



Civeo Corp (CVEO)

Raise 2021-2023 Free Cash Flow Estimates As We Expect Continued Recovery In Canadian Market, But Australia Remains Weak; Maintain \$30 Price Target Highlighting Improving Balance Sheet

	2020	2021E		2022E		2023E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	(\$0.17)	(\$0.70)A		(\$0.26)	(\$0.30)	(\$0.14)	(\$0.06)
June	0.10	(0.03)A		0.43	0.50	0.54	0.59
Sep.	0.46	0.35	0.00A	0.52	0.36	0.65	0.54
Dec.	(0.16)	(0.20)	(0.01)	(0.20)	(0.14)	(0.06)	0.00
EPS	\$0.23	(\$0.57)	(\$0.74)	\$0.51	\$0.44	\$1.00	\$1.07
P/E					52.2x		21.5x
FCF per share	\$6.34	\$4.36	\$5.35	\$3.70	\$3.78	\$4.75	\$4.79
P / FCF					6.1x		4.8x

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. EPS may not add due to rounding. 2019 excludes \$1.89 in impairment and transaction costs. 2020 excludes \$10.20 in impairment costs and income of \$0.33 from the settlement of warranties. 2020-2023E exclude share-based compensation of \$0.18, \$0.19, \$0.20 and \$0.20, respectively. *EPS including amortization expense.

Year	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Rev.(Mil.)	N/A	\$518.0	\$397.2	\$382.3	\$466.7	\$527.6	\$529.7	\$577.5	\$622.8	\$644.1
GAAP EPS*	N/A	(\$14.83)	(\$10.81)	(\$9.88)	(\$10.06)	(\$4.33)	(\$9.64)	(\$0.74)	\$0.44	\$1.07

* Oil States International (NYSE: OIS, NC) completed the spinoff of CVEO on June 2, 2014.

Description: Civeo Corporation (www.civeo.com) offers workforce accommodation to the natural resource industry in Canada, Australia and the U.S. In Canada, the company primarily caters to customers in the Canadian Oil Sands and offers mobile accommodation services to customers in various pipeline projects. In Australia, CVEO's core markets include supporting met coal producers in the Bowen Basin and iron ore producers in Western Australia. Headquarters are in Houston, TX.

- **We raise our 2021-2023 free cash flow per share estimates to \$5.35, \$3.78 and \$4.79 (from \$4.36, \$3.70 and \$4.75), respectively, as we expect continuing improvement in the Canadian market.**
- **We expect strengthening turnaround activity in 2022 and 2023 on reduced COVID restrictions and higher crude prices.**
- **Despite met coal prices reaching record levels, ongoing COVID restrictions and the China-Australia trade dispute have limited growth while pressuring labor costs.**
- **Although U.S. drilling activity has improved from pre-COVID levels, pricing has remained under pressure as E&Ps seek to manage costs.**
- **Revenue in 3Q:2021 was in line with our estimate, but higher costs in Australia and still-weak U.S. activity resulted in a breakeven quarter where we estimated EPS of \$0.35.**
- **Net leverage declined to 1.9x (from the year-earlier 2.3x) as the company reported free cash flow per share of \$2.14 on limited cap-ex and tight working capital management; we model net leverage declining below the target 1.5x by early 2022.**
- **Our Moderately Risky rating reflects strong cash conversion rates, declining leverage and the healthy commodity price environment.**
- **We maintain our \$30 price target, which is based on an unchanged 8x our raised 2022 free cash flow per share estimate of \$3.78 (was \$3.70). The multiple is consistent with the 8x forward P/E for Civeo and its peers over the last five years.**

We raise our free cash flow estimates on the expected strengthening of Canadian activity. Canadian revenue rose 17% year over year to \$84.1 million in 2Q:21 on improving turnaround activity. However, occupancy levels are still about half those of pre-COVID peaks on labor shortages and reduced spending. We expect healthier crude prices to drive up occupancy rates in 2022-2023. Mobile camp activity should remain strong, potentially into 2023, on completion of the Trans Mountain and Coastal GasLink (CGL) pipelines. The China-Australia trade dispute continues to limit growth despite record met coal prices. But as

NR

Price Target: \$30

Price: \$22.96

Risk Rating: M

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Key Statistics

Analysts Covering	2
Market Cap (Mil)	\$330
Enterprise Value	\$628
52-Week Range (NYSE)	25-8
5-Year EPS CAGR	10%
Avg. Daily Trading Volume	32,000
Shares Out (Mil)	14.316
Float Shares (Mil)	11.858
Insider Ownership	19%
Institutional Holdings	60%
Annualized Dividend	Nil
Dividend Yield	N/A
FCF Per Share (2023E)	\$4.79
FCF Yield (2023E)	20.9%
Net Cash Per Share (2023E)	(\$2.71)
Price to Book Value	1.1x
Return on Equity (2023E)	4.9%
Total Debt to Capital	40%
Interest Coverage Ratio	3.0x
Short Interest %	0.2%
Short Interest Days To Cover	0.8
Russell 2000	2,298
Russell 2000 – Last 12 Months	48.9%
CVEO – Last 12 Months	141.8%



Source: FactSet Prices

Australian met coal has found new destinations in Japan, South Korea and India, we expect an eventual pickup in larger projects. Increasing vaccination rates should also ease foreign workers' access to that market; labor shortages have driven up costs in 2021. We model respective higher FCF per share of \$5.35, \$3.78 and \$4.79 (previously \$4.36, \$3.70 and \$4.75) in 2021-2023. We lower our 2022 EPS estimate to \$0.44 (from \$0.51) on slower improvement in Australia but raise our 2023 estimate to \$1.07 (from \$1.00) as we expect the benefit of strengthening activity in Canada and Australia, while noting that Civeo will likely need to find new opportunities as CGL and Trans Mountain work winds down.

Revenue improved more than 8% year over year in 3Q:21 nearly matching our projection. Canadian revenue improved 17% on reduced COVID restrictions and increased turnaround and pipeline activity. Australian revenue was essentially flat given ongoing customer hesitancy due to the still-unresolved China-Australia trade dispute, despite record met coal prices, and limited access to foreign workers. U.S. revenue declined nearly 8% despite a pickup in drilling activity as pricing remains pressured by budget conscious E&Ps. The breakeven quarter was below our EPS estimate of \$0.35 on higher SG&A and Australian costs. In the year-ago quarter, Civeo also benefited from \$3.6 million in Canadian government COVID-related subsidies.

The balance sheet is improving while the company completed a debt refinancing and announced a share repurchase authorization during the just-completed quarter. Given healthy free cash flow, the company has reduced debt by more than \$100 million over the last five quarters while lowering net leverage to 1.9x (from 2.5x as of June 2020). Civeo replaced its previous credit agreement in September, extending the maturity by four years to 2025 and in August, announced that its board had authorized a 5% share buyback authorization, the maximum permissible under Canadian securities law for normal course issuer bids. The board authorized the repurchase of up to 715,000 shares through August 2022. At the current share price, the repurchase would total about \$16.4 million. We anticipate that Civeo could explore additional ways to return capital to shareholders or consider tuck-in acquisitions, particularly in Australia. We note the significant growth in Australian EBITDA from the \$17 million acquisition of Action Catering in 2019.

Exhibit 1: Civeo Corporation Quarterly Variance Table

	<u>3Q:21 Actual</u>	<u>3Q:21 Estimate</u>	<u>Variance (\$)</u>	<u>Variance (%)</u>	<u>3Q:20 Actual</u>	<u>YoY Change</u>	<u>% Change</u>
Revenue (thou.)	\$155,063	\$156,976	(\$1,913)	-1.2%	\$142,857	\$12,206	8.5%
Canada	84,057	84,937	(880)	-1.0%	71,785	12,272	17.1%
Australia	65,118	65,163	(45)	-0.1%	64,685	433	0.7%
United States	5,888	6,876	(988)	-14.4%	6,387	(499)	-7.8%
Operating income	6,010	8,868	(2,858)	NM	7,090	(1,080)	-15.2%
Profit margin	3.9%	5.6%			5.0%		
EBITDA	26,178	30,045	(3,867)	-12.9%	36,018	(9,840)	-27.3%
Adjusted EPS	\$0.00	\$0.35	(\$0.35)	NM	\$0.46	(\$0.45)	-99.1%

Sources: Company reports and Sidoti & Company, LLC estimates

Valuation	We maintain our \$30 price target, which is based on 8x our raised 2022 free cash flow per share estimate of \$3.78 (formerly \$3.70). We note that Civeo and peers have traded at about 8x forward free cash flow over the last five years. We could consider a higher multiple in view of the continued improvement in the balance sheet and stable cash flow. We could also reconsider our EPS and cash flow estimates if rising met coal prices result in stronger Australian activity.		
Key Risks	COVID-19	China/Australia trade dispute	Push for green energy

CIVEO CORP

Table 1. Civeo Corporation Income Statement

(\$s in thousands, except per share data)

	2020	Mar A	Jun A	Sept A	Dec E	2021E	Mar E	Jun E	Sept E	Dec E	2022E	Mar E	Jun E	Sept E	Dec E	2023E
Revenue																
Canada	269,649	61,885	83,281	84,057	74,907	304,130	75,818	95,711	83,608	79,785	334,921	75,893	95,998	89,849	84,820	346,560
Australia	234,542	59,637	64,019	65,118	63,368	252,142	63,449	67,388	67,515	65,016	263,368	67,002	71,045	69,143	66,595	273,786
United States	25,538	3,908	6,876	5,888	4,593	21,265	4,299	7,564	6,477	6,200	24,539	4,170	7,337	6,282	6,014	23,803
Total revenue	529,729	125,430	154,176	155,063	142,868	577,537	143,566	170,663	157,599	151,000	622,828	147,065	174,380	165,275	157,429	644,149
Total	529,729	125,430	154,176	155,063	142,868	577,537	143,566	170,663	157,599	151,000	622,828	147,065	174,380	165,275	157,429	644,149
Costs & expenses																
Cost of sales & services	382,088	99,810	108,002	111,430	105,536	424,778	110,022	117,695	109,374	112,784	449,876	109,589	119,999	113,605	116,945	460,138
SG&A	53,656	14,181	14,703	17,320	15,195	61,399	15,010	19,855	17,919	17,164	69,948	15,184	19,966	18,374	17,526	71,050
Depreciation and amortization	96,547	21,269	21,377	20,282	20,282	83,210	20,282	20,282	20,282	20,282	81,128	20,282	20,282	20,282	20,282	81,128
Impairment	0					0					0					0
Other operating expense	506	71	7,935	21		8,027					0					0
Total operating expenses	532,797	135,331	152,017	149,053	141,014	577,415	145,314	157,832	147,575	150,230	600,952	145,055	160,247	152,261	154,753	612,316
	-3.1%	-5.9%	30.4%	9.8%	3.1%	8.4%	7.4%	3.8%	-1.0%	6.5%	4.1%	-0.2%	1.5%	3.2%	3.0%	1.9%
		-1.0%	12.3%	-1.9%	-5.4%		3.0%	8.6%	-6.5%	1.8%		-3.4%	10.5%	-5.0%	1.6%	
Operating income	(3,068)	(9,901)	2,129	6,010	1,854	92	(1,748)	12,831	10,024	770	21,876	2,010	14,132	13,014	2,676	31,833
Adjusted EBITDA	108,142	16,223	32,232	26,178	23,636	97,269	18,034	32,613	29,806	20,552	101,004	21,792	33,914	32,796	22,458	110,961
Other income/expense																
Interest expense	(16,687)	(3,362)	(3,401)	(3,166)	(2,564)	(12,493)	(2,424)	(2,284)	(2,144)	(2,004)	(8,857)	(1,864)	(1,724)	(1,584)	(1,444)	(6,617)
Loss on debt extinguishment	(383)			(416)		(416)										
Interest income	20		2			2										
Other income	16,133	4,914	788	364	2,000	8,066										
Pretax income	(3,985)	(8,349)	(482)	2,792	1,290	(4,749)	(4,173)	10,546	7,880	(1,234)	13,019	146	12,408	11,430	1,232	25,216
Income tax (expense) benefit	10,635	(1,076)	492	(1,770)	(516)	(2,870)	835	(2,109)	(1,576)	247	(2,604)	(29)	(2,482)	(2,286)	(246)	(5,043)
Net income (loss)	6,650	(9,425)	10	1,022	774	(7,619)	(3,338)	8,437	6,304	(987)	10,415	116	9,927	9,144	986	20,173
Non-controlling interest	1,470	59	(3)	478	500	1,034	500	500	500	500	2,000	500	500	500	500	2,000
Net income (loss) attrib. CVEO Corp.	5,180	(9,484)	13	544	274	(8,653)	(3,838)	7,937	5,804	(1,487)	8,415	(384)	9,427	8,644	486	18,173
Dividends attributable to Class A preferred	1,887	478	480	482	479	1,919	480	480	480	480	1,920	480	480	480	480	1,920
Net income (loss) attrib. CVEO common	3,293	(9,962)	(467)	62	(205)	(10,572)	(4,318)	7,457	5,324	(1,967)	6,495	(864)	8,947	8,164	6	16,253
EPS:																
Basic	0.23	(0.70)	(0.03)	0.00	(0.01)	(0.74)	(0.30)	0.52	0.37	(0.14)	0.45	(0.06)	0.61	0.56	0.00	1.11
Diluted	0.23	(0.70)	(0.03)	0.00	(0.01)	(0.74)	(0.30)	0.50	0.36	(0.14)	0.44	(0.06)	0.59	0.54	0.00	1.07
Shares:																
Basic	14,149	14,211	14,265	14,306	14,354	14,284	14,403	14,452	14,499	14,547	14,475	14,596	14,645	14,693	14,742	14,669
Diluted	14,129	14,211	14,278	14,361	14,354	14,301	14,403	14,524	14,571	14,547	14,511	14,596	14,718	14,767	14,816	14,724
Growth analysis:																
Revenue	0.4%	-9.6%	34.4%	8.5%	7.1%	9.0%	14.5%	10.7%	1.6%	5.7%	7.8%	2.4%	2.2%	4.9%	4.3%	3.4%
EBITDA	-0.4%	-20.2%	14.7%	-27.3%	-0.3%	-10.1%	11.2%	1.2%	13.9%	-13.0%	3.8%	20.8%	4.0%	10.0%	9.3%	9.9%
Margin analysis:																
Operating	-0.6%	-7.9%	1.4%	3.9%	1.3%	0.0%	-1.2%	7.5%	6.4%	0.5%	3.5%	1.4%	8.1%	7.9%	1.7%	4.9%
EBITDA	20.4%	12.9%	20.9%	16.9%	16.5%	16.8%	12.6%	19.1%	18.9%	13.6%	16.2%	14.8%	19.4%	19.8%	14.3%	17.2%

Sources: Company reports and Sidoti & Company, LLC.

Table 2. Civeo Corporation Cash Flow Statement

(\$s in thousands, except per share data)

	Mar	Jun	Sept	Dec	2020	Mar A	Jun A	Sept A	Dec E	2021E	2022E	2023E
Cash flows from operating activities:												
Net income	(145,812)	6,829	7,423	(1,220)	(132,780)	(9,425)	10	1,022	774	(7,619)	10,415	20,173
Adjustments:												
Depreciation & amortization	25,502	22,205	24,820	24,020	96,547	21,269	21,377	20,282	20,282	83,210	81,128	81,128
Impairment charges	144,120	0	0	0	144,120		7,935			7,935	0	0
Loss on debt extinguishment		0	383	0	383			416		416	0	0
Deferred income tax	(8,941)	0	0	(2,181)	(11,122)	1,041	(625)	1,689		2,105	0	0
Non-cash compensation charge	2,208	1,331	1,265	1,262	6,066	1,027	871	1,035		2,933	0	0
Gain on asset disposal	(21)	(1,798)	(762)	(324)	(2,905)	(1,902)	(39)	(364)		(2,305)	0	0
Loss (benefit) on receivables	54	(29)	20	(1)	44	193	(46)	8		155	0	0
Other, net	693	(3,933)	510	(143)	(2,873)	716	767	953		2,436	0	0
Working capital:												
Accounts receivable	(1,496)	11,727	(4,876)	8,324	13,679	1,806	(26,423)	3,101	(4,807)	(26,323)	(4,915)	(3,441)
Inventories	(740)	(1,155)	2,089	(23)	171	(526)	(304)	637	(3,912)	(4,105)	(871)	(463)
Accounts payable & accrued liabs.	6,280	(10,863)	5,830	5,643	6,890	(5,287)	4,724	10,399	2,298	12,134	(2,378)	1,664
Taxes payable	133	118	(200)	(185)	(134)	51	(30)	40	0	61	0	0
Other asstes/liabs, net	(1,143)	49	(1,145)	1,514	(725)	3,854	8,316	(5,327)	16,362	23,205	319	(704)
Operating cash flow	20,837	24,481	35,357	36,686	117,361	12,817	16,533	33,891	30,997	94,238	83,699	98,358
Cash flows from investing												
CAPEX	(2,651)	(1,196)	(2,397)	(3,839)	(10,083)	(3,372)	(3,158)	(3,115)	(8,000)	(17,645)	(29,000)	(28,000)
Acquisitions, net of cash		0	0	0						0	0	0
Disposal of PPE	72	1,825	1,439	354	3,690	6,651	361	533		7,545	0	0
Other , net		4,619	0	0	4,619					0	0	0
Investing cash flow	(2,579)	5,248	(958)	(3,485)	(1,774)	3,279	(2,797)	(2,582)	(8,000)	(10,100)	(29,000)	(28,000)
Financing cash flows												
Revolving credit borrowings	74,287	48,033	202,291	(324,611)	0					0	0	0
Revolving credit payments	(80,367)	(67,583)	(221,172)	298,812	(70,310)	(6,691)	(5,413)	74,578		62,474	0	0
Term loan repayments, net	(8,109)	(8,442)	(14,541)	(8,763)	(39,855)	(8,872)	(9,002)	(99,721)	(10,000)	(127,595)	(40,000)	(40,000)
Debt issuance costs		0	(2,583)	0	(2,583)			(4,407)		(4,407)	0	0
Other, net	(1,442)	(16)	0	0	(1,458)	(1,120)		(445)		(1,565)	0	0
Financing cash flow	(15,631)	(28,008)	(36,005)	(34,562)	(114,206)	(16,683)	(14,415)	(29,995)	(10,000)	(71,093)	(40,000)	(40,000)
FX changes	(400)	32	1,233	578	1,443	(113)	(362)	(780)		(1,255)	0	0
Net change in cash	2,227	1,753	(373)	(783)	2,824	(700)	(1,041)	534	12,997	11,790	14,699	30,358
Beginning cash	3,331	5,558	7,311	6,938	3,331	6,155	5,455	4,414	4,948	6,155	17,945	32,644
Ending cash	5,558	7,311	6,938	6,155	6,155	5,455	4,414	4,948	17,945	17,945	32,644	63,001
Free cash flow	18,186	23,285	32,960	32,847	107,278	9,445	13,375	30,776	22,997	76,593	54,699	70,358
Free cash flow per share	1.08	1.37	1.94	1.94	6.34	0.66	0.94	2.14	1.60	5.35	3.78	4.79

Sources: Company reports and Sidoti & Company, LLC.

Table 3. Civeo Corporation Balance sheet

(\$s in thousands, except per share data)

	Mar	Jun	Sept	2020	Mar A	Jun A	Sept A	2021E	2022E	2023E
Assets										
Cash & equivalents	5,558	7,311	6,938	6,155	5,455	4,414	4,948	17,945	32,644	63,001
Accounts receivable	91,874	85,553	92,754	89,782	87,783	114,187	108,058	112,865	117,780	121,221
Inventories	6,050	7,683	5,775	6,181	6,677	6,958	6,089	10,001	10,872	11,335
Prepaid expenses	4,996	7,482	9,369	6,501	4,515	2,205	23,398	12,858	12,080	12,594
Other current assets	11,378	9,910	7,737	6,684	4,230	15,513	15,530	10,160	10,570	11,020
Assets held for sale	6,332			3,910				0	0	
Total current assets	126,188	117,939	122,573	119,213	108,660	143,277	158,023	163,829	183,945	219,171
PPE	465,087	486,815	481,394	486,930	468,961	442,819	399,962	387,680	335,552	282,424
Goodwill	6,909	7,778	8,086	8,729	8,601	8,474	8,125	8,125	8,125	8,125
Other intangible assets	98,944	100,423	98,907	99,749	99,269	98,967	94,680	94,680	94,680	94,680
Operating leases	21,558	21,065	20,426	22,606	22,338	21,445	19,265	19,265	19,265	19,265
Other non-current assets	837	563	1,550	3,626	2,349	2,705	3,987	3,987	3,987	3,987
Total Assets	719,523	734,583	732,936	740,853	710,178	717,687	684,042	677,566	645,554	627,652
Liabilities & stockholders' equity										
Accounts payable	43,258	35,168	37,116	42,056	42,336	43,956	45,193	47,491	45,114	46,778
Accrued liabilities	16,163	16,910	22,229	27,349	20,801	23,983	31,084	31,084	31,084	31,084
Income taxes	448	571	379	203	255	225	261	261	261	261
Current portion of LT debt	32,142	33,510	32,978	34,585	35,047	35,593	30,473	30,473	30,473	30,473
Deferred revenue	8,250	7,853	7,801	6,812	5,983	21,486	24,219	24,219	24,219	24,219
Other current liabilities	5,785	5,484	6,353	5,760	6,354	5,997	5,718	6,170	6,121	6,382
Total current liabilities	106,046	99,496	106,856	116,765	110,776	131,240	136,948	139,698	137,272	139,197
LT debt less current	280,939	264,522	236,876	214,000	200,756	189,228	162,689	152,689	112,689	72,689
Deferred income taxes				0				0	0	0
Operating leases	18,527	18,541	18,035	19,834	18,941	17,997	16,382	16,382	16,382	16,382
Other non-current liabilities	17,066	17,781	17,557	14,897	15,566	15,817	15,238	15,238	15,238	15,238
Total liabilities	422,578	400,340	379,324	365,496	346,039	354,282	331,257	324,007	281,581	243,506
Shareholders' equity										
Total CVEO shareholders' equity	296,393	333,619	352,976	374,685	363,491	362,810	351,755	352,529	362,944	383,117
Noncontrolling interest	552	624	636	672	648	595	1,030	1,030	1,030	1,030
Total shareholders' equity	296,945	334,243	353,612	375,357	364,139	363,405	352,785	353,559	363,974	384,147
Total liabilities & shareholders' equity	719,523	734,583	732,936	740,853	710,178	717,687	684,042	677,566	645,554	627,652
Financial Ratios										
Current ratio	1.2	1.2	1.1	1.0	1.0	1.1	1.2	1.2	1.3	1.6
Total debt to capital	51.3%	47.1%	43.3%	39.8%	39.3%	38.2%	35.4%	34.1%	28.2%	21.2%
Net leverage ratio	2.7	2.5	2.3	2.2	2.2	2.0	1.9	1.7	1.1	0.4
Book value per share	21.11	23.55	24.84	26.52	25.58	25.41	24.49	24.65	25.01	26.02
Net debt	(307,523)	(290,721)	(262,916)	(242,430)	(230,348)	(220,407)	(188,214)	(165,217)	(110,518)	(40,160.58)
Net cash (debt) per share)	(21.90)	(20.52)	(18.50)	(17.16)	(16.21)	(15.44)	(13.11)	(11.55)	(7.60)	(2.71)
ROE				1.2%				-2.4%	2.4%	4.9%

Sources: Company reports and Sidoti & Company, LLC.

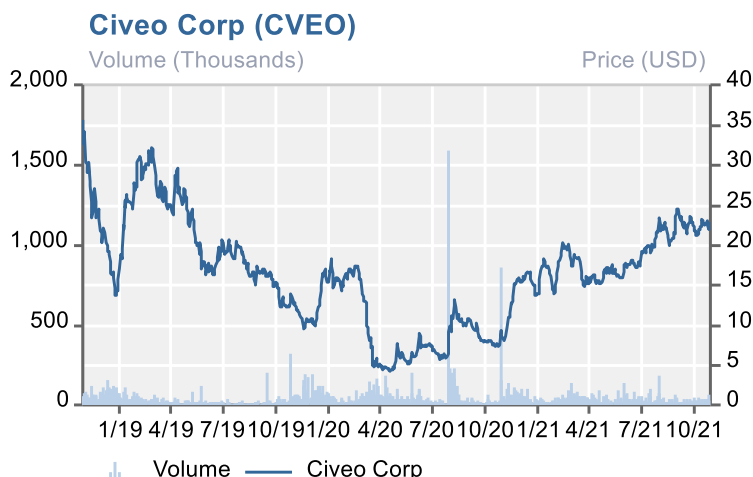
Appendix Required Disclosures

Required Disclosures

Civeo Corp (CVEO-\$22.96) NR Price Target: \$30 Risk Rating: M

Rating and Price Target History Table

Action	Date	Px	Rating	PT	Risk Rating
Initiation	5/17/21	16.8	NR	22	M
PT	5/28/21	16		22	
PT	6/7/21	17.7		26	
ACHG	6/21/21	17.6	NR	26	
PT	7/26/21	19.9		30	
PT	8/2/21	21.7		30	
PT	8/31/21	21.4		30	
PT	10/21/21	22.6		30	



Source: FactSet Prices

Valuation	We maintain our \$30 price target, which is based on 8x our raised 2022 free cash flow per share estimate of \$3.78 (formerly \$3.70). We note that Civeo and peers have traded at about 8x forward free cash flow over the last five years. We could consider a higher multiple in view of the continued improvement in the balance sheet and stable cash flow. We could also reconsider our EPS and cash flow estimates if rising met coal prices result in stronger Australian activity.		
Key Risks	COVID-19	China/Australia trade dispute	Push for green energy

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