

EMPIRE INDUSTRIES LTD.

Price (June 3): \$0.13
52-Week Range: \$0.19 - \$0.085
Recommendation Spec. Buy
Target Price:
 1st: \$0.22
 2nd: \$0.27
Shares O/S (M): 259.34
Market Cap (M): \$33.71
Symbol: TSX-V: EIL



PROFILE: Winnipeg-based manufacturer of specialized engineered products, selling in domestic and selected international markets. The Company's primary focus is on its Media-based Attractions operations.

First-Quarter 2015 Results

Empire Industries Ltd. has reported results for Q1/2015 (ended March 31).

The Company showed a loss for the quarter, with results being affected by a significant decline in one segment of operations and an unrealized loss on forward foreign currency instruments.

COMMENT: *Empire Industries reported a loss for the first quarter of 2015, primarily as a result of a significant decline in activity in its Manufactured Products operation together with a \$1.3 million increase in a non-cash unrealized loss on forward foreign exchange compared with that incurred in the corresponding period of 2014. We expect that the Company will benefit from the strong order backlog in its Media-based Attractions segment, which should lead to further growth in this area over the balance of the year. This should more than offset results from its Manufactured Products operations.*

We discuss the Q1/2015 results below, and compare them with Q1/2014, Q4/2014, and the last twelve months (divided by 4).

But first, we cover "Recent Developments".

RECENT DEVELOPMENTS

Another Contract for Media-Based Attractions

On May 20, Empire Industries announced that a South Asian customer had awarded the Company's *Media-based Attractions* an additional US\$24 million contract for theme park equipment. In March of this year, the Company had received two contracts totalling US\$42 million from this same customer, for proprietary products for a major theme park. The Company had also received a US\$24 million contract from a United Arab Emirates customer in March, for a robotic track ride at a major theme park. The latest new contract brings the total new contracts to US\$90 million.

Thirty-Meter Telescope Funding

The Government of Canada announced in April that it is supporting the Thirty-Meter Telescope international partners with a \$243.5 million construction funding commitment. Empire's wholly-owned division, Dynamic Structures, will be responsible for the construction of the enclosure for the telescope. The government's financial commitment was vital to Dynamic Structures' continuing involvement with the telescope project.

For more on this, see:

1. eResearch's June 1, 2015 *Perspective*:
http://www.eresearch.ca/wp-content/uploads/2015/06/EIL_060115-B.pdf ; and
2. eResearch's April 7, 2015 *Perspective*:
http://www.eresearch.ca/wp-content/uploads/2015/04/EIL_040715-B.pdf.

Q1/2015 RESULTS (January 1-March 31, 2015)

A. Comparison of Q1/2015 with Q1/2014

Revenues

Revenues declined to \$33.2 million in Q1/2015 from \$33.7 million in Q1/2014, a drop of 1.5%. This reflected the impact of an 8.3% decline in revenues in the *Media-based Attractions* sector to approximately \$19 million, down from \$20.7 million in Q1/2014, which was the result of the timing of projects. Revenues in the *Manufactured Products* operations fell approximately 45% to \$4.6 million, down from \$8.4 million, as a result of a decline in demand for the Company's Hydrovac trucks, which was caused by reduced capital spending in the western Canadian energy industry.

The revenue declines in these two sectors were, however, partially offset by a 111% gain in revenues in the *Steel Fabrication Services* operations to approximately \$9.6 million in Q1/2015 from \$4.5 million in Q1/2014, with the latter being an unusually slow period.

EBITDA

EBITDA fell 36.2% to \$1.51 million, down from \$2.37 million a year ago. This primarily reflected the impact of a decline in *Manufactured Products* EBITDA to negative \$136,000 in Q1/2015 from positive \$1.1 million in Q1/2014. EBITDA in *Media-based Attractions* was \$2.14 million compared with \$2.27 million a year ago, while *Steel Fabrication Services* EBITDA improved to positive \$79,000 from negative \$432,000 in Q1/2014.

Earnings/Loss

Empire reported a loss of \$885,000 (\$0.003 per share) in Q1/2015, compared with earnings of \$1.2 million (\$0.005 per share) in Q1/2014. The results mainly affected by reduced activity in *Manufactured Products* and by an unrealized loss of \$1.9 million on forward foreign currency instruments compared with an unrealized loss of

\$600,000 in this area a year ago. These unrealized losses were due to the significant decline in the value of the Canadian dollar over the period.

Backlog

Empire's order backlog rose to \$195 million as at March 31, 2015, compared with \$155 million at the end of December 2014 and \$123 million at the end of March 2014.

Table 1, below, shows the comparison of Q1/2015 and Q1/2014.

Table 1: Empire Industries Ltd. Q1/2015 versus Q1/2014 Results

<i>(\$000s except EPS)</i>	Q1/2015	Q1/2014	Change
Revenues			
Media-Based Attractions	\$18,985	\$20,703	-8.3%
Manufactured Products	\$4,625	\$8,441	-45.2%
Steel Fabrication Services	\$9,584	\$4,532	111.5%
Other	\$15	\$32	-53.1%
Total Revenues	\$33,209	\$33,708	-1.5%
EBITDA			
Media-Based Attractions	\$2,140	\$2,270	-5.7%
Manufactured Products	-\$136	\$1,094	-112.4%
Steel Fabrication Services	\$79	-\$432	118.3%
Other	-\$571	-\$562	-1.6%
Total EBITDA	\$1,512	\$2,370	-36.2%
EBITDA Margin			
Media-Based Attractions	11.3%	11.0%	
Manufactured Products	-2.9%	13.0%	
Steel Fabrication Services	0.8%	-9.5%	
Other	n/m	n/m	
Total EBITDA Margin	4.6%	7.0%	
Net Profit from Cont. Ops.	-\$885	\$1,211	n/m
Net Profit Margin	-2.7%	3.6%	
EPS	-\$0.003	\$0.005	n/m
Average Shares O/S (million)	258.2	253.9	1.7%

Source: The Company and eResearch

B. Comparison of Q1/2015 with Q4/2014, and with TTM (quartered)

Revenues

Revenues in Q1/2015 were \$33.2 million compared to \$36.1 million in Q4/2014, a drop of 8.1%. The Company's biggest revenue contributor, *Media-based Attractions*, recorded an 18.5% gain, but this was not enough to offset the combined declines, quarter-over-quarter, in *Manufactured Products* and *Steel Fabrication Services*.

To a degree, there is some timing volatility in the recording of revenue for each of the Company's divisions, which is why we provide "smoothed" results on a Trailing Twelve-Months ("TTM") basis. In Table 2, in addition to comparing Q1/2015 with Q4/2014, we also show a comparison with the Trailing Twelve Months results that have been divided by 4, i.e., "smoothed" (in order to compare with the results of Q1/2015).

Q1/2015 revenue of \$33.2 million compares with \$35.2 million for the “smoothed” results of TTM-Q1/2015. Again, *Media-based Attractions* saw a decent percentage increase, but was offset by lesser results at both *Manufactured Products* and *Steel Fabrication Services*.

EBITDA

Media-based Attractions and *Manufactured Products* recorded EBITDA declines when comparing Q1/2015 with Q4/2015, but *Steel Fabrication Services* logged a significant recovery. It is a different story when comparing Q1/2015 with “smoothed” TTM-Q1/2015. Here it was *Media-based Attractions* that reported a substantial gain. This illustrates the effect of the timing of revenue-recognition.

Table 2: Empire Industries Ltd. Q1/2015 versus Q4/2014 Results AND versus TTM-Q1/2015

<i>(\$000s except EPS)</i>	<u>Q1/2015</u>	<u>Q4/2014</u>	<u>Change</u>	<u>TTM to Q1/15 (quartered)</u>	<u>Q1 to TTM Change</u>
Revenues					
Media-Based Attractions	\$18,985	\$16,026	18.5%	\$16,509	15.0%
Manufactured Products	\$4,625	\$9,398	-50.8%	\$7,965	-41.9%
Steel Fabrication Services	\$9,584	\$10,561	-9.3%	\$10,632	-9.9%
Other	\$15	\$139	-89.2%	\$59	-74.6%
Total Revenues	\$33,209	\$36,124	-8.1%	\$35,164	-5.6%
EBITDA					
Media-Based Attractions	\$2,140	\$2,669	-19.8%	\$1,577	35.7%
Manufactured Products	-\$136	\$609	-122.3%	\$544	-125.0%
Steel Fabrication Services	\$79	-\$752	110.5%	\$278	-71.6%
Other	-\$571	-\$679	15.9%	-\$613	-6.8%
Total EBITDA	\$1,512	\$1,847	-18.1%	\$1,786	-15.4%
EBITDA Margin					
Media-Based Attractions	11.3%	16.7%		9.6%	
Manufactured Products	-2.9%	6.5%		6.8%	
Steel Fabrication Services	0.8%	-7.1%		2.6%	
Other	n/m	n/m		n/m	
Total EBITDA Margin	4.6%	5.1%		5.1%	
Net Profit from Cont. Ops.	-\$885	\$2,472	n/m	\$992	n/m
Net Profit Margin	-2.7%	6.8%		2.8%	
EPS	-\$0.003	\$0.005	n/m	\$0.004	n/m
Average Shares O/S (million)	258.2	253.9	1.7%	256.1	0.8%

QUARTERLY TRENDS

The table below shows the quarterly trend in selected financial items for the past eight quarters.

Table 3: Empire Industries Ltd. Quarterly Results Q2/2013 to Q1/2015

(\$000s except EPS)	<u>Q2/13</u>	<u>Q3/13</u>	<u>Q4/13</u>	<u>Q1/14</u>	<u>Q2/14</u>	<u>Q3/14</u>	<u>Q4/14</u>	<u>Q1/15</u>
Revenues	\$28,400	\$34,120	\$31,495	\$33,708	\$34,912	\$36,522	\$36,124	\$33,209
EBITDA	\$1,506	\$2,090	\$1,192	\$2,370	\$1,523	\$2,263	\$1,847	\$1,512
EBITDA Margin	5.3%	6.1%	3.8%	7.0%	4.4%	6.2%	5.1%	4.6%
Net Profit from Cont. Ops.	\$1,016	\$1,648	\$726	\$1,211	\$1,649	\$732	\$2,472	-\$885
Net Profit Margin	3.6%	4.8%	2.3%	3.6%	4.7%	2.0%	6.8%	-2.7%
EPS	\$0.005	\$0.010	\$0.005	\$0.005	\$0.005	\$0.005	\$0.009	-\$0.003
Average Shares O/S (million)	193.2	247.2	250.2	253.9	254.9	255.6	256.9	258.2

Source: The Company and eResearch

HISTORICAL RESULTS

The table below shows selected financial results for the past five years.

Table 4: Empire Industries Ltd. Abbreviated Historical Financial Results

Year Ended December 31 (\$000s except EPS)	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	TTM to <u>Mar-15</u>
Revenues	\$50,002	\$54,058	\$83,690	\$117,795	\$141,156	\$140,657
EBITDA	\$1,675	-\$3,868	\$1,952	\$6,318	\$8,003	\$7,145
EBITDA Margin	3.3%	-7.2%	2.3%	5.4%	5.7%	5.1%
Net Profit from Cont. Ops.	-\$1,976	-\$6,223	\$948	\$4,419	\$6,064	\$3,968
Net Profit Margin	-4.0%	-11.5%	1.1%	3.8%	4.3%	2.8%
EPS	-\$0.02	-\$0.04	\$0.01	\$0.02	\$0.02	\$0.02
Average Shares O/S (million)	91.2	152.5	193.2	223.2	255.7	256.1

Source: The Company and eResearch

ABOUT EMPIRE INDUSTRIES

Empire Industries Ltd. is a manufacturer of specialized engineered products, which the Company sells in domestic and selected international markets. The Company's operations are conducted in three business sectors:

1. Media-Based Attractions.
2. Manufactured Products, and
3. Steel Fabrication Services.

Empire Industries also has two key equity partnerships:

1. A 49% interest in ACE Industrial Services, which operates in the oil sands industrial maintenance services market; and
2. A 45% interest in a Chinese steel fabrication joint venture, Dongguan Qiguang Dynamic Steel Structures, Ltd., in the Asian steel fabrication market.

OUTLOOK

Empire's *Media-Based Attractions* sector is expected to continue to benefit from strength in the theme park attractions market, as indicated by the Company's recent contract awards in this area.

The *Manufactured Products* operations are currently being adversely affected by a reduced order backlog and lower throughput and pricing for hydrovac trucks. Measures are being taken to expand sales efforts into the U.S.A.

The *Steel Fabrication Services* operations are expected to experience increased competition in Alberta, as a result of reduced capital spending in western Canada.

On balance, we expect Empire to continue to achieve further growth in its operations over the rest of the year.

RECOMMENDATION AND TARGET PRICE

eResearch recommends the shares of Empire Industries as a Speculative Buy. The shares are currently trading at \$0.13. Our first Target Price is \$0.22, and our second is \$0.27.

eRESEARCH CORPORATION**eResearch Analysts on this Report:**

Bill Campbell, B. Comm.; and Bob Weir, B.Sc., B.Comm, CFA

Analyst Affirmation: I, Bill Campbell, hereby state that, at the time of issuance of this research report, I do not own, directly or indirectly, shares of Empire Industries Ltd. I, Bob Weir, hereby state that, at the time of issuance of this research report, I do own shares of Empire Industries Ltd.

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