

**Action Summary – 11 March 2024**

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

- **Extraordinary growth.** ESOA posted record results for 2023 with revenue growth of 54%. It continues to see record growth in F1Q24, and it is worth reviewing the results. In addition, we are initiating 2025 estimates.
- **Record first quarter results.** ESOA reported F1Q24 revenue of \$90.2MM and an EPS of \$0.12. Our estimates were for revenue of \$89.1MM and an EPS of \$0.11. There is no consensus. This set a revenue and net income record for any fiscal first quarter in the company's history. Adjusted EBITDA for the quarter was \$5.8MM, reflecting the company's strong cash generating activity. The \$0.01 favorable EPS variance is driven by higher revenue in all three segments, better margins and lower operating expenses.
- **Raising Estimates.** Based on F1Q24 results, we are adjusting our FY24 revenue estimate from \$357MM to \$362MM, and our EPS forecast from \$0.44 to \$0.46. For 2025, we are initiating revenue and EPS estimates of \$361.8MM and EPS at \$0.45
- **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 R<sup>2</sup> of 47%. It is currently selling below that predicted level, below the average of its peers and our discounted earnings driven price target of \$10. These observations align with our view that the shares are undervalued.

3/08 Closing price: US\$7.81	Market cap: \$130 million	Multiple of book: 3.7	EV/2025 Sales: 0.45
Diluted shares outstanding: 16.6 million	Insider ownership: 37%	3-mo avg. daily trading volume: >75,000	Special Dividend 2023 paid \$0.05

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

Period	EPS	Revenue	Op Margin
1Q23A	\$0.01	\$60.0	
2Q23A	(\$0.11)	\$53.7	
3Q23A	\$0.21	\$85.5	
4Q23A	<u>\$0.34</u>	<u>\$104.9</u>	
FY23A	<u>\$0.44</u>	<u>\$304.1</u>	<u>4.3%</u>
1Q24A	\$0.12	\$90.1	
2Q24E	\$0.09	\$73.4	
3Q24E	\$0.12	\$94.4	
4Q23E	<u>\$0.13</u>	<u>\$103.8</u>	
FY23E	<u>\$0.46</u>	<u>\$361.7</u>	<u>3.6%</u>
1Q25E	\$0.11	\$88.2	
2Q25E	\$0.09	\$72.7	
3Q25E	\$0.12	\$93.4	
4Q25E	<u>\$0.14</u>	<u>\$107.5</u>	
FY25E	<u>\$0.45</u>	<u>\$361.8</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	• \$7.4
• 2023A	• \$16.4
• 2024E	• \$21.7
• 2025E	• \$28.5

**Adj. EBITDA (in USD millions)**

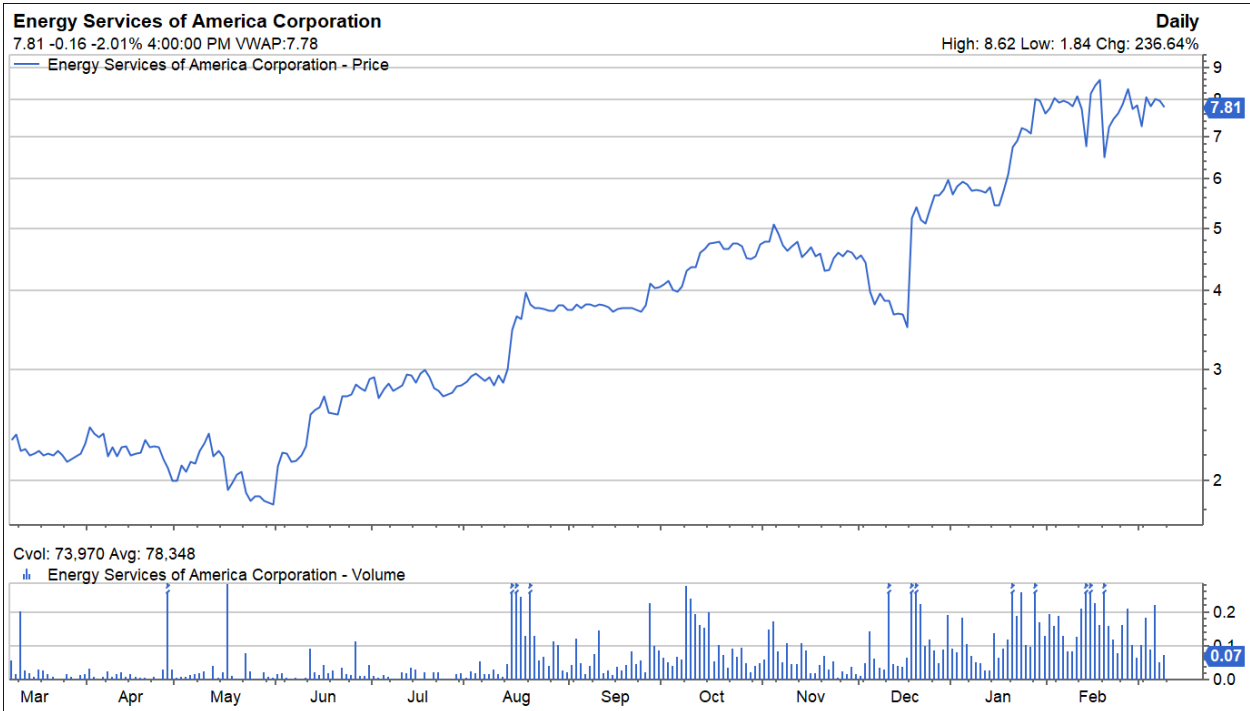
• 2021A	• \$3.8
• 2022A	• \$12.5
• 2023A	• \$20.8
• 2024E	• \$20.9
• 2025E	• \$20.2

**Risks/Valuation**

- Risks: competitive marketplace, weather
- Our \$10 price target is derived from our discounted future earnings model.
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**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 F1Q24 revenue of \$90.2MM and an EPS of \$0.12. Our estimates (see Figure 2) were for revenue of \$89.1MM and an EPS of \$0.11. There is no consensus. This set a revenue and net income record for any fiscal first quarter in the company's history. Adjusted EBITDA for the quarter was \$5.8MM, reflecting the company's strong cash generating activity.

The \$0.01 favorable EPS variance is driven by higher revenue in all three segments, better margins, and lower operating expenses.

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

	FY24 Q1E	FY24 Q1A	Better/(worse) than forecast
<b>Income Statement</b>			
Total Revenue	\$89,130	\$90,163	\$1,033
Total cost of products sold	<u>78,880</u>	<u>79,324</u>	(444)
Total Gross Profit	10,250	10,839	589
Operating expenses:			
SG&A	<u>7,130</u>	<u>7,199</u>	(68)
Total Expenses	<u>7,130</u>	<u>7,199</u>	(68)
Earnings (loss) from Operations	3,120	3,640	521
Total Other income/(expense)	(500)	(540)	(40)
Earnings before taxes	2,620	3,100	481
Tax expense/(benefit)	<u>786</u>	<u>1,058</u>	272
Net income	<u>\$1,834</u>	<u>\$2,042</u>	\$209
EPS	\$ 0.11	\$ 0.12	\$0.01
Diluted common shares	16,700	16,607	

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 flatten out in 2025 with a leveling off of infrastructure spending, but resume some growth in 2026, followed by another leveling off and growth in 2030. This is a project-oriented business, and it is partly reliant on government spending, so we assume some cyclical demand. Growth in our model eventually slows 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 \$9.77, which we round to \$10.00.

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

Discounted future earnings		\$9.77
Years	EPS	Discounted EPS
FY24	\$0.46	\$0.46
1	\$0.45	\$0.41
2	\$0.50	\$0.43
3	\$0.52	\$0.41
4	\$0.55	\$0.40
5	\$0.54	\$0.37
	Terminal Value	\$7.29

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. From the data shown we can clearly see that 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 higher, yet it is trading below implied and comparable averages. As shown in Figure 4, the shares are trading at a 57% - 62% 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	2025 Consensus Multiples	
					Market Cap / Sales	EV /Sales
PWR-US	Quanta Services Inc	\$244.32	35,609	39,541	1.45	1.61
J-US	Jacobs Solutions Inc.	\$148.73	18,688	21,994	1.06	1.25
ACM-US	AECOM	\$90.61	12,325	14,281	1.71	2.01
EME-US	EMCOR Group, Inc.	\$325.84	15,336	15,049	1.12	1.10
KBR-US	KBR Inc.	\$62.13	8,392	10,151	1.10	1.34
MTZ-US	MasTec Inc	\$91.48	7,253	10,074	0.59	0.81
FLR-US	Fluor Corp.	\$37.24	6,346	4,521	0.37	0.26
DY-US	Dycom Industries Inc	\$137.97	4,014	4,880	0.92	1.11
STRL-US	Sterling Infrastructure, Inc.	\$109.64	3,391	3,354	1.57	1.56
MYRG-US	MYR Group Inc.	\$161.46	2,703	2,767	0.69	0.71
PRIM-US	Primoris Services Corp.	\$40.89	2,185	3,312	0.36	0.55
GVA-US	Granite Construction	\$53.07	2,334	3,121	0.60	0.81
IESC-US	IES Holdings Inc	\$115.14	2,328	2,395		
AGX-US	Argan Inc.	\$48.70	649	371	1.03	0.59
	<b>AVERAGE</b>				<u>0.97</u>	<u>1.05</u>
ESOA-US	Energy Services of America Corp.	\$7.97	132	163	0.37	0.45
<b>ESOA Discount to peers:</b>					<b>-62%</b>	<b>-57%</b>

Source: Litchfield Hills Research LLC and FactSet

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

September ending year	2022A Year	2023A				2023A Year	2024E				2024E Year	2025E				2025E Year
		Q1A	Q2A	Q3A	Q4A		Q1A	Q2E	Q3E	Q4E		Q1E	Q2E	Q3E	Q4E	
<b>Total revenue</b>	\$197,590	\$60,043	\$53,673	\$85,530	\$104,859	\$304,104	\$90,163	\$73,401	\$94,373	\$103,810	\$361,747	\$88,238	\$72,667	\$93,429	\$107,443	\$361,778
<i>Growth</i>	61%	41%	52%	67%	53%	54%	50%	37%	10%	-1%	19%	-2%	-1%	-1%	3%	0%
Cost of Goods	175,219	54,056	49,773	74,651	88,811	267,291	79,324	64,960	83,520	91,872	319,676	78,091	64,310	82,685	95,087	320,173
<b>Gross Profit</b>	<b>22,371</b>	<b>5,986</b>	<b>3,901</b>	<b>10,879</b>	<b>16,047</b>	<b>36,813</b>	<b>10,839</b>	<b>8,441</b>	<b>10,853</b>	<b>11,938</b>	<b>42,071</b>	<b>10,147</b>	<b>8,357</b>	<b>10,744</b>	<b>12,356</b>	<b>41,604</b>
<b>Gross Margin</b>	<b>11.3%</b>	<b>10.0%</b>	<b>7.3%</b>	<b>12.7%</b>	<b>15.3%</b>	<b>12.1%</b>	<b>12.0%</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.6%</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.5%</b>
SG&A	\$15,878	\$5,316	\$5,888	\$5,284	\$7,289	\$23,777	\$7,199	\$5,872	\$7,550	\$8,305	\$28,925	\$7,059	\$5,813	\$7,474	\$8,595	\$28,942
Total Operating Expenses	15,878	5,316	5,888	5,284	7,289	23,777	7,199	5,872	7,550	8,305	28,925	7,059	5,813	7,474	8,595	28,942
<b>Operating Income</b>	<b>6,493</b>	<b>670</b>	<b>(1,987)</b>	<b>5,595</b>	<b>8,758</b>	<b>13,036</b>	<b>3,640</b>	<b>2,569</b>	<b>3,303</b>	<b>3,633</b>	<b>13,146</b>	<b>3,088</b>	<b>2,543</b>	<b>3,270</b>	<b>3,761</b>	<b>12,662</b>
<b>Operating Margin</b>	<b>3.3%</b>	<b>1.1%</b>	<b>-3.7%</b>	<b>6.5%</b>	<b>8.4%</b>	<b>4.3%</b>	<b>4.0%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.6%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.5%</b>
<b>Adj. EBITDA</b>	<b>\$12,506</b>					<b>\$20,844</b>					<b>\$20,962</b>					<b>\$20,162</b>
Total Other Items	(480)	(611)	(537)	(682)	(830)	(2,660)	(540)	(500)	(500)	(500)	(2,040)	(500)	(500)	(500)	(500)	(2,000)
<b>Pre-Tax Income</b>	<b>6,013</b>	<b>59</b>	<b>(2,524)</b>	<b>4,913</b>	<b>7,928</b>	<b>10,377</b>	<b>3,100</b>	<b>2,069</b>	<b>2,803</b>	<b>3,133</b>	<b>11,106</b>	<b>2,588</b>	<b>2,043</b>	<b>2,770</b>	<b>3,261</b>	<b>10,662</b>
<b>Pre-Tax Margin</b>	<b>3.0%</b>	<b>0.1%</b>	<b>-4.7%</b>	<b>5.7%</b>	<b>7.6%</b>	<b>3.4%</b>	<b>3.4%</b>	<b>2.8%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.1%</b>	<b>2.9%</b>	<b>2.8%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>2.9%</b>
Taxes (benefit)	2,263	(80)	(650)	1,498	2,207	2,975	1,058	621	841	940	3,460	777	613	831	978	3,199
Tax Rate	37.6%	-135.5%	25.8%	30.5%	27.8%	28.7%	34.1%	30.0%	30.0%	30.0%	31.2%	30.0%	30.0%	30.0%	30.0%	30.0%
<b>Net Income (loss)</b>	<b>3,750</b>	<b>138</b>	<b>(1,874)</b>	<b>3,416</b>	<b>5,721</b>	<b>7,401</b>	<b>2,042</b>	<b>1,448</b>	<b>1,962</b>	<b>2,193</b>	<b>7,646</b>	<b>1,812</b>	<b>1,430</b>	<b>1,939</b>	<b>2,282</b>	<b>7,464</b>
<b>Net Margin</b>	<b>1.9%</b>	<b>0.2%</b>	<b>-3.5%</b>	<b>4.0%</b>	<b>5.5%</b>	<b>2.4%</b>	<b>2.3%</b>	<b>2.0%</b>	<b>2.1%</b>	<b>2.1%</b>	<b>2.1%</b>	<b>2.1%</b>	<b>2.0%</b>	<b>2.1%</b>	<b>2.1%</b>	<b>2.1%</b>
<b>EPS, as reported</b>	<b>0.23</b>	<b>0.01</b>	<b>(0.11)</b>	<b>0.21</b>	<b>0.34</b>	<b>0.44</b>	<b>0.12</b>	<b>0.09</b>	<b>0.12</b>	<b>0.13</b>	<b>0.46</b>	<b>0.11</b>	<b>0.09</b>	<b>0.12</b>	<b>0.14</b>	<b>0.45</b>
Diluted Shares Outstanding	16,324	16,667	16,667	16,603	16,607	16,671	16,607	16,700	16,700	16,700	16,677	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	FY2025E	FY2024E	FY2023A	FY2022A	FY2021A
<b>Balance sheet</b>					
Current Assets					
Cash and S.T.I.	\$28,500	\$21,736	\$16,432	\$7,427	\$8,227
Accounts receivable	57,000	55,000	59,276	42,909	22,483
Contract assets	18,000	18,000	15,955	16,110	8,730
Other assets	5,000	5,000	3,520	3,946	3,541
<b>Total Current Assets</b>	<b>108,500</b>	<b>99,736</b>	<b>95,183</b>	<b>70,392</b>	<b>42,981</b>
Net PP&E	36,000	36,000	36,530	32,662	22,950
Other non-current	12,000	11,000	10,797	9,573	4,240
<b>Total Assets</b>	<b>\$156,500</b>	<b>\$146,736</b>	<b>\$142,509</b>	<b>\$112,627</b>	<b>\$70,171</b>
Current Liabilities					
Notes & Accounts payable	\$24,000	\$24,000	\$22,027	\$20,314	\$7,285
Accrued expenses	\$13,000	\$13,000	\$13,104	\$11,266	\$5,600
Current debt & liabilities	\$23,000	\$22,000	\$25,955	\$27,814	\$18,427
Other current liabilities	\$20,000	\$19,000	\$18,819	\$6,028	\$3,153
<b>Total current liabilities</b>	<b>80,000</b>	<b>78,000</b>	<b>79,904</b>	<b>65,422</b>	<b>34,465</b>
Deferred income tax liability	6,800	6,500	6,871	4,455	2,033
Other non-current	20,000	20,000	21,146	14,510	9,021
<b>Total Liabilities</b>	<b>106,800</b>	<b>104,500</b>	<b>107,920</b>	<b>84,386</b>	<b>45,519</b>
Stockholders' Equity					
Preferred stock					
Total stockholders' equity	49,700	42,236	34,589	28,241	24,652
<b>Total Liabilities and equity</b>	<b>\$156,500</b>	<b>\$146,736</b>	<b>\$142,509</b>	<b>\$112,627</b>	<b>\$70,171</b>

Source: Company reports and Litchfield Hills Research LLC

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

	<u>2025E</u>	<u>2024E</u>	<u>2023A</u>	<u>2022A</u>
Net Income	\$7,464	\$7,646	\$7,401	\$3,750
Accounts receivable	(2,000)	4,276	(16,366)	(20,426)
Contract assets	0	(2,045)	154	(7,379)
Other assets	0	(1,480)	426	(405)
Net PP&E	0	530	(3,868)	(9,712)
Other non-current	(1,000)	(203)	(1,224)	(5,332)
Notes & Accounts payable	0	1,973	1,712	13,029
Accrued expenses	0	(104)	1,838	5,666
Current debt & liabilities	1,000	(3,955)	(1,859)	9,387
Other current liabilities	1,000	181	12,791	2,874
Deferred income tax liability	300	(371)	2,415	2,422
Other non-current	0	(1,146)	6,636	5,489
Common stock	0	0	0	0
Additional paid-in capital	0	1	(220)	(162)
Accumulated other comp. income	0	0	0	0
Treasury stock	0	0	0	0
Employ. stock purch. plan and rest. stock	0	0	0	0
Total Cash Flow	<u>\$6,764</u>	<u>\$5,305</u>	<u>\$9,004</u>	<u>(\$799)</u>

Source: Litchfield Hills Research LLC

**Disclosures:**

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We, the Litchfield Hills Research Department, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and the underlying securities.

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

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