



Enservco Corporation

Q3 about inline. Expect much better 2021/22 on major oil price rebound, steady increase in rig count, and improved balance sheet. Lowering P/T to \$5.00.

COMPANY UPDATE

Rating: BUY

Ticker: ENSV

Price: \$1.19

Target: \$5.00
(from \$5.50)

Q3 about inline: Revenue was \$3 million (+72% y-o-y), compared to our and consensus estimates of \$3 million. EBITDA was \$(1.5) million, compared to our estimate of \$(1.4) million (and vs. \$(1.7) million in Q3 2020). EPS was \$(0.02) (which includes \$0.23 special gains from PPP loan and tax benefits), compared to our estimate of \$(0.11) and consensus of \$(0.03). There was no Q3 guidance.

Q3 improvements: The massive decline in 2020 (starting in Q1 2020) in drilling and completion activity have led to continued lower levels of activity in Q3 (compared to pre-pandemic). However, Q3 has continued to see steady improvements with steady increases in rig count as oil prices have rebounded in 2021.

Weak margins: Gross margins were weak at -22% (vs -40% in Q3 2020) due to continued weaker industry pricing due to weaker industry demand.

Adjusting estimates: We are adjusting our 2021 revenue estimate to \$18 million, from \$20 million, and for EPS to \$(0.53) from \$(0.60).

However, major oil prices and rig count rebounds provide optimism: Due to macro issues (coronavirus starting in March and April 2020) and OPEC price war, the price of oil had dropped to ~\$25 per barrel but has rebounded steadily in 2020 and has now risen sharply in 2021 to ~\$80/bbl. We believe this rebound along with improvements in U.S. oil rig counts (currently at 454 and up from 231 just 1 year ago) greatly improves the company's and industry outlook from depressed levels. However, we note that U.S. oil rig count is still well below 2 years ago (was 671 on 11/22/19).

2020 significant reduction in debt: In September 2020, the company completed a major restructuring of its debt. It reduced total debt by \$16.0 million and increased stockholders' equity by \$12.5 million. Enservco just recently revised the revenue covenant on its senior credit facility (with East West Bank) and got a waiver for a covenant breach related to an October 2021 revenue shortfall that resulted from warmer than anticipated weather.

Capital raise: In February, Enservco raised \$8.4 million by selling stock (3.7 million at \$2.30/share). With the reduced debt levels and new cash raised, we believe the company is in steady balance sheet position for the next year.

Market potential: With crude prices and the North American rig count (oil and gas) improving significantly, we believe the company is well positioned as industry activities rebounds. The U.S. Oil Rig count currently (as of 11/12/21) is 454 (which is up from 352 just 6 months ago). With the U.S. economy strong and the pandemic about over, we believe this bodes well for continued strong increases in oil prices and thus rig counts and demand for Enservco services.

Positive high risks versus rewards: We believe that the current valuation for Enservco has already factored in many of its risks (principally low rig counts and volatile oil prices) but is under valuing its overall growth prospects and product portfolio, resulting in a positive high risk/reward scenario for its stock.

Current valuation favorable: Maintaining our BUY rating, but lowering our 12-month price target to \$5.00 from \$5.50, which is based on a ~20x P/E multiple on our 2023 EPS estimate of \$0.25. This multiple is based on its estimated long-term earnings growth rate (implying a PEG ratio of ~1 (P/E to growth rate)). We believe this valuation appropriately balances out the company's high risks with the company's growth prospects and upside opportunities.

Company Description

Based in Longmont, CO, Enservco is an oil field services company providing well enhancement and completion services to the U.S. onshore oil and natural gas industry.

United States
Energy

November 17, 2021

Edward Woo, CFA
(949) 259-4932
ewoo@ascendant.com

Stock Data

Exchange:	NYSE
52-week Range:	\$1.05 – 3.25
Shares Outstanding (million):	11
Market cap (\$million):	\$13
EV (\$million):	\$26
Debt (\$million):	\$15
Cash (\$million):	\$2
Avg. Daily Trading Vol. (\$million):	~\$1
Float (million shares):	9
Short Interest (million shares):	~1
Dividend, annual (yield):	\$0 (NA%)

Revenues (US\$ million)

	2021E (Cur.)	2021E (Old)	2022E (Cur.)	2022E (Old)
Q1 Mar	5A		11E	10E
Q2 Jun	3A		4E	
Q3 Sep	3A	3E	4E	
Q4 Dec	7E	9E	10E	11E
Total	18E	20E	30E	
EV/Revs	1.4x		0.9x	

Earnings per Share (pro forma)

	2021E (Cur.)	2021E (Old)	2022E (Cur.)	2022E (Old)
Q1 Mar	(0.24)A		(0.06)E	(0.05)E
Q2 Jun	(0.14)A		(0.23)E	
Q3 Sep	(0.02)A	(0.11)E	(0.23)E	
Q4 Dec	(0.16)E	(0.13)E	(0.05)E	
Total	(0.53)E	(0.60)E	(0.57)E	
P/E	N/A		N/A	

Important Disclosures

Ascendant Capital Markets LLC seeks to do business with companies covered by its research team. Consequently, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making an investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report, beginning on page 8.

OVERVIEW

- After market close Monday, Enservco reported its fiscal Q3 2021 (ending September) results.
- Revenue was \$3 million (+72% y-o-y), compared to our and consensus estimates of \$3 million.
- EBITDA was \$(1.5) million, compared to our estimate of \$(1.4) million (and vs. \$(1.7) million in Q3 2020).
- EPS was \$(0.02) (which includes \$0.23 special gains from PPP loan and tax benefits), compared to our estimate of \$(0.11) and consensus of \$(0.03).
- There was no Q3 guidance.
- As usual, the company did not provide any forward guidance.
- We are lowering our 2021 estimates for revenue to \$18 million, from \$20 million, and for EPS to \$(0.53) from \$(0.60).
- We are maintaining our 2022 estimates for revenue of \$30 million, and for EPS of \$(0.57).

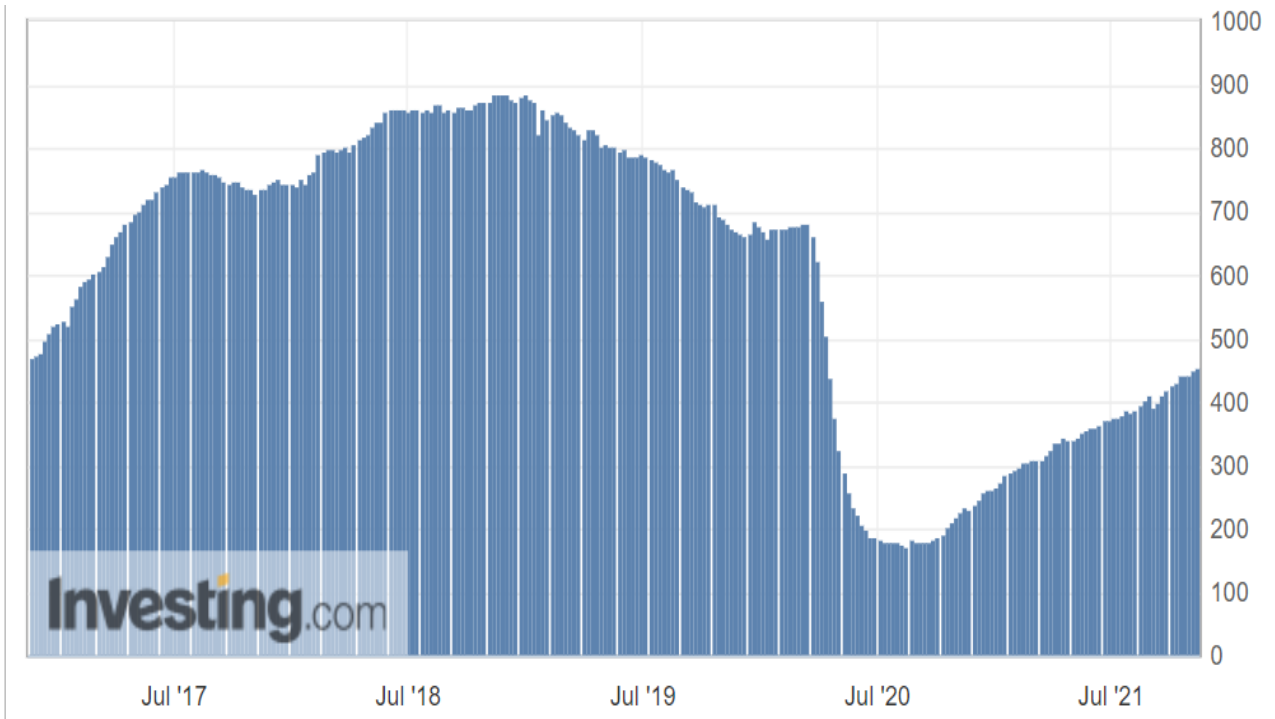
ADDITIONAL DETAILS

- Gross profit for the quarter was ~\$(1) million, compared with our estimate of ~\$0 million.
- Gross margin for the quarter was -22%, versus -40% last year and our expectation of -10%.
- Operating expenses were \$2 million, versus our expectation of \$3 million.
- Operating loss was \$2.9 million, versus our expectation of a loss of \$2.8 million.
- Net loss was \$0.2 million (which includes \$2.6 million in special PPP and tax gains), versus our expectation of a loss of \$1.3 million.
- Enservco completed a 1-for-15 reverse stock split on November 20, 2020.

- The U.S. Oil Rig count currently (as of 11/12/21) is 454 (vs. 387 in August and 236 last year).
- In October 2018, ENSERVCO acquired privately-held Adler Hot Oil Service, LLC. Under terms of the \$12.5 million transaction, ENSERVCO paid \$3.7 million in cash with an additional \$4.8 million in a seller's note due March 31, 2019. In addition, ENSERVCO retired \$2.0 million of Adler's debt. Adler had 2017 revenue of \$17.0 million and adjusted EBITDA of \$2.8 million.
- In October 2018, ENSERVCO also announced that, following an extensive review of all operations, it will sell or close the company's underperforming Dillco water hauling business. It ultimately decided to close the business. Dillco had ~\$4 million in revenue in 2017.
- In 2019, it also existed its water transfer business, which had \$3 million in revenue in 2019.
- In June 2020, Ian Dickinson resigned as CEO of the company. Richard Murphy (a member of the board since 2016) has been appointed as Executive Chairman and interim CEO. Mr. Murphy is a managing member of Cross River Capital Management, LLC, the largest shareholder of the company.
- In September 2020, the company completed a major restructuring of its debt. It reduced total debt by \$16.0 million and increased stockholders' equity by \$12.5 million. In return for the lender eliminating \$16.0 million in debt, Enservco issued the lender 8 million shares of common stock and warrants to purchase an additional 15 million shares at \$3.75 per share. The company had been in default with its lender since October 2019.

The company's balance sheet remains levered with \$2 million in cash and \$15 million in debt, compared with \$4 million in cash and \$17 million in debt as of Q2. Enservco just recently revised the revenue covenant on its senior credit facility (with East West Bank) and got a waiver for a covenant breach related to an October 2021 revenue shortfall that resulted from warmer than anticipated weather.

Exhibit 1: Historical (5-Years) U.S. Oil (WTI) Prices and Rig Count (as of November 2021)



Source: Baker Hughes, Investing.com, and <https://www.macrotrends.net/>.

Exhibit 2: Enservco's Stock Price (5-Years)



Source: <https://bigcharts.marketwatch.com/>

Exhibit 3: Consensus Expectations

	Revenue (mil)			EPS	
	2021E	2022E		2021E	2022E
Q1 Mar	\$5A		Q1 Mar	\$(0.24)A	
Q2 Jun	\$3A		Q2 Jun	\$(0.14)A	
Q3 Sep	\$3E		Q3 Sep	\$(0.03)E	
Q4 Dec	\$8E		Q4 Dec	\$(0.07)E	
Total	\$20E	\$30E	Total	\$(0.44)E	\$(0.27)E

*Quarterly estimates may not add to annual estimates due to variations in contributing estimates and rounding.

Source: Company report, Refinitiv, and Ascendant Capital Markets estimates

ANALYST CERTIFICATION

Each analyst hereby certifies that the views expressed in this report reflect the analyst's personal views about the subject securities or issuers. Each analyst also certifies that no part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The analyst who prepared this report is compensated based upon the overall profitability of Ascendant Capital Markets, LLC, which may, from time to time, include the provision of investment banking, financial advisory and consulting services. Compensation for research is based on effectiveness in generating new ideas for clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Enservco Corporation



Source: <https://bigcharts.marketwatch.com/>

Report	Report Date	Rating	Price Target
1	4/25/2018	B	30.00
2	5/11/2018	B	33.75
3	8/15/2018	B	22.50
4	11/16/2018	B	26.25
5	3/31/2019	B	22.50
6	5/16/2019	B	26.25
7	8/15/2019	B	18.75
8	11/18/2019	B	11.25
9	1/27/2020	B	6.00
10	3/21/2020	B	4.50
11	5/16/2020	B	5.25
12	8/22/2020	B	6.00
13	11/25/2020	B	6.75
14	2/26/2021	B	7.00
15	3/28/2021	B	7.25
16	5/17/2021	B	6.00
17	8/7/2021	B	5.50

- Ascendant Capital Markets, LLC has not received compensation for advisory or investment banking services from the company in the past 12 months.

IMPORTANT DISCLOSURES

This report has been distributed by Ascendant Capital Markets, LLC and is for the sole use of our clients. This report is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. This report contains information from various sources, including United States government publications, The Wall Street Journal and other periodicals, Yahoo! Finance and other sources, and is for informational purposes only and is not a recommendation to trade in the securities of the companies mentioned within the report. We seek to update our research and recommendations as appropriate, but the large majority of reports are published at irregular intervals as we consider appropriate and, in some cases, as constrained by industry regulations.

We may have a business relationship with companies covered in this report. Ascendant Capital Markets, LLC may make a market in the securities of the subject company. We and our affiliates, officers, directors, and employees will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives (including options and warrants) thereof of covered companies referred to in this report. This report is not an offer to sell or the solicitation of an offer to buy any security in any

jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any information in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of the investments referred to in this report may fluctuate.

Following are some general risks that can adversely impact future operational and financial performance and share price valuation: (1) industry fundamentals with respect to legislation, mandates, incentives, customer demand, or product pricing; (2) issues relating to competing companies or products; (3) unforeseen developments with respect to management, financial condition or accounting policies or practices; or (4) external factors that affect the interest rates, currency, the economy or major segments of the economy. Past performance is not a guide to future performance, future returns are not guaranteed, and loss of original capital may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Our report is disseminated primarily electronically, and, in some cases, in printed form. The information contained in this report is not incorporated into the contents of our website and should be read independently thereof. Copyright Ascendant Capital Markets, LLC. No part of this material may be copied, photocopied or duplicated by any means or redistributed without the prior written consent of Ascendant Capital Markets, LLC.

Risks & Considerations

Risks to attainment of our share price target include balance sheet/liquidity risks, geopolitical and regulatory risks, changes to energy/alternative energy comparables, commodity and crude oil prices, competition, changing macroeconomic factors, investor sentiment for energy stocks, and changes in consumer demand for energy/alternative energy.

Ascendant Capital Markets, LLC Rating System

BUY: We expect the stock to provide a total return of 15% or more within a 12-month period.

HOLD: We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

SELL: We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

Ascendant Capital Markets, LLC Rating System

Prior to January 31, 2014, ASCM used the following rating system:

Strong Buy: We expect the stock to provide a total return of 30% or more within a 12-month period.

Buy: We expect the stock to provide a total return of between 10% and 30% within a 12-month period.

Neutral: We expect the stock to provide a total return of between minus 10% and plus 10% within a 12-month period.

Sell: We expect the stock to provide a total return of minus 10% or worse within a 12-month period.

Speculative Buy: This rating is reserved for companies we believe have tremendous potential, but whose stocks are illiquid or whose equity market capitalizations are very small, often in the definition of a nano cap (below \$50 million in market cap). In general, for stocks ranked in this category, we expect the stock to provide a total return of 50% or more within a 12-month period. However, because of the illiquid nature of the stock's trading and/or the nano cap nature of the investment, we caution that these investments may not be suitable for all parties.

Total return is defined as price appreciation plus dividend yield.

Ascendant Capital Markets, LLC Distribution of Investment Ratings (as of October 15, 2021)

Rating	Count	Percent	Investment Banking Services Past 12 months	
			Count	Percent
Buy	41	98%	14	34%
Hold	0	0%	0	0%
Sell	1	2%	0	0%
Total	42	100%	14	33%

Other Important Disclosures

Our analysts use various valuation methodologies including discounted cash flow, price/earnings (P/E), enterprise value/EBITDAS, and P/E to growth rate, among others. Risks to our price targets include failure to achieve financial results, product risk, regulatory risk, general market conditions, and the risk of a change in economic conditions.

Dissemination of Research

Ascendant Capital Markets, LLC research is distributed electronically via the Thomson Reuters platforms, Bloomberg, Capital IQ and FactSet. Please contact your investment advisor or institutional salesperson for more information.

General Disclaimer

The information and opinions in this report were prepared by Ascendant Capital Markets, LLC. This information is not intended to be used as the primary basis of investment decisions and because of individual client objectives it should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer or solicitation with respect to the purchase or sale of any security. The reader should assume that Ascendant Capital Markets, LLC may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein. The opinions, estimates, and projections contained in this report are those of Ascendant Capital Markets, LLC as of the date of this report and are subject to change without notice. Ascendant Capital Markets, LLC endeavors to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, Ascendant Capital Markets, LLC makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein, and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to Ascendant Capital Markets, LLC, or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

Additional Disclosures

Ascendant Capital Markets, LLC is a broker-dealer registered with the United States Securities and Exchange Commission (SEC) and a member of the FINRA and SIPC. Ascendant Capital Markets, LLC is not a Registered Investment Advisor nor is it an investment advisor registered with the Securities and Exchange Commission or with the securities regulators of any state, and at the present time is not eligible to file for federal registration.