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SMALL-CAP SERVICES FIRM A GOOD BET FOR GROWTH-ORIENTED FOLKS

An 'Enterprising' outfit in the oil patch

When you think of Canada's oil patch, big energy plays likely first come to mind.

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And that's entirely understandable. After all, Canada's oil and gas business is dominated by a handful of big producers.

But there's a growing number of small cappers that are making a name for themselves as service suppliers to the big boys.

And although these small outfits are still likely flying under the radar, they're compelling investments for growth-oriented folks willing to accept a lot of risk.

Consider **Enterprise Group Inc**. (E-TSX, $0.35). Headquartered in St. Albert, Alta., Enterprise is a consolidator of businesses that provide services to the utility, energy and construction sectors.

By operating several distinct business units under one management, Enterprise has succeeded in creating an integrated strategy that delivers high profit margins.

Each of its units provides a profitable base of operations, along with the opportunity for further growth.

Not only has Enterprise become a trusted supplier of highly specialized services, but it has forged ties with some of Canada's biggest energy plays including Shell, **Encana Corp.** (ECA-TSX, $18.43), **Penn West Petroleum Ltd.** (PWT-TSX, $9.93) and **Talisman Energy Inc.** (TLM-TSX, $12.86).

Enterprise's most basic division is E One Ltd., which rents out a fleet of heavy equipment.

With its Alberta base, the company is well positioned to get a share of the many big capital projects now underway there.

After all, when a contractor bags a big project, it's cheaper for him to rent heavy machinery than to buy it outright, thereby saddling himself with maintenance costs and other operating expenses.

The high markup on these rentals generates strong profit margins for E One.

Another Enterprise unit, TC Backhoe, concentrates on construction projects related to utilities and infrastructure.

A servicer of premier utilities since 1975, TC Backhoe was given a solid growth plan after being bought by Enterprise in 2007.

By using directional drilling devices for infrastructure projects, TC Backhoe has broadened its scope, equipping itself for the precision placement of piping and cables under roads and other obstacles.

And thanks to its contracts with such established service providers as **BCE Inc.** (BCE-TSX, $45.41), **Shaw Communications Inc.** (SJR.A-TSX, $27), **Telus Corp.** (T-TSX, $69.23) and **Fortis Inc.** (FTS-TSX, $33.44), TC Backhoe has managed to bring in strong earnings even during bad times.

In fact, TC Backhoe has helped smooth out cyclical and seasonal variation in its parent company's overall financial performance.

Perhaps that's no surprise, given that it accounts for about 40 per cent of Enterprise's total revenue.

Meanwhile, Enterprise likely has high hopes for the mobile flameless heaters that have been developed by yet another business unit, Arctic Therm International.

The heaters can be deployed in the field for pipeline thermal expansion — an enormous benefit during the construction phase when workers must sometimes labor in extreme cold.

Because these heaters can generate air flow at high pressure, they've also proved popular with contractors who must maintain large volume oil tanks.

And these contractors are busy, given that every three years or so the tanks must be drained, de-humidified, as well as cleaned for inspection and repair.

For Arctic Therm, this is undoubtedly a growth market — one that's wide open for expansion.

Moreover, because the heaters can be operated in the summer when there's no need for heating, the revenue they generate can help smooth out the seasonal nature of this business.

Although the heaters themselves rent out for up to $15,000, Arctic Therm still pre-books its fleet well in advance.

Meanwhile, in an effort to double its fleet, the company is busy building more heaters.

Then, too, the high level of training required to operate the heaters works against competitors, as does the proprietary status of the technology itself.

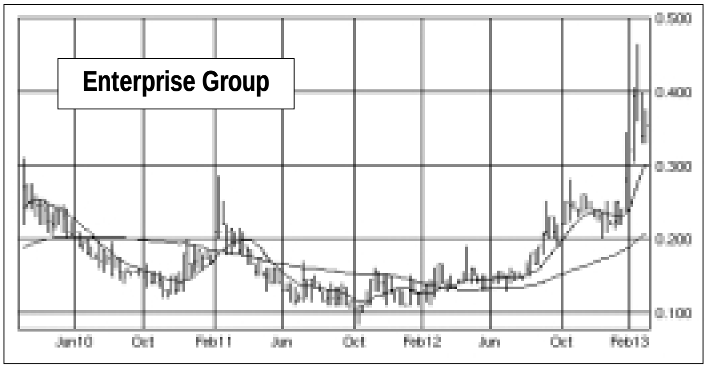
In the interim, the company continues to grow, having recently inked deals with such blue-chip oil patch plays as **Imperial Oil Ltd.** (IMO-TSX, $42.43) and **Suncor Energy Inc.** (SU-TSX, $31.37).

Enterprise's strength lies in its organizational structure. Although each business unit is designed to operate independently, it's also expected to provide services and support for its sisters.

By operating as a group, Enterprise has been able to identify —

and exploit — growth opportunities that each individual business unit couldn't do on its own.

Meanwhile, the company would appear to have a solid growth platform, given that it's able to use roughly half of its $12.5 million credit line to fund future expenditures.



All told, Enterprise hopes to bring in $30 million in gross revenue in 2013 — a record for the company. This, in turn, could generate net income of $7 million — a hefty profit for a niche player with a market cap of only $22 million.

So, far Enterprise has limited its focus to its own backyard, the Western Canadian Sedimentary Basin.

But it could always, of course, find similar markets elsewhere around the globe.

Meanwhile, the company continues to use a focused approach in its aggressive pursuit of high margin service contracts.

And although Enterprise as a small cap is necessarily risky, its risk level is likely lowered by the internal diversification of its revenue stream.

As an alternate way of playing Canada's energy sector, Enterprise Group is one stock that certainly bears watching.

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