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KAIROS RESEARCH

# NEWSLETTER

THURSDAY  
20/02/2025

*'Tomorrows Winners Today'*

## Philosophy

KairosResearch is focused on uncovering junior public companies that do not adequately reflect a valuation that can be determined from their current corporate performance, either financial or asset based growth.

## Comments

There is always a discrepancy between a modeled valuation for companies and their trading stock price.

This can be attributable to imperfect trading mechanisms, a lack of access to timely or relevant information (or the inability to process effectively) and/or a misinterpretation of results and outlook.

We endeavor to evaluate companies with apparent merit to determine true merit and existing upside as it exists today.



## Market Developments

Recently the TSXV released its 2025 TSX Venture 50 companies which represent a combined market capitalization of \$21.7 billion as of December 31, 2024, a surge of over \$16 billion (up 289%) in just one year. During the same period, these companies delivered an average share price appreciation of 207%, significantly outpacing the 121% growth observed in 2023 and 73% in 2022.



## Stocks developments

The mining sector continues to be a cornerstone of the TSXV, with 31 out of the top 50 performing companies in 2024 originating from this industry. These companies, focusing on critical minerals such as nickel, copper, and uranium, as well as precious metals like gold and silver, collectively increased their market capitalization to \$8.1 billion, marking a 174% rise over the year.



## Adds/Subtracts

This week saw the addition of our first stock selection and profile in ADF Group (DRG:TSXV). The two page summary follows.

## Events

KairosResearch is pleased to be sponsoring the STENTOR PDAC 2024 spotlight luncheon on March 2, 2025 at the Rec Room across from the South entrance of the Toronto Convention Centre.

Presentors include: Lithium Chile (TSXV:LITH) and Goldhaven Resources (TSXV:GOH).



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403-618-6507

# ADF GROUP (DRX:TSXV)

February 15, 2025

Category: Growth & Value  
Sector: Industrial  
Size: MC \$239M Cdn



ADF Group Inc. engages in the design and engineering of connections in Canada and the United States. It also fabricates and installs complex steel structures and heavy steel built-ups, as well as miscellaneous and architectural metalwork services. In addition, the company offers products and services for various segments of the non-residential construction market, including office towers and high-rises, commercial and recreational buildings, airport facilities, industrial complexes, and transport infrastructures. It serves general contractors, project owners, engineering firms and project architects, structural steel erectors, and other steel structure fabricators. The company was formerly known as Les Entreprises El Drago Ltée and changed its name to ADF Group Inc. in August 1998. ADF Group Inc. was founded in 1956 and is headquartered in Terrebonne, Canada.

Name		ADF Group Inc.			
CEO		Mr. Jean Paschini			
Website		adfgroup.com			
Sector		Metals and Mining			
Year Founded		1956			
Profile		Valuation (TTM)		Growth (CAGR)	
Market Cap	CA\$244.39M	P/E	4.4	Rev 3Yr	9.0%
EV	CA\$225.30M	P/B	1.5	Rev 5Yr	16.7%
Shares Out	29.8M	EV/Sales	0.6	Rev 10Yr	15.0%
Revenue	CA\$350.63M	EV/EBITDA	2.6	Dil EPS 3Yr	77.3%
Employees	545.0	P/FCF	3.2	Dil EPS 5Yr	84.0%
Margins		EV/Gross Profit	2.1	Dil EPS 10Yr	46.3%
Gross	29.9%	Valuation (NTM)		Rev Fwd 2Yr	2.4%
EBITDA	24.8%	Price Target		EBITDA Fwd 2Yr	21.1%
Operating	23.3%	P/E	4.3	EPS Fwd 2Yr	26.5%
Pre-Tax	22.7%	PEG	0.1	EPS LT Growth Est	83.3%
Net	16.6%	EV/Sales	0.7	Dividends	
FCF	22.0%	EV/EBITDA	2.7	Yield	0.4%
		P/FCF	4.0	Dividend Payout Ratio	1.1%

## The Business

### Industry Development Outlook

Impact of tariffs and other trends are difficult to predict, however given the infrastructure needs on the U.S. side and the announced investment programs, including for the modernization of U.S. airports, we continue to see the markets served by ADF in a favorable manner. Slowing inflation rates in Canada and the U.S., as well as lower interest rates, should also encourage investment south and north of the border, providing opportunities for our Corporation.

### Corporate Developments Comments

On September 9, 2024 the company announced a series of new orders totalling \$55M expected to be completed over the next 8 months. This is in addition to the current backlog of \$402M as at July 31, 2024.

### Other Comments

On December 12, 2025 the company announced a share buy-back program (NCIB) of up to 1.77M shares.  
The company paid a semi-annual dividend of \$.02/share on October 17, 2024 (this was in addition to the dividend of \$.01/share paid on May 15, 2024).  
On June 13, 2024 the company purchased for cancellation a total of 2,266,287 shares from principals of the company.

### Notes:

ADF came to our attention through our KairosResearch screen in November of 2024.

The company, established in 1956, has a long history in performance in the sector and has continued to perform over the years.

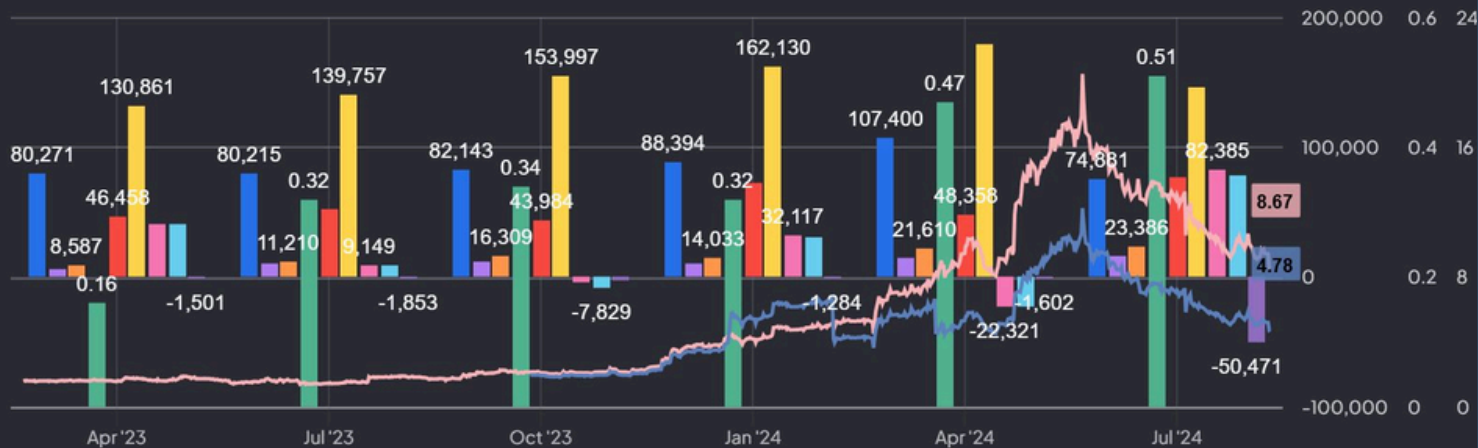
More recently the company has seen revenue growth with accompanying growth in equity, cash and earnings.

Having said that, the company has chronically suffered from a lack of fair market value (on a earnings multiple to peers metric). It would appear the company, owned 30+% by family, is not fully engaged in promoting the undervalued nature of the company to the market and/or general shareholders.

The share buy-back program and dividend allocation (and arguably the stock purchase) are all signs of a financially strong corporate performance.

# ADF GROUP (DRX:TSXV)

## ADF Group Inc. (DRX)



- Total Revenues (Quarterly) (Thousands) (Total Change: -6.71%) (CAGR: -5.39%)
- Net Income (Quarterly) (Thousands) (Total Change: 197.90%) (CAGR: 138.67%)
- Operating Income (Quarterly) (Thousands) (Total Change: 172.34%) (CAGR: 122.21%)
- EPS (Quarterly) (Total Change: 211.68%) (CAGR: 147.43%)
- Cash And Equivalents (Quarterly) (Thousands) (Total Change: 63.67%) (CAGR: 48.09%)
- Total Equity (Quarterly) (Thousands) (Total Change: 11.63%) (CAGR: 9.17%)
- Cash from Operations (Quarterly) (Thousands) (Total Change: 99.84%) (CAGR: 73.63%)
- Free Cash Flow (Quarterly) (Thousands) (Total Change: 91.56%) (CAGR: 67.87%)
- Cash from Financing (Quarterly) (Thousands) (Total Change: 3262.49%) (CAGR: -1546.88%)
- Stock Price (Quarterly) (Total Change: 441.87%) (CAGR: 73.28%)
- Forward P/E (Quarterly) (Total Change: 145.60%) (CAGR: 63.63%)

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### Performance Review:

Growing Revenues should trickle down into growing free cash flow, growing net income, growing equity and ultimately growing eps and forward P/E.

In the case of DRG the performance conditions exist while the current eps and forward p/e remain below comparable companies in this regard, indicating a value upside opportunity.

### IR Comments: Q4 2024

The company is very conservative and chooses to maintain a significant financial cushion for operating flexibility. Having said that the lack of stock price relative to performance is perplexing and of concern to current institutional holders.

### Analyst Comments

Analyst coverage from a lone analyst Nicholas Cortellucci of Atrium Research calls for a \$23 stock price target on a multiple of EPS and other financial metrics.

### Conclusion: The Good/Bad/Ugly

This family run company has exhibited solid operational, financial and business development acumen over its history.

The large insider position held by the family and ultimate corporate control (as recently exhibited by the private share acquisition) can be known to raise flags for investors, but the corporate performance should speak for itself in generating a return on investment and thus more favorable valuation.

While the market changes on a daily basis, ADF has maintained a strong position in the fabrication sector and has continued to grow. With solid financials the short term risk to the company's performance (and thus valuation) is mitigated.

We expect to see this stock make up at least some portion of its latent valuation (3x current) at any time. Increased commitment to investor marketing could enable this change more quickly.