

**CONTENTS:**

**MORNING OUTLOOK**

October 29, 2013

**ENTERPRISE GROUP, INC. (E - TSX, \$0.83) (BUY \$2.05)**

Q3/13 Preview ~ Acquisitions & Organic Growth To Drive Results

Please see back page for important disclosure information

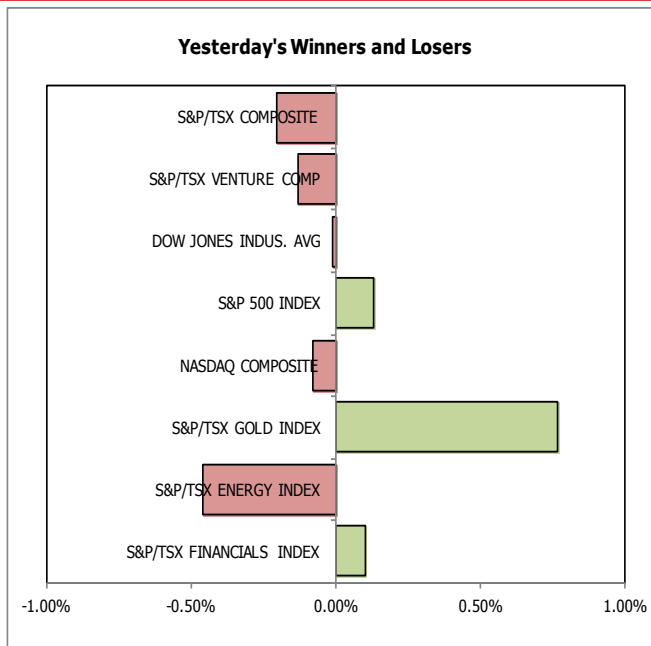
**MORNING OUTLOOK**

OCTOBER 29, 2013

World Indices - As of Last Close	Price (\$)	1 Day Change %	MTD Change %	YTD Change %	1 Year Change %
DOW JONES INDUS. AVG	15,568.93	-0.01	2.90	18.81	18.78
S&P 500 INDEX	1,762.11	0.13	4.79	23.55	24.80
NASDAQ COMPOSITE	3,940.13	-0.08	4.47	30.49	31.87
S&P/TSX COMPOSITE	13,371.84	-0.21	4.57	7.55	8.60
S&P/TSX 60 INDEX	849.55	-0.22	4.83	7.64	8.87
S&P/TSX ENERGY INDEX	2,856.91	-0.46	2.72	7.62	6.06
S&P/TSX GOLD INDEX	1,645.51	0.77	6.69	-34.65	-42.11
S&P/TSX FINANCIALS INDEX	2,009.67	0.10	4.90	14.46	20.22
S&P/TSX VENTURE COMP	972.31	-0.13	3.31	-20.39	-24.71
FTSE 100 INDEX	6,755.73	0.44	4.54	14.55	16.58
CAC 40 INDEX	4,251.61	-0.48	2.61	16.77	24.72
DAX INDEX	8,994.47	0.18	4.66	18.16	24.87
NIKKEI 225	14,396.04	2.19	-0.41	38.49	61.22
HANG SENG INDEX	22,806.58	0.48	-0.23	0.66	6.02
Shanghai	2,133.87	-2.26	-1.88	-5.96	3.64
S&P/ASX 200 INDEX	5,415.50	-0.48	3.77	16.49	20.97

Commodity Spot Prices	Market Price @ 6:35am	Current Change %	MTD Change %	YTD Change %	1 Year Change %
GOLD	1,352.20	-0.02	1.90	-19.31	-20.86
SILVER	22.54	-0.45	3.82	-25.44	-29.00
COPPER	3.27	0.00	-1.63	-10.50	-6.45
ZINC	0.87	1.50	2.48	-5.48	7.73
URANIUM	34.80	0.29	-1.28	-19.54	-19.07
CRUDE	98.68	0.85	-3.57	7.47	15.36
BRENT	109.61	2.51	0.60	-0.91	0.90
NATURAL GAS	3.74	-3.78	5.03	11.11	-4.91

Source: Capital IQ, M Partners



Source: Capital IQ

**COMPANY NEWS: New Zealand Energy Corp. (NZ – TSXV, \$0.395 | BUY \$0.70)** announced it closed the acquisition of the Origin assets and raised \$16.1 million through a private placement ahead of their \$15 million target. NZEC now owns a 50% interest in the Tariki, Waihapa and Ngaere petroleum mining licences in the Taranaki Basin, as well as the Waihapa production station and associated gathering and sales infrastructure. NZEC is the operator of a 50/50 joint venture with L&M Energy Ltd. to explore, develop and operate the newly acquired assets. The new properties offer immediate production and cash flow potential from existing wells, and significant exploration potential across multiple horizons. Disclosure: 2, 6

**INDUSTRY NEWS: GoldQuest Mining Corp. (GQC – TSXV, \$0.28 | N/R)** announced a maiden NI 43-101 compliant resource estimate on its 100% owned Romero deposit in the Dominican Republic including an indicated resource of 2.4 million ounces AuEq and inferred resource of 0.8 million ounces AuEq. The low variability of the gold grade of the deposit and concentrated drilling density near the core of the deposit placed 75% of the contained metal occurring within the higher confidence indicated category. The company believes there is potential for underground bulk mining at Romero. Disclosure: None

**PetroNova Inc. (PNA – TSXV, \$0.295 | N/R)** announced spud of its first exploration well on the PUT-2 Block located in Colombia's Putumayo Basin. The well will be drilled directionally from a three-well surface pad and the expected drilling time to reach total depth of 10,300 feet is approximately 45 days. The company currently holds a 75% working interest in the block with the remaining 25% held by Suroco Energy. Disclosure: None

**Temple Hotels Inc. (TPH – TSX, \$5.90 | N/R)** acquired a 106 suite extended-stay property in Yellowknife, NWT, adjacent to Stanton Territorial Hospital and in close proximity to the Yellowknife Airport for \$21.68 million. The property's extended-stay occupancy and average daily rate for 2013 year-to-date were 69% and \$160, respectively, translating into a RevPar of \$110. Including new construction and refurbishment, the total investment in the property of \$26.48 million represents an estimated capitalization rate of 11.6% based on 2015 forecasted net income. Disclosure: None

**ECONOMIC DATA FOR OCTOBER 29, 2013**

**U.S.** – Retail Sales, Retail Sales ex-auto, PPI, Core PPI, Case-Shiller 20-city Index, Business Inventories, Consumer Confidence  
**CDN** – Industrial Product Price, Raw Materials Price Index

**EARNINGS FOR OCTOBER 29, 2013**

Alacer Gold Corp. (ASR), First National Financial Corp. (FN), Genworth MI Canada Inc. (MIC), MGM Energy Corp. (MGX), New Gold Inc. (NGD), Thomson Reuters Corp. (TRI), Yamana Gold Inc. (YRI)

M Partners produces this publication and it does not constitute a research report. Any reference to a research report or a recommendation is not intended to represent the whole report and is not itself a research report or recommendation. This commentary is for informational purposes only and does not contain investment advice. M Partners does not and may not choose to provide continuous research coverage. We may not provide a formal recommendation or target price.

October 29, 2013

**ENTERPRISE GROUP, INC. (E-TSX, \$0.83)**

Rating: BUY  
12-Month Target: \$2.05

**Q3/13 PREVIEW ~ ACQUISITIONS & ORGANIC GROWTH TO DRIVE RESULTS**

ENTERPRISE GROUP, INC.		TSX : E	
<i>(Currency is C\$ unless noted otherwise)</i>			
Closing Price October 28, 2013			\$0.83
12 Month Target Price			\$2.05
Dividend (annual)			\$0.00
Dividend Yield			0.0%
Potential Total Return			147.0%
52 Week Range		\$0.20 - \$0.89	
Average Daily Volume (100-Day)			437,100
<b>MARKET INFO</b>			
Market Cap (millions)			\$74.5
Enterprise Value (millions)			\$91.5
Shares O/S (000's)			79,192
Fully Diluted (000's)			89,807
<b>FYE: DEC 31</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>
Revenue (millions)	\$18.5	\$39.0	\$65.3
Revenue Growth (%)	3.5%	110.7%	67.4%
EBITDA (millions)	\$4.4	\$14.2	\$26.9
EBITDA Margin (%)	23.5%	36.5%	41.3%
Fully Diluted EPS	\$0.04	\$0.12	\$0.17
Cash (millions)	\$1.2	\$3.9	\$6.1
Total Debt (millions)	\$13.2	\$16.8	\$12.3
<b>VALUATION</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>
EV / EBITDA	9.2x	6.4x	3.4x
P/E (tax adjusted basis)	16.1x	9.7x	4.9x
Website: www.enterprisegrp.ca			
<b>DISCLOSURE:</b>	5, 6		
<i>(Please refer to the applicable disclosures that are listed on the back page)</i>			

Source: Thomson One, M Partners

**EVENT:** Enterprise Group, Inc. is expected to report its Q3/13 results before the markets open on November 12 2013. The company does not host a conference call but will be talking to management subsequent to the release.

- It should be noted that **M Partners is the only firm providing research coverage on Enterprise Group.** There are no consensus estimates for the quarter as the M Partners estimates are the only estimates for the quarter.
- For Q3/13,** we are expecting Enterprise Group to report **fully diluted EPS** of \$0.03. The year-over-year increase in earnings is attributable to the acquisition of Calgary Tunnelling & Horizontal Augering Ltd. (CTHA), higher revenue driven by the organic growth at TC Backhoe and the creation of its equipment rental business, E One; no material contribution is expected from Artic Therm in this seasonally weak quarter.

Quarter-end Q3/13	Last Year	M Partners	Consensus
(in C\$ millions, except EPS)	in Q3/12	Estimates	Estimate
Revenue	\$ 4.34	\$ 12.21	
Gross Profit	\$ 1.57	\$ 5.20	No
<i>Gross Profit Margin</i>	<i>36.3%</i>	<i>42.6%</i>	
EBITDA	\$ 0.86	\$ 3.40	Consensus
<i>EBITDA Margin</i>	<i>19.8%</i>	<i>27.9%</i>	
EBIT	\$ 0.49	\$ 2.58	Estimates
Net Income	\$ 0.07	\$ 2.35	
EPS - fully diluted, adjusted	\$ 0.00	\$ 0.03	

Source: M Partners, Bloomberg

- Revenue** in Q3/13 is expected to increase to \$12.21 million, up from \$4.34 million in Q3/12. Revenue will be driven higher with the addition of CTHA, which we estimate will add \$4.66 million of incremental revenue in the quarter, new contracts & territories at TC Backhoe and the ramp up of E One.
- Gross Profit** in Q3/13 is expected to increase to \$5.20 million, up from \$1.57 million in Q3/12. Our **Gross Margin** estimate is 42.6% versus 36.3% in Q3/12 reflecting a shift in revenue mix, the addition of CTHA and the exiting of certain low margin businesses.
- EBITDA** in Q3/13 is expected to increase to \$3.40 million, up from \$0.86 million in Q3/12. Our **EBITDA margin** estimate is 27.9% versus 19.8% in Q3/12. The expected improvement in EBITDA margin versus last year is due to a shift in revenue mix to higher margin businesses and the addition of CTHA.
- EBIT** is expected to reach \$2.58 million in Q3/13, up from \$0.49 million in Q3/12. The improvement in EBIT is expected to be driven by the higher revenue and the stronger gross & EBITDA margins expected in Q3/13 as discussed above.
- We believe higher utilization rates at E One, the expansion of territories at TC Backhoe and the addition of CTHA will provide for strong results in Q3/13 for Enterprise Group. This should provide a near term catalyst for what we believe is a "show me" stock at this stage.
- Beyond the quarter, more and more companies are announcing plans to move ahead with pipeline projects (Enbridge's Woodland Pipeline extension and TransCanada's Energy East Pipeline project are but two examples) and we believe Enterprise Group is well positioned to participate in these pipeline projects that are expected to be built over the next five years. Please refer to our note titled, **TRANSFORMATIVE ACQUISITION CLOSES ~ SIGNIFICANT GROWTH EXPECTED**, that was published on June 18, 2013 for a list of planned pipeline projects.



**COMPANY DESCRIPTION**

Enterprise Group Inc. (E-TSX) is a diversified construction, utilities and oilfield services company with 3 operational business segments: TC Backhoe & Directional Drilling (which includes Calgary Tunnelling & Horizontal Augering Ltd.), Artic Therm and E One Limited. Enterprise Group operates in western Canada with most of their revenue derived from the Province of Alberta. Enterprise Group is also a consolidator of similar businesses in western Canada which adds a growth by acquisition aspect to its organic growth strategy.

## DURING THE QUARTER

On **August 14, 2013**, Enterprise Group announced it had closed on the previously announced acquisition of **Calgary Tunnelling & Horizontal Augering Ltd. (CTHA)** with an effective date of June 14, 2013; the Letter of Intent (LOI) to purchase was signed on February 28, 2013. For the year ended 2012, CTHA generated \$14.9 million of revenue, \$5.8 million EBITDA and an estimated \$0.04 to \$0.05 of fully diluted EPS (EPS is an M Partners estimate using Enterprise Group's shares). The purchase price of the transaction was \$12 million which was funded by cash, debt financing (as detailed above) and \$1 million in vendor take-back financing to be paid over two years. We believe this acquisition is transformative and impactful to Enterprise Group as it has the potential to immediately increase Enterprise Group's revenue and EBITDA by about 50%. Furthermore, management has indicated that it expects CTHA can generate \$22 million to \$25 million of revenue in a year's time. We are forecasting a \$23.6 million revenue contribution from CTHA in 2014, generating \$9.5 million of EBITDA (40.5% EBITDA margin) and \$0.07 of fully diluted EPS.

Given the financial information provided by Enterprise Group, we believe that CTHA generated \$5.1 million of revenue in May and June of 2013 (the acquisition was initially scheduled to close with an effective date of May 1, 2013) which was well ahead of our \$3.7 million estimate for the same period. Furthermore, on **September 17, 2013**, the company disclosed that since the closing of the CTHA acquisition on June 14, 2013, CTHA had backlogged and completed approximately \$8.4 million in project construction, including over \$2.5 million in pipeline related projects. For 2H/13, we are forecasting \$10.6 million of revenue from CTHA so with 79% of this already accounted for, we are confident Enterprise will at the very least hit our CTHA estimates and are increasingly confident that Enterprise Group has CTHA on track to grow to a \$22 million to \$25 million business by the end of next year. As stated above, for 2014, we are forecasting \$23.6 million of revenue from CTHA.

On **September 17, 2013**, Enterprise Group did provide further updates to its other business which included:

- an update to the current backlog at **TC Backhoe** which now includes nearly \$4 million in underground subdivision projects which equates to over 600 new residential lots. The power line crews at TC Backhoe have backlogged a further \$3.5 million in projects with much of it relating to new construction of power distribution to many of the upgrading facilities being built in the greater Edmonton region. We are forecasting \$8.3 million of revenue from TC Backhoe in 2H/13; with \$7.5 million in its backlog, we are again confident of our 2H/13 estimates and with the outlook for this business segment in 2014 where we are forecasting \$15.8 million of revenue.
- an update to Artic Therm's capital expenditure plan for 2013. **Artic Therm** had taken delivery of three of the six newly built 3.0 million BTU truck units. The remaining trucks are scheduled to be delivered prior to the end of December 2013 which at that time, will bring the high output truck fleet (1.5 million to 3.0 million BTU trucks) to a total of ten trucks. These trucks charge out at \$15,000 per day in peak season with a four-man operating crew. We are assuming full utilization of all ten trucks in 2014 (defined as being rented for 120 days per year) at an average rate of \$14,250 per day.
- an update on this summer's increase in utilization of its heavy equipment rental fleet. Enterprise Group's **E One** business segment was operating at approximately 85% utilization (as of September 17, 2013) which is nearly 30% higher than the same period in 2012. We are currently modelling a utilization rate of 70% for 2013 (on a full year basis), increasing to 75% in 2014. Again with E One's performance through the first three quarters of 2013, we are again confident that E One will hit our estimates both this year and next.

On **September 24, 2013**, Enterprise Group announced that it had retained A.B. Korelin & Associates Inc. of Blaine, Washington, to assist the Enterprise Group in its preparation and submission of the company's Form 20-F registration statement with the Securities and Exchange Commission. The filing of the Form 20-F in the United States will increase Enterprise Group's exposure to stockbrokers and investors in the United States and will provide analysts, brokers and institutions in the United States increased confidence that the company is registered with the SEC which should assist them in discussing the company with American residents. Once the Form 20-F becomes effective with the SEC, Enterprise Group will become a full reporting issuer in the United States. While the press release states that Enterprise Group will also "consider the advantages of listing on one of the U.S. exchanges," management has indicated that it currently has no plans for such a listing and that consideration for such a listing will occur further into the future, in the mid- to longer term.

## AFTER THE QUARTER

On **October 25, 2013**, Enterprise Group announced that it had won two contracts, a \$3 million / 20 month contract at TC Backhoe and a \$2 million contract at CTHA.

The TC Backhoe contract is worth more than \$3 million and was awarded by one of North America's largest pipeline and natural gas storage companies. This Hydro-Vac project has an immediate start date with the work expected to be completed over the next 20 months in Northern Alberta. In order to accommodate this contract as well as future growth, Enterprise Group has ordered eight Hydro-Vac units, which doubles the capacity of its existing fleet. TC Backhoe will take delivery of two new units immediately with the balance to be delivered in Q1/14.

The second contract was awarded to CTHA which adds approximately \$2 million to its \$8.4 million backlog of construction projects, includes a contract with one of Canada's largest railway providers. This project has an immediate start date and we are assuming the contract will be completed in 2014.

The TC Backhoe contract is worth \$1.8 million in revenue in 2014 and we are estimating the CTHA contract is worth approximately \$1.8 million in 2014 as well. Assuming a 40% EBITDA margin, we believe these contracts are worth \$1.44 million of EBITDA and about a \$0.01 of fully diluted EPS in 2014. We believe these contracts increase our visibility into 2014 and helps backstop our 2014 estimates and valuation. For 2014, we are modeling \$65.3 million of revenue, \$26.9 million of EBITDA and \$0.17 of fully diluted EPS for Enterprise Group on a consolidated basis.

---

**RECOMMENDATION**

With Enterprise Group currently trading at 4.9x on a forward P/E basis and 3.4x on a EV/2014 EBITDA basis, we believe this is a compelling buying opportunity for investors in advance of Enterprise Group announcing its Q3/13 results which are due out during the first two weeks of November. With Enterprise Group very much being a "show me" story, we believe solid Q3/13 results will be a catalyst for the stock given its current low valuation.

We are maintaining our BUY recommendation and our 12-month target price of \$2.05 on Enterprise Group.

Our valuation is based on a 12.0x P/E multiple applied to our 2014 EPS of \$0.17 which translates into a 7.0x EV/2014 EBITDA multiple.

With Enterprise Group trading at 4.9x on a 2014 P/E basis and 3.4x on a EV/2014 EBITDA basis, we continue to note that Enterprise Group is trading at a valuation discount compared to its peers as the current valuation does not, in our opinion, accurately reflect the CTHA acquisition, the organic growth expected in 2013 and 2014, the Artic Therm acquisition and the investment made (and being made) in Artic Therm to expand the business.

We note that the comparable group is trading at an average forward P/E multiple of 11.5x (6.1x on an EV/2014 EBITDA basis). At the low end of the multiple range, there is a cluster of companies that are trading at 7.3x to 8.0x on a forward P/E basis (3.5x to 4.3x on an EV/2014 EBITDA basis). Whether we use the average consensus multiple, our valuation multiple, or the lower end of the valuation multiples, it is clear that Enterprise Group is currently undervalued.

Also note that we are not applying a micro-cap discount to our valuation multiple as we believe Enterprise Group will cross the \$100 million market capitalization threshold in the short-term as it proves out both the CTHA acquisition as well as the Artic Therm acquisition and the subsequent expansion of that business. Thus we are using the same valuation multiples to value Enterprise Group as we are using to value the other infrastructure companies in our research coverage universe.

# M | PARTNERS

100 Wellington Street West  
Suite 2201  
Toronto, Ontario  
M5K 1K2  
Canada  
416-603-4343

As a full-service investment bank, M Partners' first priority lies in the financial satisfaction of its clients. In keeping with the firm's self-imposed high standards, M Partners' approach to investment is anything but standardized. Aiming to create new opportunities and ideas for clients rather than steering them towards typical investment outlets, M Partners has adopted a keen strategy of focused and relevant research. Such knowledge-driven efforts, coupled with the ample skills of the firm's management, produces successful services ranging from account management to advisory engagements.

M Partners received Investment Industry Regulatory Organization of Canada (IIROC) approval on April 14th 2005 and trades under broker number 97. The team currently has 30 members of varying degrees of financial experience, including principals Thomas Kofman and Steve Isenberg, who have a combined 45 years of financial experience and are well known in the field. This backbone of strong leadership will help chart the firm's course into the future. M Partners will be focuses on a number of verticals, including mining, oil and gas, information technology, real estate, financial services, industrials, infrastructure, merchandising and consumer products, and other special situations.

M Partners has strong financial backers who have extensive capital markets experience. The firm is a member of IIROC, a participating member of the Toronto Stock Exchange, The TSX Venture Stock Exchange, PURE, CHI-X, OMEGA, TMX and the Canadian Investor Protection Fund (CIPF).

M Partners does not make a market for an equity or equity related security of the subject issuer.

## Disclosure

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein.

Disclosure codes are used in accordance with Policy 3400 of IIROC.

## Description of Possible Disclosure Codes

1. M Partners or its affiliates collectively beneficially own 1% or more of any class of equity securities of the company which is the subject of the research report.
2. The analyst or any associate of the analyst responsible for the report or public comment hold shares in the company.
3. M Partners or a director or officer of M Partners or any analyst provided services to the company for remuneration other than normal investment advisory or trade execution services within the preceding 12 months, (may seek compensation for investment banking services from the company herein within the next 3 months).
4. The director, officer, employee or research analyst is an officer, director or employee of the company, or serves in an advisory capacity to the company.
5. The analyst has viewed the material operations of the company. We define material operations as an issuer's corporate head office and its main production facility or a satellite facility that is representative of the company's operations.
6. M Partners provided investment banking services for the company during the 12 months preceding the publication of the research report
7. The analyst preparing the report received compensation based upon M Partners investment banking revenues for this issuer

## Dissemination

All final research reports are disseminated to institutional clients of M Partners simultaneously in electronic form. Hard copies will be disseminated to any client that has requested to be on the distribution list of M Partners. Reproduction of this report in whole or in part without permission is prohibited.

## Research Analysts

The Research Analyst(s) who prepare this report certify that their respective report accurately reflects his/her personal opinion and that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views as to the securities or companies. M Partners compensates its research analysts from a variety of sources and research analysts may or may not receive compensation based upon M Partners investment banking revenue.

Rating System	
Buy:	Price expected to rise
Hold:	Properly priced
Sell:	Price is inflated and expected to decrease
Under Review:	Not currently rated

Summary of Recommendations (as of July 2, 2013)		
Buy	52	93%
Hold	4	7%
Sell	0	0%
Total	56	100%