

**BUY**  
**EARNINGS PREVIEW**

**Financial Summary**

Changes	Previous	Current
Rating	—	Buy
Target Price	—	C\$3.25
FY21E EPS	\$0.31	\$0.32
FY22E EPS	\$0.31	\$0.32
FY21E Revenue	\$108.8	\$110.6
FY22E Revenue	\$119.5	\$123.0

Price ( 07/08/21 ):	C\$2.60
52-Week Range:	C\$3 - C\$1
Market Cap.(mm):	C\$116.3
Shr.O/S-Diluted (mm):	44.7
Enterprise Val. (mm):	\$94.3
Avg Daily Vol (3 Mo):	43,461
Dividend / Yield:	C\$0.02 / 0.8%
Net Debt (mm):	1

Price: 7/8/21 close

Revenue	2020A	2021E	2022E
<b>Q1</b>	\$18.0	\$30.7A	\$32.4
<b>Q2</b>	\$20.9	\$31.4	\$33.6
<b>Q3</b>	\$18.9	\$23.8	\$29.3
<b>Q4</b>	\$24.7	\$24.7	\$27.8
<b>FY (Dec)</b>	\$82.4A	\$110.6	\$123.0

EBITDA	2020A	2021E	2022E
<b>Q1</b>	\$2.2	\$10.0A	\$8.2
<b>Q2</b>	\$6.5	\$8.9	\$9.7
<b>Q3</b>	\$4.6	\$5.0	\$6.5
<b>Q4</b>	\$5.7	\$6.1	\$7.2
<b>EBITDA</b>	\$19.0A	\$30.1	\$31.7

EV/EBITDA (x)	2020A	2021E	2022E
<b>FY (Dec)</b>	4.8A	2.5	2.3
<b>EPS</b>	\$0.17A	\$0.32	\$0.32
<b>PE_EPS</b>	12.4A	6.6	6.6
<b>Net debt</b>	\$(2.8)A	\$(16.7)	\$(21.2)

**Price Performance**



Completed: 8 July 2021 17:46EDT  
Disseminated: 8 July 2021 17:46EDT

**Q2 preview: GEO's keeping its eye on the ball**

**Summary**

When GEO reports Q2 results (expected August 12), we anticipate results similar to Q1, which were marked by strong utilization & organic growth setting the stage for continued long-term EBITDA expansion. The company's outlook is buoyed by macroeconomic trends that point to the need for increased exploration, including a multi-year appreciation in metals prices and falling gold reserves. We fine-tune our estimates to reflect our expectation of further rig purchases, but leave our C\$3.25 target unchanged. Buy.

**Key Points**

- Q2 expected to highlight continued execution.** GEO expects to report Q2/21 results on August 12th pre-market. We anticipate yet another strong quarter, with elevated utilization and steady demand for drilling services providing the foundation for strong top-line performance, while improving fixed-cost coverage should lead to resilient margins. We expect sales of \$31.4m and EBITDA of \$8.9m, roughly in-line with consensus of \$31.1m and \$8.6m, respectively. We expect sales to fall sequentially in Q3 as parts of West Africa go through the typical rainy season, before rebounding in Q4 and ending the year on a strong note.
- Industry trends serve as the backbone for long-term prospects.** In a recent MDI [preview note](#), we reviewed the macroeconomic trends that supported our long-term optimism for the mineral drilling industry. Specifically, we found that between 2006-2020, the correlation of gold price and gold exploration budgets was ~56%, but rises to 77% when shortening the timeframe to 2006-2016. Likewise, this correlation is even more noticeable for copper, whose correlation between 2000-2020 is 83%, and rises slightly to 85% when omitting the last four years (Fig 1,2). We believe that exploration trends have become disconnected from the prices of metals in recent years, and that we are overdue for a multi-year recovery in exploration activity, which should be a boon for drillers like GEO. This is further supported by a 35% decline in senior gold reserves since 2011, as well as an expected supply shortage for copper driven by electrification trends.
- GEO has several medium-term catalysts.** Growth remains top-of-mind for Geodrill as it executes on a number of long-term top-line initiatives. The company's geographic expansion into Egypt is proceeding well, with the first drills expected to start turning partway into Q3. In LATAM, the company continues to expand its presence through the addition of another drill rig and expects the lifting of COVID restrictions to support rising activity in the coming quarters. Meanwhile, while no drill & blast contracts have been announced yet, the company expects to hear the status of one bid in the coming weeks, and is in the running for another two opportunities. Each contract could represent up to \$50m in activity over a 3-year contract, so the impact to GEO's results should be material. Together with expected growth in exploration activity in the company's key West African market, we expect a multi-year runway extending beyond our 2022 forecast horizon.
- Fine-tuning estimates, maintain \$3.25 target.** We trim our Q2 estimates slightly for flatter results between Q1/Q2 (excluding the impact of one-time gains), but increase revenue and EBITDA estimates in future periods to reflect additional drill rig purchases. Moreover, we moderate our FCF estimates slightly to reflect the impact of receivables given the company's strong revenues. Our 2021E EBITDA rises incrementally to \$30.1m from \$29.8m, while in 2022E EBITDA climbs to \$31.7m from \$30.2m. This increase is offset by a corresponding drop in cash balance to fund the rigs, thus leaving our C\$3.25 target unchanged.

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**Investment Thesis**

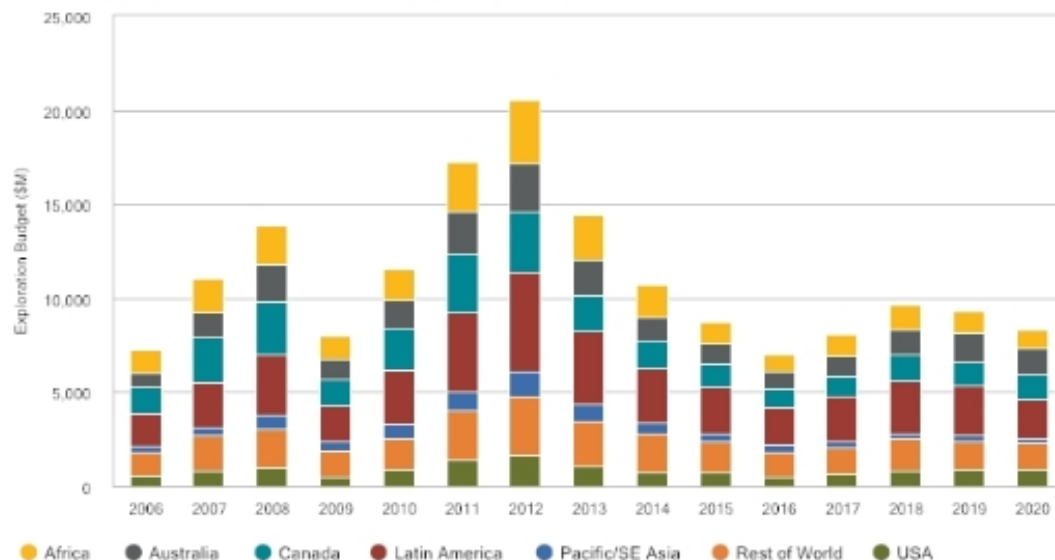
We believe Geodrill's long-term growth is supported by a number of external and internal drivers:

1. Gold mining companies have been in an 9-year downcycle. Falling reserves, strong metals prices, and low interest rates should support industry-wide secular tailwinds for exploration activity. Meanwhile, the copper industry's supply deficit and Y/Y price performance should also support continued exploration.
2. The company's expansion into mine blast hole drilling should support revenue growth, especially with existing clients thanks to GEO's strong relationships and cross-selling opportunities.
3. As a top-tier operator in its core West African market GEO should see continued demand among new / existing clients, while geographic expansion into new regions (such as LATAM) serves as the next phase of growth.

Figure 1 - Global mineral exploration budgets by year

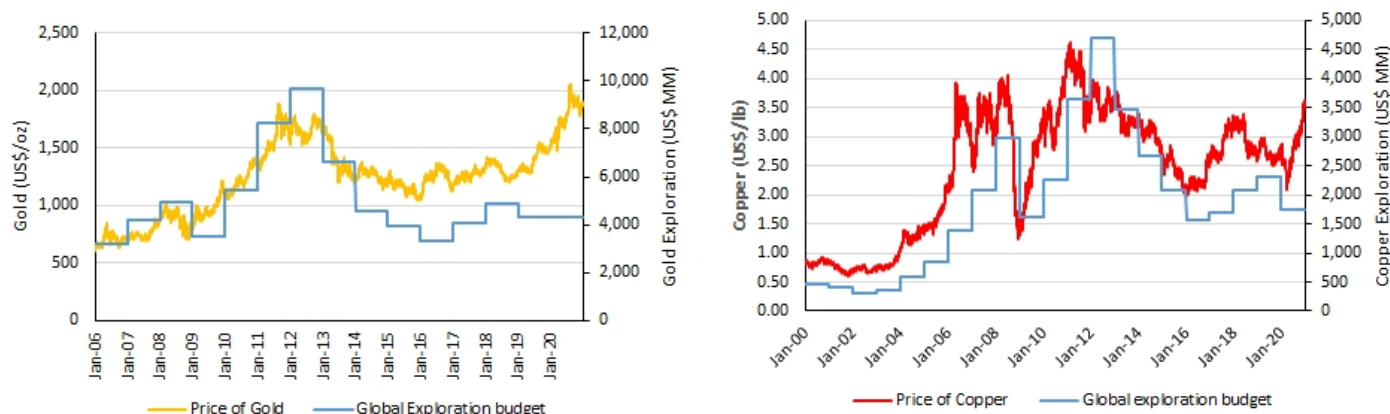
**Exploration Budget Trends**

Stage(s): Grassroots, Late Stage & Feasibility, Minesite  
 Company Type(s): Major, Intermediate, Junior, Government, Other



Source: S&P Global Market Intelligence

Figure 2 - Gold and Copper exploration budgets compared to underlying metals prices



Source: S&P Global Market Intelligence, Stifel GMP

Figure 3 - Updated estimates

GEO-TSX MM US\$	Actual			Current Estimates				-- Old Estimates --		
	2019A	2020A	Q1/21A	Q2/21E	Q3/21E	Q4/21E	2021E	2022E	2021E	2022E
<b>Revenue</b>	<b>87.4</b>	<b>82.4</b>	<b>30.7</b>	<b>31.4</b>	<b>23.8</b>	<b>24.7</b>	<b>110.6</b>	<b>123.0</b>	<b>108.8</b>	<b>119.5</b>
<i>Y/Y growth</i>	<i>-1.3%</i>	<i>-5.7%</i>	<i>70.3%</i>	<i>50.5%</i>	<i>26.4%</i>	<i>-0.1%</i>	<i>34.2%</i>	<i>11.2%</i>	<i>31.9%</i>	<i>9.8%</i>
<b>EBITDA</b>	<b>20.0</b>	<b>19.0</b>	<b>10.0</b>	<b>8.9</b>	<b>5.0</b>	<b>6.1</b>	<b>30.1</b>	<b>31.7</b>	<b>29.8</b>	<b>30.2</b>
<i>EBITDA margin %</i>	<i>22.9%</i>	<i>23.0%</i>	<i>32.7%</i>	<i>28.4%</i>	<i>21.2%</i>	<i>24.7%</i>	<i>27.2%</i>	<i>25.7%</i>	<i>27.4%</i>	<i>25.3%</i>
<i>Y/Y growth</i>	<i>22.9%</i>	<i>-5.3%</i>	<i>352.5%</i>	<i>38.0%</i>	<i>10.8%</i>	<i>6.9%</i>	<i>58.9%</i>	<i>5.2%</i>	<i>57.2%</i>	<i>1.5%</i>
<b>EPS (FD)</b>	<b>\$0.09</b>	<b>\$0.17</b>	<b>\$0.13</b>	<b>\$0.10</b>	<b>\$0.04</b>	<b>\$0.05</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.31</b>	<b>\$0.31</b>
<b>Total rigs</b>	<b>67</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>70</b>	<b>71</b>	<b>71</b>	<b>77</b>	<b>70</b>	<b>74</b>

Source: Company reports, Stifel GMP estimates

Figure 4 - Comp table

Comparable Analysis 8-Jul-21	Last Price	Market Cap (\$M)	Net Debt EBITDA	2020	2019-2022	-----EV/EBITDA-----			-----P/E-----			Dividend Yield
				EBITDA Margin	EBITDA CAGR	2020A	2021E	2022E	2020A	2021E	2022E	
*Major Drilling Group International	\$8.12	667	0.6x	12.5%	34.9%	12.3x	8.1x	6.9x	NM	22.5x	17.8x	0.0%
Orbit Garant Drilling Inc.	\$1.05	39	2.3x	5.9%	20.6%	8.3x	4.3x	4.1x	NM	35.0x	15.0x	0.0%
Foraco International SA	\$1.95	172	4.3x	15.7%	NM	NM	NM	NM	NM	NM	NM	0.0%
Boart Longyear Limited	\$0.31	27	16.0x	6.7%	NM	NM	NM	NM	NM	NM	NM	0.0%
DDH1 Limited	\$1.16	398	0.0x	NM	NM	NM	NM	NM	NM	NM	NM	0.0%
Capital Limited	£0.75	143	NM	24.7%	33.9%	3.2x	2.6x	2.6x	11.1x	8.3x	8.3x	2.5%
		<b>Average</b>	<b>4.6x</b>	<b>13.1%</b>	<b>29.8%</b>	<b>7.9x</b>	<b>5.0x</b>	<b>4.5x</b>	<b>11.1x</b>	<b>21.9x</b>	<b>13.7x</b>	<b>0.4%</b>
		<b>Median</b>	<b>2.3x</b>	<b>12.5%</b>	<b>33.9%</b>	<b>8.3x</b>	<b>4.3x</b>	<b>4.1x</b>	<b>11.1x</b>	<b>22.5x</b>	<b>15.0x</b>	<b>0.0%</b>
<b>*Geodrill Limited</b>	<b>\$2.60</b>	<b>\$116</b>	<b>NM</b>	<b>23.0%</b>	<b>16.5%</b>	<b>4.8x</b>	<b>2.5x</b>	<b>2.3x</b>	<b>12.4x</b>	<b>6.6x</b>	<b>6.6x</b>	<b>0.8%</b>

\* Reflects Stifel GMP estimates

Source: S&amp;P Capital IQ, Stifel GMP estimates

All forecasts except for Major Drilling and Geodrill reflect consensus estimates.

### Target Price Methodology/Risks

Our C\$3.25 target price is based on 3.0x 2022 EV/EBITDA. Our multiple reflects Geodrill's 5-year average forward trading multiple.

Risks to our target include broad economic support for mining activity and exploration budgets, the impact of possible COVID or political shutdowns on drilling activity, and competition from other drilling companies.

### Company Description

Geodrill Limited is a mid-sized drilling services firm, with a fleet of 68 drilling rigs. Operations are currently focused in Western Africa, together with a minor presence in Zambia and growing activity in Latin America. Gold drilling represents >90% of the company's revenues. GEO has recently expanded its service offering to include mine blast hole drilling, which together with its geographic growth should support long-term revenue potential. Growth is also supported by a number of secular tailwinds that should serve to drive strong exploration activity beyond our forecast horizon, including falling gold reserves, strong metals prices, and a widening supply deficit for copper.

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**Geodrill Limited (GEO CN) as of July 07, 2021 (in CAD)**

\*Represents the value(s) that changed.

Buy=BUY; Speculative Buy=SBUY; Hold=HOLD; Sell=S; Discontinued=D; Suspended=SU; Initiation=I

**For a price chart with our ratings and target price changes for GEO CN go to <http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=GEO CN>**

Stifel Canada or an affiliate expects to receive or intends to seek compensation for investment banking services from Geodrill Limited in the next 3 months.

The equity research analyst(s) responsible for the preparation of this report receive(s) compensation based on various factors, including Stifel's overall revenue, which includes investment banking revenue.

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Our investment rating system is defined as follows:

**Buy** - We expect a total return of greater than 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

**Speculative Buy**<sup>1</sup> - We expect a total return of greater than 30% over the next 12 months, with total return equal to the percentage price change plus dividend yield, accompanied by substantially higher than normal risk including the possibility of a binary outcome.

**Hold** - We expect a total return between -5% and 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

**Sell** - We expect a total return below -5% over the next 12 months with total return equal to the percentage price change plus dividend yield.

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<sup>1</sup> This rating is only utilised by Stifel Canada.

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