Enerflex

Enerflex Announces Third Quarter 2021 Financial Results and Quarterly Dividend

Nov 04, 2021

CALGARY, Alberta, Nov. 04, 2021 (GLOBE NEWSWIRE) -- Enerflex Ltd. (TSX:EFX) (“Enerflex” or “the Company” or “we” or “our”), a leading supplier of products and services to the global energy industry, today reported its financial and operating results for the three and nine months ended September 30, 2021.

Summary Table of Third Quarter and First Nine Months of 2021 Financial and Operating Results

(Unaudited) ($ Canadian millions, except per share amounts, horsepower, and percentages)	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	Change	**2021**	2020	Change
Revenue	**$ 231.1**	$ 265.0	$ (33.9)	**$ 638.8**	$ 918.2	$ (279.4)
Gross margin	**54.4**	63.7	(9.3)	**159.6**	223.2	(63.6)
Operating income	**9.6**	20.3	(10.7)	**34.4**	85.0	(50.6)
EBIT	**10.0**	21.7	(11.7)	**34.5**	87.2	(52.7)
EBITDA (1)	**32.0**	42.8	(10.8)	**99.0**	150.8	(51.8)
Adjusted EBITDA (2)	**32.8**	38.2	(5.4)	**98.6**	138.4	(39.8)
Net earnings	**7.0**	10.7	(3.7)	**14.3**	55.6	(41.3)
Earnings per share – basic	**0.08**	0.12	(0.04)	**0.16**	0.62	(0.46)
Recurring revenue growth (3)	**14.1%**	(6.1)%		**2.7%**	(6.0)%	
Bookings (4)	**191.1**	23.2	167.9	**444.3**	221.1	223.2
Backlog (4)	**375.4**	186.3	189.1	**375.4**	186.3	189.1
Rental horsepower	**785,627**	714,375	71,252	**785,627**	714,375	71,252

(1) *Earnings Before Interest (Finance Costs), Income Taxes, Depreciation, and Amortization (“EBITDA”) is considered a non-IFRS measure, which may not be comparable with similar non-IFRS measures used by other entities.*

(2) *Adjusted EBITDA is a non-IFRS measure. Please refer to the full reconciliation of these items in the Adjusted EBITDA section.*

(3) *Recurring revenue is comprised of revenue from the Service and Rentals product lines, which are typically contracted and extend into the future. While the contracts are subject to cancellation or have varying lengths, the Company does not believe these characteristics preclude them from being considered recurring in nature. Growth in recurring revenue is calculated over the comparative period.*

(4) *Engineered Systems bookings and backlog are considered non-IFRS measures that do not have standardized meanings as prescribed by IFRS and are therefore unlikely to be comparable to similar measures used by other entities*.

“Enerflex benefitted from a strong rebound in commodity prices and industry activity by recording our largest quarter for new Engineered Systems orders since 2018. We continue to see a build in demand for both new Engineered Systems and After-Market Services in all regions and our Rentals segment delivered high levels of utilization in the USA and growth opportunities in the ROW region. Subsequent to the end of the quarter, we were awarded several new natural gas infrastructure projects in our ROW region, the most significant of which is a new 10-year, approximately $200 million project. All of these positive signs give us the confidence to modestly increase our dividend,” said Marc Rossiter, Enerflex’s President and Chief Executive Officer.

“During the quarter we advanced our efforts to lead the de-carbonization of energy by adding electric compression to our USA Rental fleet, receiving orders for non-fossil fuel based Engineered Systems, and completing our first flare-to-power project in Latin America. This project was managed by staff in the ROW region using Engineered Systems and After-Market Services contributions from the USA and Canadian Regions. A global success story for Enerflex, our client and the local economy.”

“We are cautiously optimistic that the current trends should continue provided the fundamentals underpinning the global energy complex remain constructive. Nonetheless, the future is not without challenges. The manufacturing business is in its early stages of recovery in what remains a very competitive environment that will pressure margins in the near-term and emerging supply chain constraints will impact the price and availability of spare parts needed for our after-market services and rentals businesses.”

“Overall, we believe the downturn is getting behind us. In the coming quarters, we will use our core competency of “Technical Excellence in Modularized Equipment” to support the global recovery. As promised.”

Quarterly Overview

- Operating income was lower than the prior year, primarily due to reduced contribution from certain large, high margin Engineered Systems projects that were largely completed by the third quarter of 2020, competitive margin pressures on recently booked Engineered Systems projects, slightly higher SG&A compared to the prior year, as well as adverse foreign exchange impacts due to a weaker U.S. dollar. Engineered Systems revenues were lower compared to third quarter of 2020 due to those same certain large, high margin projects that did not repeat in the current quarter.
- Bookings totaled $191 million, up from $23 million in the same period last year and demonstrate an improving backdrop for our Engineered Systems business.
- SG&A in the third quarter was slightly higher due to the higher share-based compensation on the increase of the Company’s share price during the third quarter and higher overall compensation costs. These increases were partially offset by the bad debt provisions recognized in third quarter of 2020.

- The Company invested $9 million in rental assets; the majority used to fund the organic expansion of the USA contract compression fleet. Enerflex continues to exercise capital discipline and to prioritize capital spending related to executed contracts with customers. At September 30, 2021, the USA contract compression fleet totaled approximately 385,000 horsepower with an average fleet utilization of 88 percent for the quarter. The Company has also invested $9 million towards construction of a natural gas infrastructure asset, which will be accounted for as a finance lease.
- The Company maintained balance sheet strength by managing working capital, reducing debt, and continuing to exercise capital discipline. We exited the quarter financially strong, with a bank-adjusted net debt to EBITDA ratio of 1.38:1, compared to a maximum ratio of 3:1. This leverage ratio excludes the non-recourse debt. Enerflex has substantial undrawn credit capacity and cash on hand.
- The Company's long-term debt is comprised of both recourse debt totaling $304 million, and non-recourse debt totaling $42 million.
- Subsequent to September 30, 2021, the Company's Board of Directors approved an increase to its quarterly dividend to $0.025 per share, payable on January 6, 2022, to shareholders of record on November 25, 2021. This new dividend amount represents a 25 percent increase and reiterates the Company's commitment to responsibly return capital to shareholders. The increase in dividend is consistent with Enerflex's long-term strategy of maintaining a strong balance sheet and delivering a sustainable dividend to shareholders. The Board will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.
- Subsequent to September 30, 2021, the Company was awarded a new 10-year $165 million USD natural gas infrastructure contract, which will add to our successful fleet of assets in our Middle East operations.

Outlook

The outlook for Exploration & Production ("E&P") capital spending has been steadily improving since mid-2020 when budgets were reset during the COVID-19 pandemic. Commodity prices have recovered, and E&P and Midstream balance sheets and free-cash-flow positions have been improving. Oil and gas demand has been recovering, despite some continued effects of the COVID-19 pandemic and evolving regulatory risks associated with the curtailment of hydrocarbons at the regional, national, and international levels. As a result, Enerflex expects customer capex to increase as fundamentals improve in the remainder of 2021 and 2022. This trend can be seen in Enerflex's bookings which have been trending upward since the second quarter of 2020. Although customers continue to show discipline in spending within their cash flow and return money to shareholders, we are cautiously optimistic that this trend should continue given current fundamentals outlook.

In addition, an "Energy Transition" towards less carbon-intensive energy sources is presenting new opportunities for the Company in several regions, leveraging the strength of Enerflex in providing modularized engineer-to-order solutions for the energy industry. The Company is working with existing and new customers to advance projects that: 1) decarbonize core operations; 2) capture carbon; 3) build infrastructure for renewable fuels; and 4) explore new hydrogen opportunities.

The Company will continue to preserve the strength of its balance sheet and maximize cash flow through disciplined capital spending, with investments prioritizing higher-margin, less-cyclical businesses with attractive returns. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

In the short term, Enerflex remains focused on providing a safe working environment for all employees, while positioning the Company to capitalize on increased industry spending. We are maintaining our focus on balance sheet strength in response to uncertainty caused by the COVID-19 pandemic and recent market volatility. Given the current environment, the Company is carefully assessing project spending, with a focus on ensuring future projects provide maximum returns on invested capital. In the longer term, the Company continues to balance the expected impacts of broader market factors, such as volatility in realized commodity prices, political and economic uncertainty, and consistent access to market, against the projected increases in global demand for natural gas, particularly as an energy transition fuel to support decarbonization. Enerflex continues to assess the effects of these contributing factors and the corresponding impact on customer activity levels, which will drive the demand for the Company's products and services in future periods.

Third Quarter Segmented Results

USA

USA segment revenue was $116 million, a decrease of $11 million from the same period in 2020. Engineered Systems revenue decreased due to a certain large, high margin project that did not repeat in the current quarter, while Service revenues improved as delayed sales and service orders were fulfilled. Rentals revenue was higher than the comparative period, with a larger rental fleet and higher utilization. SG&A was higher than the comparative period, due to the mark-to-market impacts on share-based compensation and higher compensation due to the effect of the temporary cost savings measures that were removed in the current quarter. The Company continues to monitor costs in response to recent commodity price volatility and the uncertainty caused by the COVID-19 pandemic and remains focused on controlling costs where possible. The net impact to EBIT was a decrease of $7 million, driven by lower gross margins on decreased revenues, competitive margins on recently booked Engineered Systems projects, and higher SG&A versus the comparative period as discussed above.

Rest of World

Revenue in the Rest of World ("ROW") segment was $75 million, a decrease of $4 million from the same period in 2020, with lower Engineered Systems revenues, offset by higher Service and Rentals revenues. A significant portion of ROW's results are based in the U.S. dollar, and as such the weakening U.S. dollar has had an unfavourable impact to the overall results. Engineered Systems revenue declined based on the timing of new bookings, which occurred in the first half of 2021 and have not resulted in revenue recognition yet, while Service revenues increased on higher activity levels in Argentina and Colombia. Rentals revenue increased in the period despite the weaker U.S. dollar, which had a negative impact of approximately $2 million. During the fourth quarter of 2020 and the first quarter of 2021, the Company commenced operations on new BOOM projects, leading to the favourable variance over the prior period. EBIT increased by $3 million due to improved gross margin percentage on increased contributions from certain high margin rental contracts, and lower SG&A. SG&A costs were lower than the comparable period in 2020 due to the reduced bad debt provisions, partially offset with higher share-based compensation on mark-to-market movement and higher compensation due to the effect of the temporary cost savings measures that were removed in the current quarter.

Canada

The Canadian segment recorded revenues of $41 million, a decrease of $19 million, primarily due to lower Engineered Systems revenue on a lower opening backlog. Rentals revenue decreased due to certain rental units being returned rather than renewed, while Service revenue increased on higher parts sales. SG&A increased due to lower cost recoveries related to government subsidies and share-based compensation expenses on mark-to-market movement, partially offset by reduced bad debt provisions. EBIT decreased due to reduced revenue versus the comparative period as discussed above, competitive margins on recently booked Engineered Systems projects, and higher SG&A.

Adjusted EBITDA
The Company's results include items that are unique and items that management and users of the financial statements adjust for when evaluating the Company's results. The presentation of Adjusted EBITDA should not be considered in isolation from EBIT or EBITDA as determined under IFRS. Adjusted EBITDA may not be comparable to similar measures presented by other companies and should not be considered in isolation or as a replacement for measures prepared as determined under IFRS.

The items that have historically been adjusted for presentation purposes relate generally to four categories: 1) impairment or gains on idle facilities (not including rental asset impairments); 2) severance costs associated with restructuring activities and cost reduction activities undertaken in response to the COVID-19 pandemic; 3) transaction costs related to M&A activity; and, 4) share-based compensation. Enerflex has presented the impact of share-based compensation as it is an item that can fluctuate significantly with share price changes during a period based on factors that are not specific to the long-term performance of the Company. The disposal of idle facilities is isolated within Adjusted EBITDA as they are not reflective of the ongoing operations of the Company and are idled as a result of restructuring activities.

The Company added another adjustment related to government grants, most notably the Canada Emergency Wage Subsidy in the third quarter of 2020 and the Canada Emergency Rent Subsidy in the first quarter of 2021. The subsidies received have been recorded as a reduction in cost of goods sold and selling and administrative expense within the consolidated statements of earnings in accordance with where the associated expense was recognized. Enerflex considers this to be a unique item as these temporary grants relate to the recent COVID-19 pandemic and are not anticipated to be part of the ongoing financial results of the Company.

Management believes that identification of these items allows for a better understanding of the underlying operations of the Company based on the current assets and structure.

($ Canadian millions) Three months ended September 30, 2021	**Total**	**USA**	**ROW**	**Canada**
Reported EBIT	**$ 10.0**	**$ (0.6)**	**$ 11.1**	**$ (0.5)**
Government grants in COGS and SG&A	**(3.9)**	**(0.3)**	**-**	**(3.6)**
Share-based compensation	**4.7**	**1.6**	**2.0**	**1.1**
Depreciation and amortization	**22.0**	**10.8**	**9.3**	**1.9**
Adjusted EBITDA	**$ 32.8**	**$ 11.5**	**$ 22.4**	**$ (1.1)**

($ Canadian millions) Three months ended September 30, 2020	Total	USA	ROW	Canada
Reported EBIT	$ 21.7	$ 6.4	$ 8.0	$ 7.3
Severance costs in COGS and SG&A	0.7	0.2	-	0.5
Government grants in COGS and SG&A	(6.4)	-	(1.4)	(5.0)
Share-based compensation	1.1	0.7	0.4	-
Depreciation and amortization	21.1	10.4	8.5	2.2
Adjusted EBITDA	$ 38.2	$ 17.7	$ 15.5	$ 5.0

Dividend
Subsequent to September 30, 2021, the Company's Board of Directors approved an increase to its quarterly dividend to $0.025 per share, payable on January 6, 2022, to shareholders of record on November 25, 2021. This new dividend amount represents a 25 percent increase and reiterates the Company's commitment to responsibly return capital to shareholders. The increase in dividend is consistent with Enerflex's long-term strategy of maintaining a strong balance sheet and delivering a sustainable dividend to shareholders. The Board will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

Quarterly Results Material
This press release should be read in conjunction with Enerflex's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2021 and 2020, and the accompanying Management's Discussion and Analysis, both of which are available on the Enerflex website at www.enerflex.com under the Investors section and on SEDAR at www.sedar.com.

Conference Call and Webcast Details
Enerflex will host a conference call for analysts, investors, members of the media, and other interested parties on Friday, November 5, 2021 at 8:00 a.m. MDT to discuss the third quarter 2021 financial results and operating highlights. The call will be hosted by Mr. Marc Rossiter, President and Chief Executive Officer; Mr. Sanjay Bishnoi, Senior Vice President and Chief Financial Officer; and Mr. Stefan Ali, Vice President, Strategy and Investor Relations.

If you wish to participate in this conference call, please call 1.844.231.9067 or 1.703.639.1277. Please dial in 10 minutes prior to the start of the call. No passcode is required. The live audio webcast of the conference call will be available on the Enerflex website at www.enerflex.com under the Investors section on November 5, 2021 at 8:00 a.m. MDT. A replay of the teleconference will be available on November 5, 2021 at 11:00 a.m. MDT until November 12, 2021 at 11:00 a.m. MDT. Please call 1.855.859.2056 or 1.404.537.3406 and enter conference ID 8787319.

About Enerflex
Enerflex is a single-source supplier of natural gas compression, oil and gas processing, refrigeration systems, and electric power generation equipment – plus related in-house engineering and mechanical services expertise. The Company's broad in-house resources provide the capability to engineer, design, manufacture, construct, commission, service, and operate hydrocarbon handling systems. Enerflex's expertise encompasses field production facilities, compression and natural gas processing plants, gas lift compression, refrigeration systems, and electric power solutions serving the natural gas production industry.

Headquartered in Calgary, Canada, Enerflex has approximately 2,000 employees worldwide. Enerflex, its subsidiaries, interests in associates, and joint operations operate in Canada, the United States of America ("USA"), Argentina, Bolivia, Brazil, Colombia, Mexico, the United Kingdom ("UK"), Bahrain, Kuwait, Oman, the United Arab Emirates ("UAE"), Australia, New Zealand, Indonesia, Malaysia, and Thailand. Enerflex operates three business segments: USA, Rest of World, and Canada. Enerflex's shares trade on the Toronto Stock Exchange under the symbol "EFX". For more information about Enerflex, go to www.enerflex.com.

Advisory Regarding Forward-Looking Information

This press release contains forward-looking information within the meaning of applicable Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. The use of any of the words “anticipate”, “plan”, “contemplate”, “continue”, “estimate”, “expect”, “intend”, “propose”, “might”, “may”, “will”, “shall”, “project”, “should”, “could”, “would”, “believe”, “predict”, “forecast”, “pursue”, “potential”, “objective” and “capable” and similar expressions are intended to identify forward-looking information. In particular, this press release includes (without limitation) forward-looking information pertaining to: anticipated financial performance; the Company’s growth capital expenditure plans and maintenance capital spending; anticipated market conditions and impacts on the Company’s operations; development trends in the oil and gas industry; business prospects and strategy; the ability to raise capital; the ability of existing and expected cash flows and other cash resources to fund investments in working capital and capital assets; the impact of economic conditions on accounts receivable; expectations regarding future dividends; and implications of changes in government regulation, laws and income taxes. This forward-looking information is based on assumptions, estimates and analysis made in the light of the Company's experience and its perception of trends, current conditions and expected developments, as well as other factors that are believed by the Company to be reasonable and relevant in the circumstances. Forward-looking information involves known and unknown risks and uncertainties and other factors, which are difficult to predict, including but not limited to: the impact of economic conditions including volatility in the price of oil, gas, and gas liquids, interest rates and foreign exchange rates; industry conditions including supply and demand fundamentals for oil and gas, and the related infrastructure including new environmental, taxation and other laws and regulations; disruptions to business operations resulting from the COVID-19 pandemic and the responses of government and the public to the pandemic; changes in economic conditions that restrict Enerflex’s cash flow and impact its ability to declare and pay dividends; the ability to continue to build and improve on proven manufacturing capabilities and innovate into new product lines and markets; increased competition; insufficient funds to support capital investments required to grow the business; the lack of availability of qualified personnel or management; political unrest; and other factors, many of which are beyond the Company's control. For an augmented discussion of the risk factors and uncertainties that affect or may affect Enerflex, the reader is directed to the section entitled “Risk Factors” in Enerflex’s most recently filed Annual Information Form, as well as Enerflex’s other publicly filed disclosure documents, available on www.sedar.com. While the Company believes that there is a reasonable basis for the forward-looking information and statements included in this press release, as a result of such known and unknown risks, uncertainties and other factors, actual results, performance, or achievements could differ materially from those expressed in, or implied by, these statements, and readers are cautioned not to unduly rely on forward-looking statements. The forward-looking information contained herein is expressly qualified in its entirety by the above cautionary statement. The forward-looking information included in this press release is made as of the date hereof and, other than as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

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