09	0.07	0.09	0.11	0.36
Diluted Shares Outstanding	16,988	16,248	16,248	16,450	16,500	16,324	16,667	16,667	16,603	16,700	16,659	16,700	16,700	16,700	16,700	16,700

Source: Company reports and Litchfield Hills Research LLC

Figure 6 – Energy Services of America Corporation – Balance Sheet (\$000)

September ending year	FY2024E	FY2023E	FY2022A	FY2021A
Balance sheet				
Current Assets				
Cash and S.T.I.	\$7,390	\$7,376	\$7,328	\$8,227
Accounts receivable	47,000	44,000	42,909	22,483
Contract assets	18,000	17,000	16,110	8,730
Other assets	5,000	4,000	3,946	3,541
Total Current Assets	77,390	72,376	70,293	42,981
Net PP&E	38,000	35,000	32,662	22,950
Other non-current	10,000	10,000	9,573	4,240
Total Assets	\$125,390	\$117,376	\$112,527	\$70,171
Current Liabilities				
Notes & Accounts payable	\$24,000	\$22,000	\$20,314	\$7,285
Accrued expenses	\$13,000	\$12,000	\$11,266	\$5,600
Current debt & liabilities	\$16,000	\$17,000	\$17,729	\$8,442
Other current liabilities	\$7,000	\$6,000	\$6,028	\$3,153
Total current liabilities	60,000	57,000	55,337	24,480
Deferred income tax liability	5,000	5,000	4,455	2,033
Other non-current	13,000	14,000	14,510	9,021
Total Liabilities	78,000	76,000	74,302	35,534
Stockholders' Equity				
Preferred stock				
Total stockholders' equity	47,390	41,376	38,225	34,637
Total Liabilities and equity	\$125,390	\$117,376	\$112,527	\$70,171

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – Energy Services of America Corporation – Cash Flow (\$000)

	2024E	2023E	2022A	2021A	2020
Net Income	\$6,015	\$3,150	\$3,750	\$8,813	\$23,246
Accounts receivable	(3,000)	(1,091)	(20,426)	(6,053)	(6,095)
Contract assets	(1,000)	(890)	(7,379)	3,858	(3,792)
Other assets	(1,000)	(54)	(405)	(993)	(1,253)
Net PP&E	(3,000)	(2,338)	(9,712)	(5,684)	(1,715)
Other non-current	0	(427)	(5,332)	1,121	1,237
Notes & Accounts payable	2,000	1,686	13,029	(710)	3,128
Accrued expenses	1,000	734	5,666	(334)	1,095
Current debt & liabilities	(1,000)	(729)	9,287	8,442	0
Other current liabilities	1,000	(28)	2,874	2,016	(301)
Deferred income tax liability	0	545	2,422	1,488	(44)
Other non-current	(1,000)	(510)	5,489	6,685	125
Common stock	0	0	0	(32)	0
Additional paid-in capital	0	0	(162)	(82,751)	(62)
Accumulated other comp. income	0	0	0	(5,740)	1,086
Treasury stock	0	0	0	18,362	2,981
Employ. stock purch. plan and rest. stock	0	0	0	(527)	(1,098)
Total Cash Flow	\$15	\$48	(\$899)	(\$52,039)	\$18,538

Source: Litchfield Hills Research LLC

Disclosures:

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Energy Services of America Corporation ESOA-US - Buy \$10 PT

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