

June 2025

**ADF Group Inc: (TSX: DRX)**

**Thomas Giroux**

**Recommendation: (L) Price Target of 10.33 cad (Base), 11.14 cad (Bull)**

**Estimated Total Returns = 17% (Base, share repo with cash only), 26% (Bull, leverage + cash repo)**

**Company Overview:** ADF Group Inc designs, builds, and installs steel structures and metalwork for non-residential buildings like offices, commercial spaces, airports, industrial sites, and transport facilities. They serve clients such as contractors, project owners, engineers, architects, and other steel fabricators in the US and Canada. The company has factories in Montana and in Terrebonne, Qc where it is also headquartered.

**View:** I believe that ADF Group is vastly undervalued amidst the current trade war between the US and Canada, and that the company could return over 17% by initiating another round of share buybacks. The company has been greatly impacted by the effects of steel tariffs from both countries, but not from tariffs directly. However, given the company's operations in both countries, I believe it's well insulated to navigate the turmoil that is to come. What's more, the company's current cash position, its historically sound cash flows from ops and its low leverage (compared to peers) allow it to continue repurchasing shares, but at a more aggressive rate.

CAD mm (June 10, '25)

Price	8.81	<b>Trading Stats:</b>		<b>Shareholders:</b>		% Owned
Shares	28	Short Interest (% of Float)	1.40%	Jean Paschini		14.32%
<b>MC</b>	<b>248</b>	52 Week High	20.80	Pierre Paschini		14.32%
(-) Cash	75	52 Week Low	5.00	Placements G. Maps		14.32%
(+) Debt	45	Avg Vol. 000's	70	Marshall-Barwick Inc.		5.98%
<b>EV</b>	<b>217</b>	Dividend Yield %	0.06%	Mackenzie Financial		2.11%

**Recommendation:**

- The excess cash of the company (Cash + FCFE - debt repayments – minimum cash) stands at 29.2m CAD). Without any further leverage, the company could repurchase a little over 3 million shares @ 8.81cad/share, thus returning over 17%.

CAD mm	2024A	2025E
Cash	60	75
FCFE	69	20
Mandatory Debt Repayments	6	6
Minimum Cash	103	60
<b>Excess Cash</b>	<b>20</b>	<b>29</b>

#### Estimated Share Price Return After Repo

Target P/E	4.50x	LTM EPS	1.90
Shares Before Repo	28.10	LTM P/E	4.65x
Shares After Repo	24.786	EPS After Repo	2.30
Implied Price After Repo		10.33	

- ADF Group has been building up its cash pile to a historical level, without any new proposals of redistributing value to shareholders (via increased dividends or further buybacks after having completed their NCIB). With 75m CAD in cash and low leverage compared to peers (0.79x VS 1.63x EBITDA) and a low cost of debt, the company could increase its leverage to repurchase more shares, thus also decreasing its cost of capital.

DRX Leverage	0.79x
Comps' Leverage	1.63x
DRX Current Debt	45
DRX Potential Debt	150

		Target P/E						
10.33		2.0x	3.0x	4.0x	4.5x	5.0x	5.5x	6.0x
Cash Used for Repo	10	4.22	6.33	8.44	9.50	10.55	11.61	12.66
	15	4.31	6.47	8.62	9.70	10.78	11.86	12.93
	20	4.41	6.61	8.81	9.91	11.01	12.12	13.22
	29	4.59	6.89	9.18	10.33	11.48	12.63	13.77
	35	4.72	7.08	9.43	10.61	11.79	12.97	14.15
	40	4.83	7.25	9.66	10.87	12.08	13.28	14.49
	45	4.95	7.42	9.90	11.14	12.37	13.61	14.85

- Theoretically, the company could borrow an additional 100 million dollars to repurchase shares and still be in line with the leverage of its comp set. However, for the sake of caution, if they borrow a mere 16 million CAD to buy back shares (45m total for repo), this will result in a 26% return (at a 4.5x P/E).
- All these implied prices are very conservative and imply drastically low premiums to earnings (4.5x), even though historically ADF and its comps trade at 10x:

Normalized P/E	2020	2021	2022	2023	2024	Average
DRX P/E	12x	10x	8x	9x	12x	10x
CMC P/E	9x	14x	8x	8x	13x	10x
ASTL P/E		3x	2x	8x	19x	8x
5480 P/E	10x	8x	5x	4x	6x	7x
CVL P/E	25x	14x	9x	9x	10x	13x
<b>Average</b>	<b>14x</b>	<b>10x</b>	<b>6x</b>	<b>7x</b>	<b>12x</b>	<b>10x</b>
<b>Median</b>	<b>11x</b>	<b>10x</b>	<b>8x</b>	<b>8x</b>	<b>12x</b>	<b>10x</b>

## Valuation #1 (DCF):

DCF Summary												
CAD mm	FY	LTM	Projections									
	2024		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>Total Revenues</b>	<b>331</b>	<b>279</b>	<b>334</b>	<b>338</b>	<b>341</b>	<b>345</b>	<b>348</b>	<b>351</b>	<b>355</b>	<b>359</b>	<b>362</b>	<b>366</b>
(-) COGS	258	200	268	270	273	276	278	281	284	287	290	293
(-) OpEx	22	15	23	24	24	24	24	25	25	25	25	26
<b>EBITDA</b>	<b>52</b>	<b>65</b>	<b>43</b>	<b>44</b>	<b>44</b>	<b>45</b>	<b>45</b>	<b>46</b>	<b>46</b>	<b>47</b>	<b>47</b>	<b>48</b>
(-) D&A	1	1	3	3	3	3	3	4	4	4	4	4
<b>EBIT</b>	<b>50</b>	<b>63</b>	<b>40</b>	<b>41</b>	<b>41</b>	<b>41</b>	<b>42</b>	<b>42</b>	<b>43</b>	<b>43</b>	<b>43</b>	<b>44</b>
(-) Taxes	9	6	10	10	10	10	10	11	11	11	11	11
(-) CapEx	6	8	10	10	10	10	10	11	11	11	11	11
(-) Δ in NCWC	(27)	(13)	24	7	3	3	3	3	3	3	3	3
(+) D&A	1	1	3	3	3	3	3	4	4	4	4	4
<b>FCFF</b>	<b>63</b>	<b>64</b>	<b>(0.2)</b>	<b>16.1</b>	<b>21.2</b>	<b>21.4</b>	<b>21.5</b>	<b>21.7</b>	<b>21.8</b>	<b>22.0</b>	<b>22.2</b>	<b>22.3</b>
<b>PV of FCFF</b>			<b>(0.2)</b>	<b>14.3</b>	<b>17.7</b>	<b>16.7</b>	<b>15.9</b>	<b>15.0</b>	<b>14.2</b>	<b>13.5</b>	<b>12.8</b>	<b>12.1</b>

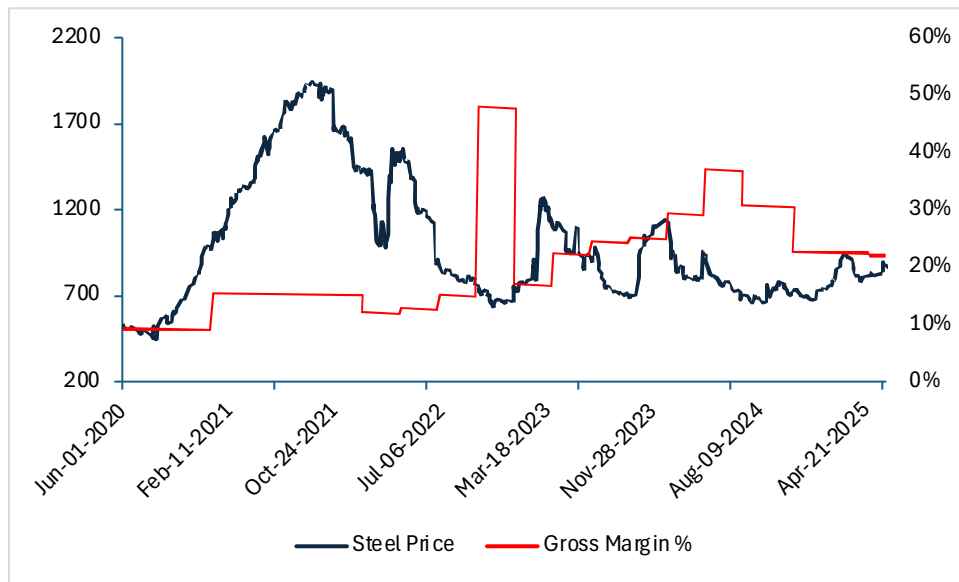
### Assumptions

WACC	6.30%
Revenue Growth (CAGR)	1.00%
COGS as a % of Revenue	80.0%
OpEx as a % of Revenue	7%
D&A as a % of Revenue	1%
Tax Rate	25%
CapEx as a % of Revenue	3%
TV Growth	0.5%

Sum of PV of FCFF	132
Terminal Value	387
PV of Terminal Value	210
Enterprise Value	342
(+) Cash	75
(-) Debt	45
Equity Value	373
Shares Outstanding	28
Implied Share Price	13.27

ADF's bottom line and cash flow generation are most sensitive to the price of steel. Although very hard to predict, it's not impossible to forecast increased steel prices, because of the trade war and because of the growing concerns of steel dumping in Canada. Minister Joly also mentioned an eventual crackdown of steel dumping in Canada ([source](#)). From a DCF approach, the company is underappreciated and could return 50.62%.

## ADF Group Gross Margins VS Steel Prices



## Valuation #2 (Relative Valuation):

June 6, '25 (CAD mm)																		
Ticker	Market Cap	Enterprise Value	Current Price cad	%-52-Wk High	Revenue Growth %		EBITDA Margin %		EV/EBITDA		EV/FCF		P/Sales		FCF Yield %		Debt/EBITDA	
					'24-'25	'25-'26	'25	'26	'25	'26	'25	'26	'25	'26	'25	'26	'24	'25
NYSE: CMC	7,568	8,166	66.98	77%	-2%	9%	10%	12%	7x	6x	91x	16x	0.71x	0.65x	1.18%	6.62%	1.6x	1.6x
NASDAQ: ASTL	759	1,187	7.23	48%	-2%	20%	-6%	13%	-	3x	-	5x	0.31x	0.26x	-	32.21%	-	-
TSE: 5480	516	1,180	36.61	71%	-5%	11%	10%	12%	7x	5x	11x	8x	0.32x	0.29x	21.22%	28.77%	3.5x	3.5x
ASX: CVL	474	548	0.93	72%	-17%	9%	11%	11%	7x	6x	44x	10x	0.64x	0.59x	2.60%	11.59%	1.1x	1.3x
Mean	2,329	2,770		67%	-6%	12%	6%	12%	7x	5x	49x	10x	0.50x	0.45x	8.33%	19.80%	2.1x	2.1x
Median	637	1,183		71%	-3%	10%	10%	12%	7x	6x	44x	9x	0.48x	0.44x	2.60%	20.18%	1.6x	1.6x
TSX: DRX	248	217	8.81	32%	7%	-20%	27%	18%	2x	4x	3x	8x	0.72x	0.90x	27.23%	10.38%	0.8x	0.7x

Valuation Method	Implied Share Price
EV/EBITDA '25	23.69
EV/EBITDA '26	9.78
EV/FCF '25	101.28
EV/FCF '26	8.35
P/Sales '25	6.58
P/Sales '26	4.88
Average Implied Price	25.76
<b>Median Implied Price</b>	<b>9.07</b>
Current Share Price	8.81
Upside/Downside %	3%

**Reverse DCF:** At current prices, the market is currently assuming gross margins of 17.5% (most likely due to increased steel prices after imposed tariffs from the U.S. and Canada. The market is also assuming very low revenue growth of around 1%/year for the next 10 years, and terminal growth of 0.5%/year. Inversely, if the company outperforms on any of these (increased gross margins, revenue growth, etc.) the stock should increase.

COGS as a % of Revenue		WACC								
	13.26	5.00%	5.50%	5.80%	6.00%	6.30%	6.70%	7.00%	7.30%	7.70%
	70.0%	37.60	33.84	31.93	30.77	29.19	27.31	26.06	24.91	23.54
	72.5%	32.46	29.22	27.57	26.57	25.21	23.59	22.51	21.52	20.33
	75.0%	27.31	24.60	23.21	22.37	21.23	19.87	18.96	18.13	17.13
	77.5%	22.17	19.97	18.85	18.17	17.24	16.15	15.41	14.74	13.93
	80.0%	17.03	15.35	14.49	13.97	13.26	12.42	11.86	11.35	10.73
	82.5%	11.89	10.73	10.13	9.77	9.28	8.70	8.30	7.96	7.53
	85.0%	6.75	6.10	5.77	5.57	5.30	4.98	4.76	4.57	4.33
	87.5%	1.61	1.48	1.41	1.37	1.32	1.26	1.21	1.18	1.13

COGS as a % of Revenue		Revenue Growth								
	13.26	0.125%	0.25%	0.50%	0.75%	1.00%	2.00%	3.00%	4.00%	5.00%
	70.0%	27.15	27.43	28.00	28.59	29.19	31.70	34.42	37.37	40.55
	72.5%	23.43	23.68	24.18	24.69	25.21	27.39	29.76	32.33	35.10
	75.0%	19.71	19.92	20.35	20.78	21.23	23.09	25.11	27.29	29.65
	77.5%	16.00	16.17	16.52	16.88	17.24	18.78	20.45	22.25	24.20
	80.0%	12.28	12.42	12.69	12.97	13.26	14.48	15.79	17.21	18.75
	82.5%	8.56	8.66	8.86	9.07	9.28	10.17	11.13	12.17	13.30
	85.0%	4.84	4.91	5.04	5.17	5.30	5.86	6.47	7.13	7.85
	87.5%	1.13	1.15	1.21	1.26	1.32	1.56	1.82	2.10	2.40

**Summary:** I believe that 1) ADF Group is a sound company that the market is currently greatly discounting amidst trade tensions, even though backlog orders (future sales) show strong momentum, 2) the company has a lot of room to continue repurchasing shares to increase shareholder returns and lower its cost of capital. They can do so with their excess cash and/or by borrowing money given their low debt levels compared to peers (0.79x vs 1.63x EBITDA).

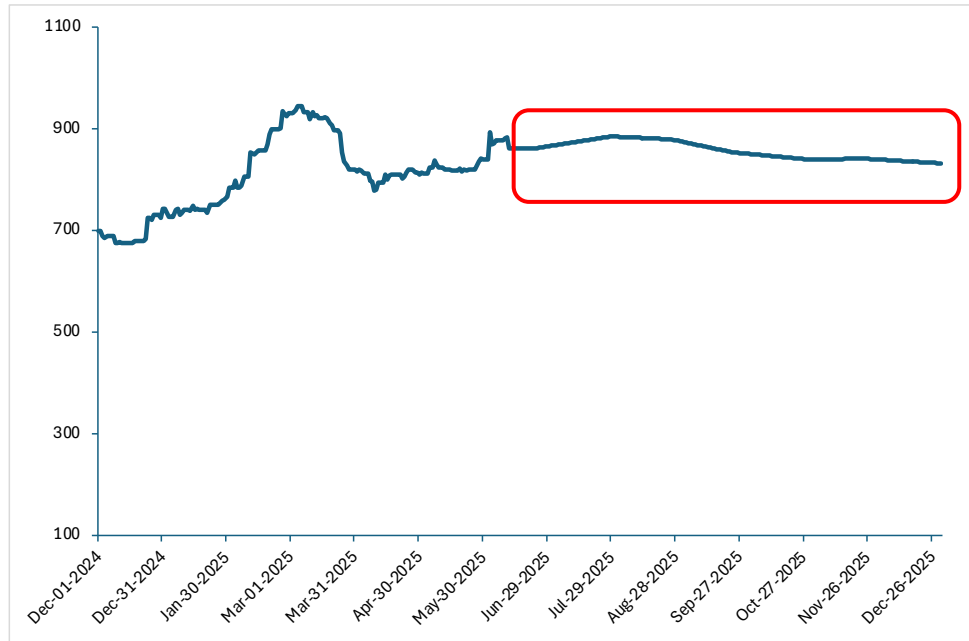
### Pros:

- ADF's management team are family members of the founding team and have maintained somewhat stable levels of ownership in the business since 2004
- Non-residential construction in the U.S. remains strong, growing +3% YoY in March and April 2025
- Canadian contract bidding is expected to accelerate (Hydro-Québec and Ontario projects), reducing reliance on U.S.-based revenue
- Strong backlog and management outlook
- All my implied share prices include conservative buybacks and PE multiples

### Cons:

- Uncertainty from trade war and steel price volatility make it hard to accurately forecast margins for ADF, but according to CME steel futures, prices should remain stable through 2025 (red box on graph below):

### Historical and Forecasted Steel Prices



- The Paschini family holds over 40% of the shares (80% of voting rights), this can pose a challenge over hostile activist campaigns and propositions. Any recommendation to pursue share buybacks must be carefully tailored to reflect ADF's concentrated ownership structure and should be presented in a manner that is both collaborative and aligned with management's long-term interests.

## Appendix:

### *Implied Relative Valuation Share Prices:*

*CAD mm*

EV/EBITDA '25	
'25 EBITDA	91.7
WACC	6.31%
PV of '25 EBITDA	86.3
Comparable Ratio	7x
Enterprise Value	634.8
(-) Funded Debt	44.5
(+) Cash	75.3
Implied Equity Value	665.6
Shares Outstanding	28.1
Estimated Share Price	23.69
Current Share Price	8.81
Upside/Downside %	169%

*CAD mm*

EV/EBITDA '26	
'26 EBITDA	48.4
WACC	6.31%
PV of '26 EBITDA	42.8
Comparable Ratio	6x
Enterprise Value	244.1
(-) Funded Debt	44.5
(+) Cash	75.3
Implied Equity Value	274.9
Shares Outstanding	28.1
Estimated Share Price	9.78
Current Share Price	8.81
Upside/Downside %	11%

*CAD mm*

EV/FCF '25	
'25 FCF	67.4
WACC	6.31%
PV of '25 FCF	63.4
Comparable Ratio	44x
Enterprise Value	2,815.2
(-) Funded Debt	44.5
(+) Cash	75.3
Implied Equity Value	2,846.0
Shares Outstanding	28.1
Estimated Share Price	101.28
Current Share Price	8.81
Upside/Downside %	1050%

*CAD mm*

EV/FCF '26	
'26 FCF	25.7
WACC	6.31%
PV of '26 FCF	22.7
Comparable Ratio	9x
Enterprise Value	203.8
(-) Funded Debt	44.5
(+) Cash	75.3
Implied Equity Value	234.6
Shares Outstanding	28.1
Estimated Share Price	8.35
Current Share Price	8.81
Upside/Downside %	-5%

CAD mm

P/Sales '25	
'25 Sales	342.2
WACC	6.31%
PV of '25 Sales	321.9
Comparable Ratio	0.48x
Enterprise Value	154.2
(-) Funded Debt	44.5
(+) Cash	75.3
Implied Equity Value	185.0
Shares Outstanding	28.1
Estimated Share Price	6.58
Current Share Price	8.81
Upside/Downside %	-25%

CAD mm

P/Sales '26	
'26 Sales	274.3
WACC	6.31%
PV of '26 Sales	242.7
Comparable Ratio	0.44x
Enterprise Value	106.2
(-) Funded Debt	44.5
(+) Cash	75.3
Implied Equity Value	137.0
Shares Outstanding	28.1
Estimated Share Price	4.88
Current Share Price	8.81
Upside/Downside %	-45%

WACC Calculation + Bottom-Up  $\beta$ :

June 6, '25 (CAD mm)

Ticker	Market Cap	Enterprise Value	LTM EBITDA Margin %	Levered $\beta$ (5Y)	D/E	Effective Tax Rate LTM	Unlevered $\beta$	Weight
NYSE: CMC	7,568	8,166	9.5%	1.27	0.30x	26.0%	1.04	15%
NASDAQ: ASTL	759	1,187	-13.5%	1.56	0.44x	0.0%	1.08	35%
TSE: 5480	516	1,180	13.2%	0.98	0.82x	27.8%	0.61	25%
ASX: CVL	474	548	10.1%	(0.01)	0.24x	29.6%	(0.01)	25%
TSX: DRX	248	217	16.9%	(0.66)	0.27x	19.0%	(0.54)	
Relevered $\beta$							0.84	

#### MRQ Funded Debt, CAD mm

Current Portion of LT Debt	4.3
ST Lease Liabilities	0.9
LT Debt	37.2
LT Lease Liabilities	2.1
<b>Total Funded Debt</b>	<b>44.5</b>

#### Debt and Equity Weights

Total Funded Debt	45
Mkt Cap	248
Firm Value	292
<b>Debt Weight</b>	<b>15.24%</b>
<b>Equity Weight</b>	<b>84.76%</b>



**Cost of Equity (Ke) = Rf + B(ERP)**

Canada 10yr, 05/06/2025	Rf	3.25%
	Relevered B	0.84
Damodaran June ERP	ERP	4.41%
	<b>Ke</b>	<b>6.94%</b>

**Cost of Debt (Kd) = Rf + Credit Spread**

	5-yr avg int. Covg ratio	9.65
Damodaran ERP (AA-Aa2)	Credit Spread	0.60%
	Rf	3.25%
	<b>Kd</b>	<b>3.85%</b>

**WACC = ((E/V\*Ke)+((D/V\*Kd)\*(1-Tc)))**

Cost of Debt (Kd)	3.85%
Weight of Debt (D/V)	15.24%
Marginal Tax Rate (Tc)	26.50%
Cost of Equity (Ke)	6.94%
Weight of Equity (E/V)	84.76%
<b>WACC</b>	<b>6.31%</b>