NAPEC Inc.

NPC-TSX
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Infrastructure & Construction | Construction

January 25, 2017
Company Report - Initiation of Coverage

Outperform 2
C$1.40 target price

Current Price (Jan-23-17)	C$0.93
Total Return to Target	51%
52-Week Range	C$1.27 - C$0.68
Suitability	High Risk/Growth

Market Data

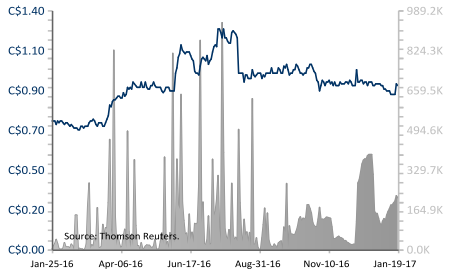
Market Capitalization (mln)	C$97
Current Net Debt (mln)	C$92
Enterprise Value (mln)	C$189
Shares Outstanding (mln)	103.9
10 Day Avg Daily Volume (000s)	217
Dividend/Yield	C$0.00/0.0%

Key Financial Metrics

	2015A	2016E	2017E	2018E
EV/EBITDA	9.3x	7.9x	5.0x	4.4x
EBITDA Margin (%)	5.9%	6.8%	8.5%	8.7%
P/E	nm	nm	nm	11.6x
Riggs Distler Revenues (mln)	C$269	C$286	C$372	C$419
Thirau Revenues (mln)	C$75	C$64	C$74	C$77
Net Debt/EBITDA				2.9x
Net Debt/Equity				0.8x
Book Value				C$1.18

Company Description

NAPEC is a specialty contractor that provides construction and maintenance services for electric and gas utilities as well as industrial customers in the U.S. Northeast, Quebec and Ontario.



Power Play to Score Big Gains for Investors

Recommendation

With this report, we finally add another contractor to our coverage universe. Our gut tells us the wait will have been well worth it. We see in NAPEC a promising growth company that continues to fly under the radar of most small cap investors. Our analysis suggests the stock presently carries little downside risk and solid upside as the specialty contractor capitalizes on the growing and dynamic market for electric and gas utility work, and its earnings reach an inflection point later this year. We assign NAPEC an Outperform rating and a target of $1.40, reflecting a potential return of 51% from current levels.

Analysis

- **Changing industry creating a perfect storm of organic growth opportunities.** NAPEC generates the bulk of its business from Northeastern U.S. utilities, which are undergoing a profound makeover unlike anything seen previously in terms of scale, scope and speed. After years of relative stability, the industry now has to contend with aging infrastructure, an unprecedented shift in energy supply patterns and ever stricter regulations. Importantly, all of this is effecting record capital spending plans for some of NAPEC's major customers—including Exelon and Con Edison.
- **Utilities are merging to supplement growth aspirations—creating tremendous opportunities for contractors willing and able to grow with them.** With CEO Pierre Gauthier's deep industry knowledge and sound forward thinking, support from Quebec's two largest pension funds and access to capital markets, we see NAPEC particularly well positioned to consolidate small electrical and gas utility contractors across the U.S. Northeast. Longer-term, we believe the stock represents an ideal takeover target for a large utility contractor with subscale presence in the region, or a diversified firm lacking capacity in NAPEC's service areas.
- **We are attracted to NAPEC's high-margin recurring work.** With the recent acquisition of PCT Contracting, which commands a leading position in New York's lucrative natural gas market, two-thirds of NAPEC's business now stems from maintenance, repair and upgrade work self-performed on a time and material basis. This service heavy revenue component, we argue, will help lower, if not eliminate the risk of losses on construction projects. It should also be reflected in higher multiples down the road, ceteris paribus.

Valuation

We base our valuation on an EV/EBITDA multiple of 6.0x our 2017 estimates. This target multiple is within the range of 4.0x to 7.0x the stock has commanded over the past five years, and below the 6.5x that a group of specialty contractors have averaged over the same period (in view of NAPEC's smaller capitalization and limited trading liquidity).

EBITDA (mln)	1Q Mar	2Q Jun	3Q Sep	4Q Dec	Full Year	Revenues (mln)	EPS
2015A	NA	NA	NA	NA	C$20.3	C$344	C$0.03
2016E	6.6	4.8	6.3	6.2	23.9	350	(0.02)
2017E	8.1	8.8	9.8	11.1	37.9	446	0.04
2018E	8.9	9.8	11.1	13.4	43.2	496	0.08

Source: Raymond James Ltd., Thomson ONE.
Note: Net Debt and Shares Outstanding figures are pro-forma the 4Q16 acquisition of PCT Contracting

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Investment Overview

In our years following Canada's publicly-traded contractors, we were presented with many opportunities to add to our coverage list. We passed on several of them as we couldn't get comfortable with these firms' managements, strategies, service offerings or geographic footprints. It proved the right decision, in hindsight, as the stocks we contemplated failed to create meaningful value for investors. While the same can be said of NAPEC up to now, we argue the proverbial stars are beginning to align for this specialized utility contractor. Our analysis shows that NAPEC carries little downside risk at current levels and solid upside potential as the company capitalizes on the growing and consolidating market for electric and gas utility construction. On this basis, we are launching coverage of the common shares with an Outperform rating and a target price of $1.40. Some of the key considerations supporting our investment case include:

- **Visibility into double-digit organic growth through 2018.** NAPEC derives over 80% of its revenues from the Northeast U.S., where factors are converging to form an exceptionally supportive operating environment. Sitting atop the list are reliability and safety. U.S. regulators won't allow the electric grid to reach the breaking point again after Hurricane Sandy left 8.5 million people without power and paralyzed Manhattan. As a result they are now granting operators rate base increases to reinvest in aging infrastructure. In addition, publicly-listed utilities are playing catch-up after years of underinvestment in the wake of the global financial crisis. With a stronger American economy and continued access to low-cost capital, they are more open to invest for the long-run. Lastly, a rapidly changing energy mix in favour of natural gas and renewables is driving major investments in the infrastructure to bring this new power to market. All of this is effecting record capital spending plans for some of NAPEC's major customers—including Exelon and Con Edison.

- **Poised to capitalize on abundant M&A opportunities.** More and more utilities are turning to acquisitions to combat the adverse effect of reduced consumer demand, steeper regulatory costs and increased competitive options for power. As they get bigger and oversee larger capex programs, we believe utilities will expect increasingly more from their suppliers. Therein lies the opportunity for NAPEC, which has ambitions and the wherewithal to grow with them. With CEO Pierre Gauthier's industry know-how and sound forward thinking, support from Quebec's two largest pension funds (Caisse de dépôt et placement du Québec (la Caisse), the Fonds de solidarité des travailleurs du Québec (FTQ)) and access to capital markets, we see NAPEC particularly well positioned to consolidate small electrical and gas utility contractors across the U.S. Northeast. Longer-term, we believe the stock represents an ideal takeover target for a large utility contractor with subscale presence in the region, or a diversified firm lacking capacity in NAPEC's service areas.

- **High single-digit EBITDA margins well within reach.** Mr. Gauthier is orchestrating a three-year strategic plan that has seen NAPEC reposition its Canadian and U.S. operations, sell non-core businesses and target more profitable activities. While the impact on margins has already been impressive, we expect a step-up in profitability this year from the recent acquisition of PCT Contracting, which commands a leading position in New York's lucrative natural gas market. There is potential for further improvements next year, as NAPEC's restructuring efforts yield additional savings and scale drives operating leverage. This, at least, is what is implicit in our sector-leading EBITDA margin target of 8.7% for 2018.

- **Relatively high proportion of low-risk recurring work a key advantage.** With the recent PCT deal, two-thirds of NAPEC's business now stems from maintenance, repair and upgrade work performed on a time and material basis. This compares favourably to Aecon Group, Stuart Olson and Bird Construction which derive approximately 20%, 15% and 7% of their respective top-line from repeat business. NAPEC's service heavy revenue component, we argue, will help lower, if not eliminate the risk of losses on construction projects. It should also be reflected in higher multiples down the road, despite the firm's smaller capitalization.

- **Excellent entry point for investors.** The stock notably trades at an EV/EBITDA multiple of 5.0x our 2017 estimates, versus average multiples of 6.2x for the three Canadian contractors we cover and 8.2x for a better representative group of U.S. specialty contractors. Assuming NAPEC delivers on its well-laid out strategic plan and the market rewards the company appropriately, we believe investors could be staring at a $2.00 stock price in two years' time.

Company Backgrounder

A Bit of History

North American Power and Energy Corporation (NAPEC) is a leading service provider to the public utility and heavy industrial markets of Quebec, Ontario and the U.S. Northeast. The specialty contractor primarily builds and maintains electrical transmission and distribution grids across its operating regions. In the U.S., NAPEC also delivers comprehensive services to natural gas utilities, installs heavy equipment for power and petrochemical plants, and offers environmental construction and road matting services. Importantly, it does not offer engineering services, manufacture products or supply materials, consistent with the other contractors included in our Infrastructure & Construction (I&C) universe. As of Dec-31-15 the company employed 9 people at its Drummondville, QC headquarters and another 1,160 between its Canadian and U.S. subsidiaries—Thirau and Riggs Distler. Approximately 84% of the workforce is unionized, yielding NAPEC the ability to staff large projects in a timely fashion.

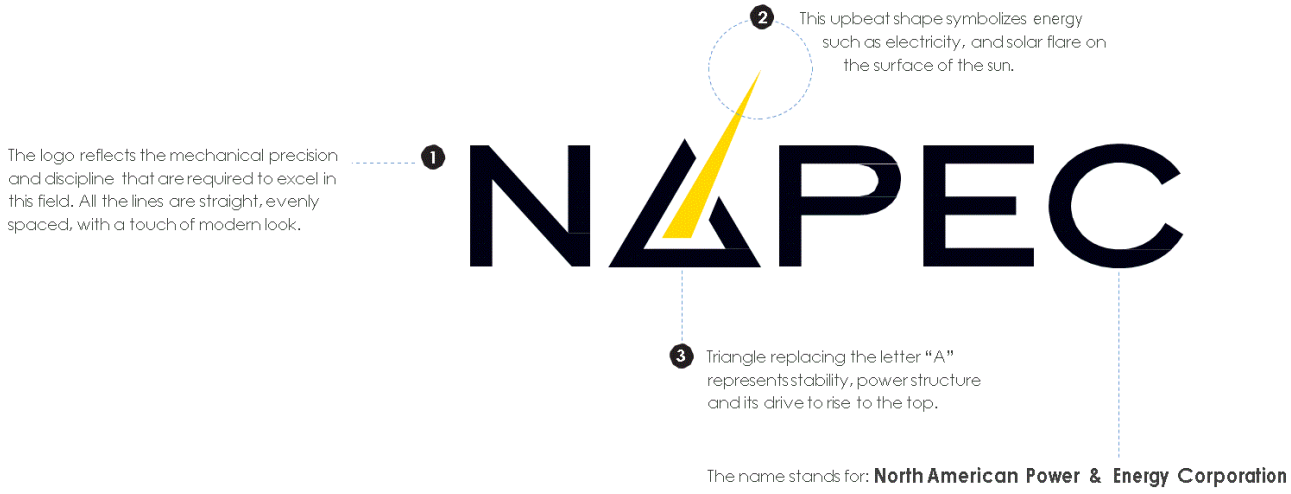
NAPEC's history traces back to 2005 and CVTech Group

NAPEC's history as a public entity traces back to 2005 and CVTech Group—a public company formed to hold investments in companies with specific, recognized and exportable expertise. The CVTech name took after a business that specialized in the design and manufacturing of continuously variable power transmission (CVT) systems for compact cars and recreational vehicles. Later that year CVTech dove into construction with the $17 million acquisition of Thiro, which served the Quebec and New England electrical transmission and distribution markets. In 2009, the company capitalized on the global financial crisis to purchase Riggs Distler & Company, a 107-year old New Jersey based contractor, for US$37 million. The deal not only extended CVTech's footprint into the Mid-Atlantic region, but also added heavy industrial expertise, including mechanical and electrical fabrication, to its service offering. Expansion into Ontario followed in 2012, when Riggs Distler established a subsidiary and subsequently acquired B.G. High Voltage as a means to bolster its substation capabilities in the province. Despite increasing overlap in coverage, each business unit was left to operate independently, with limited involvement from CVTech senior management.

A lack of oversight and big contract losses led to changes at the board and executive levels in mid-2014

Unfortunately for shareholders this lack of oversight, combined with distractions around the CVT business sale and a lengthy proxy battle over attractive takeout offers quietly rejected by the board, led to two material contract losses in 2013 and 2014. It also paved the way for major changes at both the board and executive levels. None were as pivotal as the appointment of Pierre Gauthier, who led the North American power operations of Alstom before its acquisition by GE, to President and Chief Executive Officer in mid-2014. That summer, the company adopted the NAPEC brand just as Mr. Gauthier set out on a journey to make it more efficient and competitive.

Exhibit 1: The firm adopted the NAPEC name in 2014 to better reflect its true identity: a North American Power and Energy Corporation

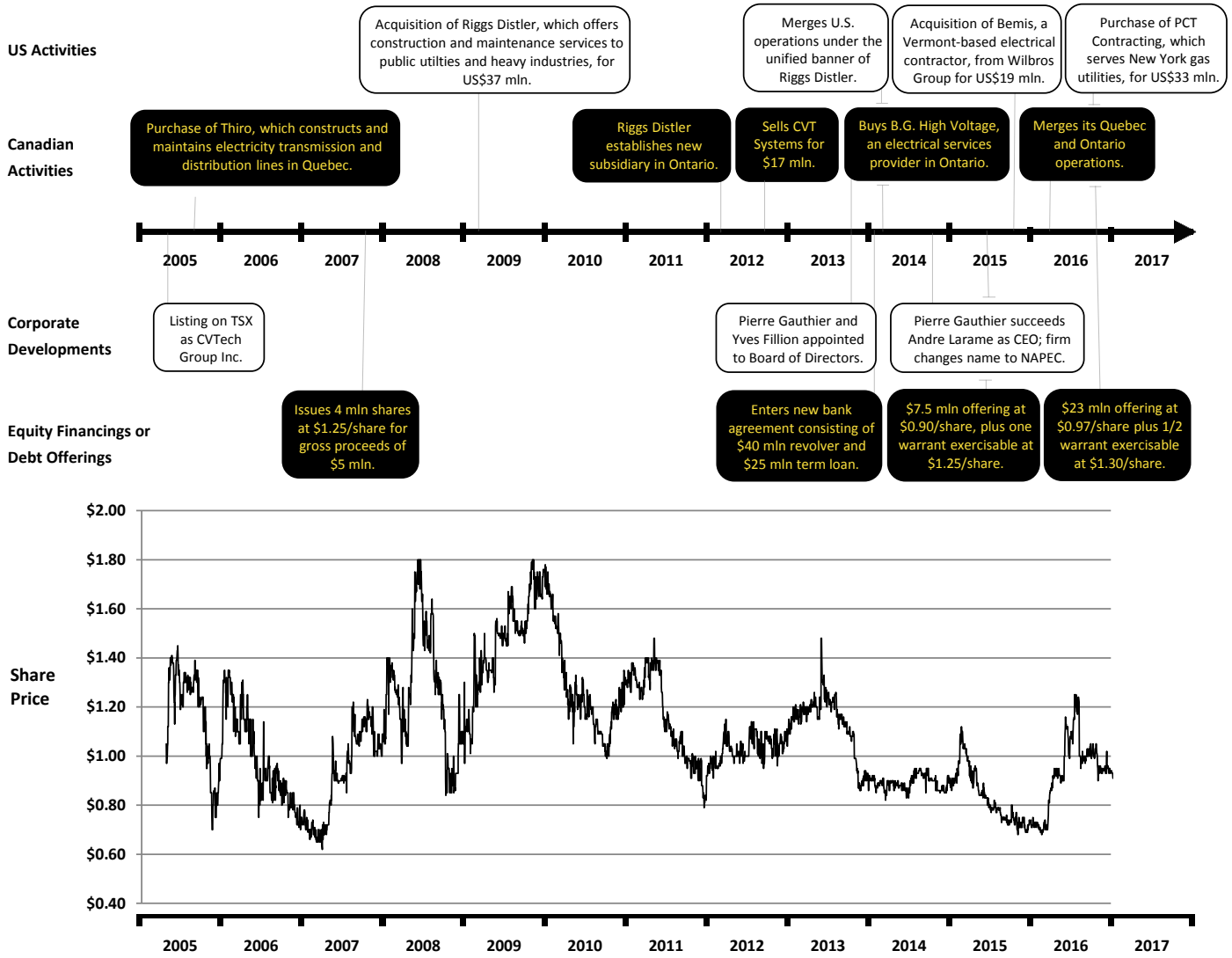


Source: NAPEC Inc.

Today Mr. Gauthier is more than halfway through a three-year strategic plan that has seen the contractor consolidate its U.S. operations under the Riggs Distler brand, integrate the Quebec and Ontario businesses into a single Canadian platform, sell a non-core pruning and vegetation control subsidiary and, perhaps more importantly, attract industry veterans to key middle management roles. With a proper foundation finally in place, we believe NAPEC can now capitalize on the large, growing and fragmented market for mechanical and electrical contracting services. The Street caught a taste of this in late 2015 when the company acquired Bemis LLC from rival Willbros Group for under 5.0x TTM EBITDA. The US$19 million deal significantly improved NAPEC's presence in Vermont, which is expected to play a vital role in linking Quebec's rich hydropower resources to New England's high-load regions, and added high-value road matting expertise that can be leveraged across the contractor's network. Last fall NAPEC purchased New York-based PCT Contracting for US$33 million, or about 5.0x TTM EBITDA, with the proceeds of a public offering and a concurrent private placement with la Caisse, FTQ and certain insiders. Importantly, PCT instantly gave NAPEC a leading position in New York's natural gas infrastructure market, one of the world's largest and oldest, as well as a substantial backlog of recurring revenues contracted out to 2020.

NAPEC has restructured its operations and recruited industry veterans under CEO Pierre Gauthier's leadership

Exhibit 2: Company and Share Price History (2005-Present)



Source: NAPEC Inc., Raymond James Ltd.

Management and Ownership

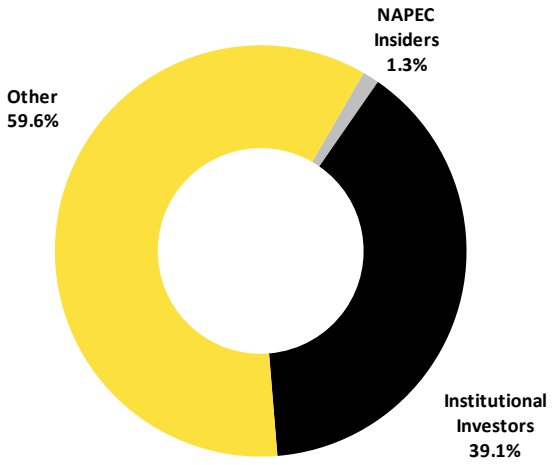
Supporting Mr. Gauthier operationally on both sides of the 49th parallel are Stephen Zemaitatis Jr. and Sebastien Delorme. Mr. Zemaitatis joined Riggs Distler as project manager in 1998 and played increasingly more senior roles until his appointment as President in 2014. We believe he holds all the right tools to leverage the high-profile Riggs Distler brand into steady market share growth in the Northeastern U.S. Mr. Delorme, a 15-year industry veteran, took office in June 2015 after serving as Operation Director for HMI Construction (a Quebec-based company recognized for its turn-key expertise in the energy, heavy industry and environment sectors). He has already surrounded himself with an experienced field operations management team, positioning Thirau well for profitable and sustainable growth in Quebec and Ontario. Also working alongside Mr. Gauthier is Mario Trahan, NAPEC's Chief Financial Officer since 2004. He joined CVTech as Chief Accountant in 1997 and later became Controller and Director of Finance and Administration.

FTQ and La Caisse own 20% and 14% of the stock, respectively

NAPEC's common shares trade on the Toronto Stock Exchange under the ticker NPC. We estimate there are approximately 103.9 million shares outstanding pro-forma the PCT transaction and concurrent financings. The company notably raised $15 million through a bought deal and another $8.5 million privately from La Caisse and FTQ. The offering consisted of 24 million subscription receipts exchangeable for one common share of NAPEC (priced at $0.97 per share) and one-half of one share purchase warrant exercisable at a price of $1.30 up until Nov-24-18. Also outstanding are 2.0 million options with a weighted average exercise price of $0.92 per share and another 8.3 million warrants entitling the holder to purchase one common share for $1.25 up until Jun-02-17. It should be noted that the warrants are subject to an early expiry option if NAPEC's stock closes above $1.45 for 10 consecutive trading days.

Exhibit 3: Share Ownership Position (Pro-Forma as of Nov-24-16)

Ownership Summary	Shares Owned	%
Management. Directors and Other Insiders		
Trahan, Mario	214,600	0.2
Gauthier, Pierre L.	183,100	0.2
Leboldus, Michael	173,000	0.2
Rochette, Jean	166,777	0.2
Reny, Luc	150,000	0.1
Zemaitatis, Stephen M.	115,176	0.1
Others	355,500	0.3
Total Management & Insiders	1,358,153	1.3
Institutional Ownership		
Fonds de solidarité FTQ	20,627,743	19.8
Caisse de dépôt et placement du Québec	14,849,327	14.3
IG Investment Management, Ltd.	3,578,800	3.4
Stornoway Portfolio Management Inc.	1,250,000	1.2
Timelo Investment Management Inc.	215,200	0.2
Cote 100 Inc.	75,900	0.1
Total Institutional Investors	40,596,970	39.1
Other	61,968,053	59.6
Total Shares Outstanding	**103,923,176**	100.0



Source: NAPEC Inc., Raymond James Ltd.

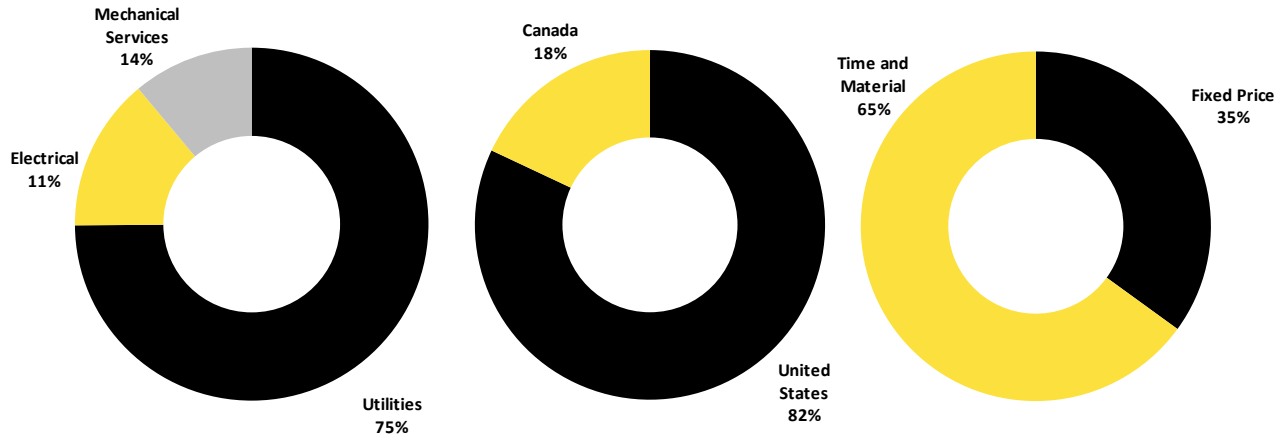
Using a current stock price of $0.93 and treating the aforementioned in-the-money options as equity, NAPEC's market capitalization equates $97 million. After adding $92 million in net debt, which represents our 2016 year-end estimate after taking into consideration the PCT deal, the firm's enterprise value approximates $189 mln. On a pro-forma basis, this equates to a TTM EV/EBITDA multiple of 5.8x versus an average of 9.2x for a group of larger U.S. specialty contractors, and a net debt/EBITDA ratio of 2.9x.

Investment Perspective

How NAPEC's Revenues Are Derived

Approximately 75% of the contractor's volume today is performed for electrical and natural gas utilities in the U.S. Northeast, Quebec and Ontario. Included in this category are NAPEC's core work on electrical transmission and distribution networks, its recently acquired natural gas activities, and the value-added road matting services it purchased from Bemis in 2015. The rest is split between the electrical and mechanical activities that the firm executes for industrial customers—from the installation of instrumentation and control systems to the construction of gas power stations and refineries. From a geographical standpoint, NAPEC's business is skewed to the United States.

Exhibit 4: NAPEC is a Specialty Contractor that Serves Utilities and Heavy Industrial Companies in Quebec, Ontario and the U.S. Northeast



Source: NAPEC Inc., Raymond James Ltd.

NAPEC earns healthy margins by self-performing much of its work

It is important to stress that in contrast to Bird and Stuart Olson, NAPEC self-performs the vast majority of its work. This ranges from large jobs with significant dollar values and long timelines, such as the $61 million contract recently completed for a section of the 735 kV electricity transmission line tying the Romaine 4 generating station to Hydro-Quebec's grid, to special projects that often need to be completed in an expedited manner (an example is the emergency repair work the company executed following Hurricane Sandy in the fall of 2012). Given the specialized nature of its work, NAPEC should earn higher EBITDA margins than most other construction stock we follow, ceteris paribus.

Exhibit 5: Examples of NAPEC's Transmission and Overhead Distribution Work

Source: NAPEC Inc.

Also worth highlighting is the firm's comparatively high proportion of recurring revenues. With the recent acquisition of PCT, only about a third of NAPEC's top-line today is generated through fixed-price (or lump-sum) contracts, where the promise of higher returns must be constantly weighed against execution, cost and schedule risks. The remaining two-thirds stems from

maintenance, repair and upgrade work performed on a time and material basis. These service agreements can last up to five years and typically include renewal options exercisable at the client's discretion. Importantly for NAPEC, they allow for better allocation of resources, be they human or capital, and underpin steady revenue streams throughout quarters. Deviations from the norm will invariably occur, but will almost always be explained by weather-related disruptions. As one can imagine, extremely cold conditions will hinder the pace of construction activity, whereas natural disasters have the potential to accelerate it. This revenue predictability, we argue, is one of the advantages NAPEC holds over the likes of Aecon, Stuart Olson and Bird, which currently derive approximately 20%, 15% and 7% of their respective top-line from repeat business.

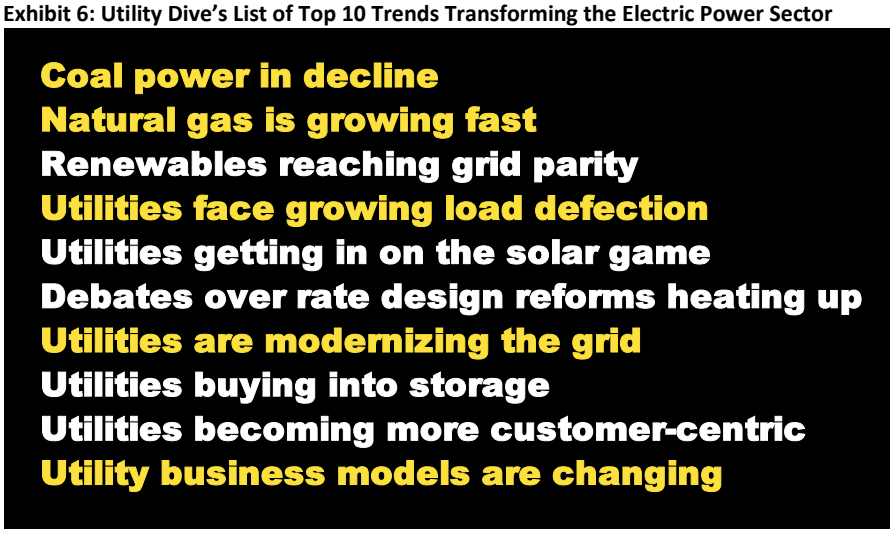
Tackling Two Different Beasts

The North American utility sector is in a state of flux

Utilities in the U.S. and Canada are undergoing a profound makeover unlike anything seen previously in terms of scale, scope and speed. After years of relative stability, the industry now has to contend with aging infrastructure, an unprecedented shift in energy supply patterns, ever stricter regulations and—to top things off—negligible load growth projections. Importantly, all of this is compelling utilities to turn to M&A as the preferred source to supplement their earnings growth aspirations. We believe these forces are also creating tremendous opportunities for the service providers that are both willing and able to grow with their clients. This is where NAPEC comes in.

Although they share many attributes, the U.S. and Canadian utility markets differ in composition. Domestically, the electric utility sector is dominated by few large players such as Hydro One in Ontario and Hydro-Quebec in the predominantly French-speaking jurisdiction. In contrast, an astounding 3,300 electricity providers connect to the U.S. grid. Given this distinction, and the fact that NAPEC's Riggs Distler and Thirau divisions focus exclusively on the U.S. and Canada, respectively, we analyze below both markets separately.

Exhibit 6: Utility Dive's List of Top 10 Trends Transforming the Electric Power Sector



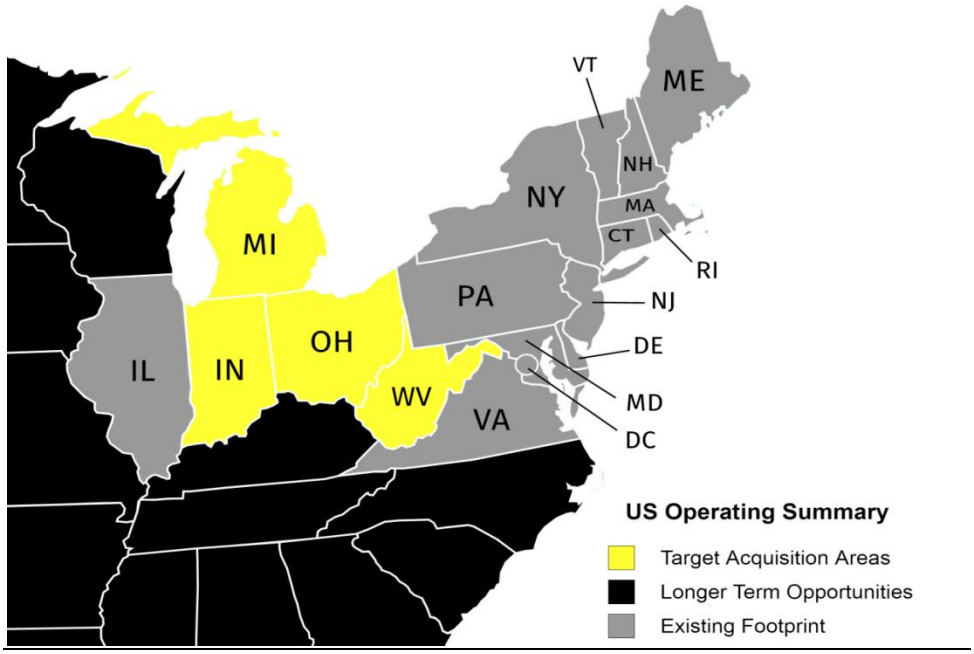
Source: Utility Dive, Raymond James Ltd.

Growth Opportunities Abound for Riggs Distler in the U.S.

NAPEC's wholly owned U.S. subsidiary, Riggs Distler, is a 107-year old entity that provides full-cycle services for the electrical and mechanical facilities of public utilities and heavy industry. Its services are concentrated in New England and the Mid-Atlantic states, but also extend to the Midwest. They also run the gamut—from the construction and upkeep of electrical and gas networks, to the restoration of damaged infrastructure and the assembly of solar power plants (Riggs Distler notably ranks as the fourth largest builder of solar farms in the U.S.). We should note the 4Q15 acquisition of Bemis added road matting and environmental construction, two services the division previously subcontracted, to its offering. NAPEC didn't stop there; it invested roughly $6 million last year in the roll-out of road matting services across Riggs Distler's operations. Meanwhile the PCT transaction allowed the firm to tap into Tri-State Area's colossal natural gas infrastructure market and score Con Edison as a new customer. Ultimately, this deal should facilitate opportunities for NAPEC to not only cross-sell its electrical know-how to this

major utility, but also market PCT's gas expertise to two existing customers in the region (PSE&G and National Grid).

Exhibit 7: Map of Riggs Distler's Existing Footprint and Target Acquisition Areas



Source: Mapchart.net, Raymond James Ltd.

NAPEC has excellent opportunities to grow organically in the United States…

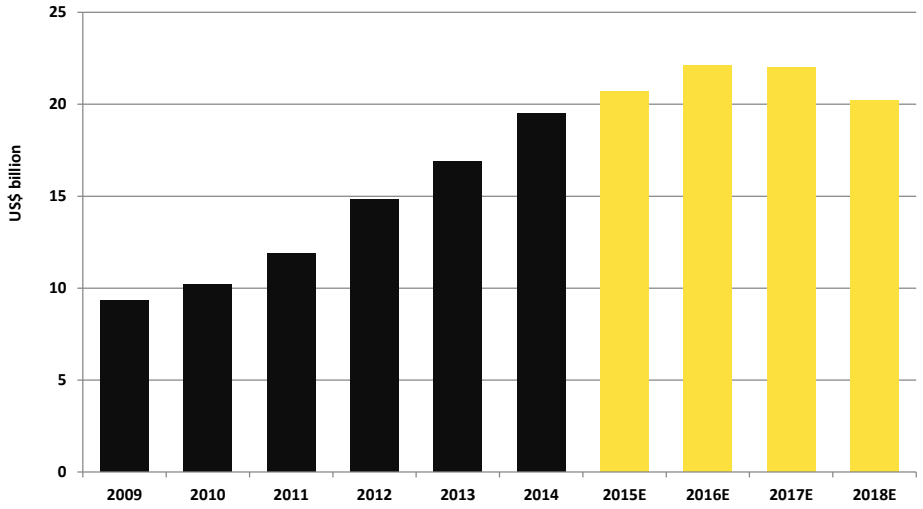
From where we sit, four developments in the U.S. utilities sector are creating a perfect storm of organic growth opportunities for NAPEC:

- **Regulators won't allow the U.S. electrical grid to reach the breaking point again.** Hurricane Sandy was not the worst, most expensive or deadliest storms to ever hit the U.S., but it left 8.5 million people without power in twenty-one states and paralyzed Manhattan for more than four days. This left a profound and lasting impact on how utilities and regulators think about the grid. Today, as a result, more and more operators are granted rate base increases to reinvest in their aging infrastructure.
- **Utilities are playing catch-up after years of underinvestment.** The global financial crisis of 2008–2009 brought obvious challenges to most publicly-listed utilities. Several slashed their capital spending plans, which in the process pushed the ages of the average transformer and average transmission line to upwards of 40 years and 25 years, respectively. But today, with a stronger American economy and access to very low-cost capital, utilities are generally more open to invest for the long-run. An example of this is Con Edison, PCT's largest customer in New York, is accelerating the replacement of its leak-prone pipes to a rate of 100 miles annually, from 65 miles previously.
- **The shale gas revolution has changed everything.** Discoveries along the prolific Marcellus and Utica shale formations have driven the supply of low-cost natural gas through the proverbial roof. This, in turn, is firing up the construction of several natural gas-fired power facilities in Pennsylvania and Ohio—two states with large installed bases of coal power plants slated for retirement. While a repeal of the Clean Power Plan by newly inaugurated President Donald Trump could ultimately slow down the phase out of these less-efficient coal plants, basic economics tells it is unlikely to stop natural gas' momentum. For proof consider that in the Buckeye state alone, there are seven utilities currently advancing US$6 billion worth of projects, with each requiring at minimum one power line to connect to the grid.
- **The energy mix is shifting in favour of renewables.** Notwithstanding natural gas' increasing importance in the supply stack, the International Energy Agency (IEA) expects wind, solar and hydro to combine for more than half of new generation capacity built globally through 2035. Moreover, states in the U.S. Northeast are enacting legislation on renewable energy targets, requiring utilities to purchase power from hydroelectric dams located in Canada. This is

spurring large transmission developments such as the US$1.2 billion New England Clean Power Link, which will transport energy from Quebec to New Hampshire and beyond.

We believe these four drivers will sustain healthy utility investments well beyond 2018. Echoing our view is the Edison Electric Institute (EEI), which represent all investor-owned utility companies in the U.S. The association calls for electric transmission investments to average US$21 billion annually through our forecast horizon, on par with the amount spent in the past two years and well above the US$8 billion deployed per annum in the "good years" leading up to the financial crisis. Importantly, for the foreseeable future, the EEI expects the industry to inject similarly healthy levels of capital into the nation's electric distribution networks.

Exhibit 8: Actual and Planned Transmission Investment for U.S. Investor-Owned Utilities



Source: Edison Electric Institute, Raymond James Ltd.

…and add scale and diversity via M&A to meet the comprehensive needs of a changing customer base

There is another element that excites us about the NAPEC story—consolidation. More and more utilities are turning to it to combat the adverse effect of reduced consumer demand, steeper regulatory costs and increased competitive options for power. This has led to a material reduction in the number of U.S. utilities in the last decade alone, and a gradual increase in average deal size. Of relevance to NAPEC was last year's merger between two of Riggs Distler's largest customers, Exelon Energy and Pepco Holding. The $14 billion acquisition brought six separate entities together to create the leading Mid-Atlantic electric and gas utility company. As utilities get bigger and oversee larger capital spending programs, we believe they will expect increasingly more from their suppliers. This creates tremendous opportunities for contractors with ambitions and the wherewithal to grow with them.

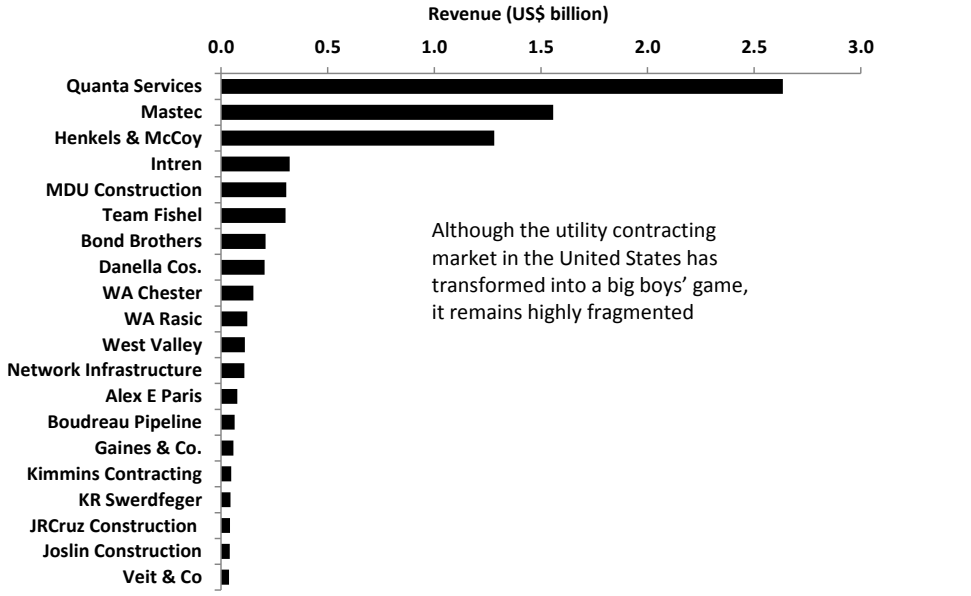
Exhibit 9: There is Significant Consolidation among Utilities in the U.S. Northeast

Date	Target	Value ($ billions)	Acquirer
4Q16	Piedmont Natural Gas Co.	8.7	Duke Energy
2Q16	Pepco Holdings	13.8	Exelon Energy
2Q16	Granite Ridge	0.7	Calpine Corp.
4Q15	UIL Holdings	6.0	Avangrid, Inc.
4Q15	Entergy Rhode Island State Energy LP	0.6	Carlyle Group LP.
4Q15	Mach Gen, LLC.	1.5	Talen Energy Supply LP.
2Q15	Bayonne Energy Center	0.9	Macquarie Infrastructure
4Q13	US Power Generating Co.	1.0	Tenaska Capital
4Q13	Harrison Power Station	1.1	Monongahela Power Company
3Q13	CH Energy Group Inc.	1.5	Fortis Inc.
4Q12	Central Vermont Public Service Corp.	0.7	Green Mountain Power

Source: Capital IQ, Raymond James Ltd.

Not surprisingly, the utility contracting market is also transforming into a big boys' game. Leading the pack with sector revenues approaching US$3 billion is Quanta Services. The Houston-based public firm consolidated over a dozen entities across North America in the past decade, giving it a service platform that is unmatched in its scale and breadth. Following not too far behind are MasTec, another publicly-listed contractor and equally active acquirer that calls Florida home, and Henkels & McCoy, a privately-held firm headquartered in Pennsylvania. The size of the next largest player falls off dramatically after that, with 17 contractors together deriving approximately US$2 billion from electric and natural gas utilities, according to Engineering News-Record. Importantly, this underscores to us just how fragmented the market still remains.

Exhibit 10: Quanta Services Geographic Footprint in North America is Unmatched



Source: Engineering News-Record, Raymond James Ltd.

We believe NAPEC ranks as a top-tier utility contractor in the U.S. Northeast, despite Riggs Distler's small operating base of only five facilities in the region. These are located near some of the region's most dynamic industrial centers, including Baltimore, Philadelphia and New York, which we believe offer ample contract opportunities. As evidence, we point to the US$385 million of orders secured from the likes of Exelon, National Grid and Eversource Energy in the past 12 months alone (see Appendix B). The division also opened a facility southwest of Chicago in 2013 at the request of Exelon, and plans on using a similar strategy to expand into the Midwest. We see Ohio as particularly attractive to NAPEC given the robust capital spending plans outlined for the state by American Electric Power and FirstEnergy (two major utilities for which Riggs Distler has recently been approved to bid on projects). In light of this, we would not be the least surprised if NAPEC targeted an Ohio-based contractor for its next strategic move. For context, we conducted an extensive review of numerous industry sources to identify what we deemed to be reasonable acquisition targets for NAPEC—from Illinois all the way to Virginia (see Appendix C). We resorted to information available on Capital IQ, professional industry associations and company web pages to determine the suitability of these potential M&A targets. Considerations such as company size, number of employees, location, and scope of work were included as part of our search parameters. While the list obtained is by no means exhaustive, it should give investors an appreciation of the excellent opportunity NAPEC has to further consolidate the industry.

More Mature Domestic Market Showing Mixed Opportunities

NAPEC's Canadian roots trace back to 1952 when Thiro (now rebranded Thirau) was established in Victoriaville to serve the needs of the Shawinigan Water & Power Company and Montreal Light, Heat & Power, two predecessors to Hydro-Quebec. From this location and two facilities outside of Montreal and Toronto, the firm offers wide-ranging services for the construction, maintenance and upgrading of electricity transmission lines, overhead and underground distribution networks, power houses and transformer substations. Unlike in the U.S., however, NAPEC does not offer gas

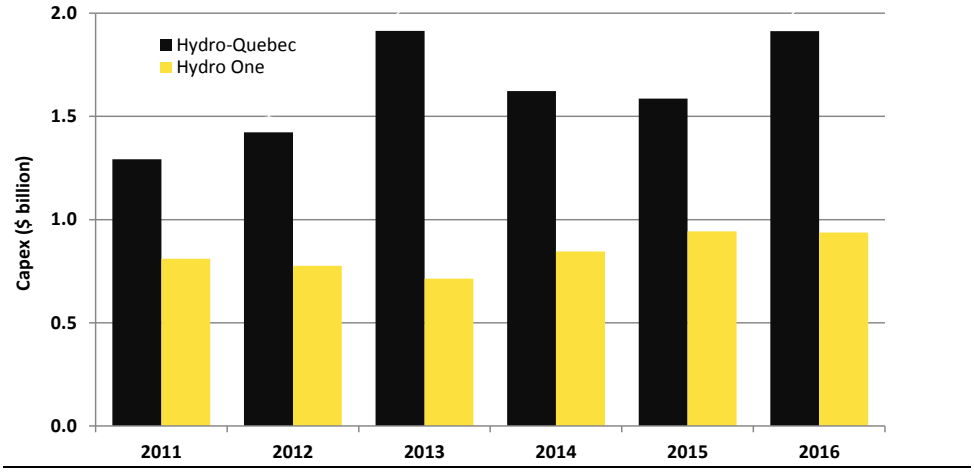
related services. It generates about two thirds of its Canadian volumes in Quebec and the remainder from Ontario, where we feel a clear path to growth exists.

The firm took a pivotal step in expanding business with the nation's leading utilities at the onset of 2016 when it unified its Quebec and Ontario operations under the Thirau banner. The motivation behind the merger was to support the pooling of NAPEC's multiple areas of expertise in order to better exploit cross-selling opportunities across both provinces. Although the jury is still out on how effective this key initiative will be for the contractor, its proven capability to work around high voltage lines in Quebec is now actively marketed in Ontario, where regulators have approved major investments in transmission and distribution infrastructure through 2020. This is occurring just as NAPEC's solid reputation for electrical substation work in urban areas such as Toronto and Ottawa is enhancing its competitiveness in Quebec.

NAPEC is one of Hydro-Quebec's preferred suppliers…

In NAPEC's home market, Hydro-Quebec manages the generation, transmission and distribution of electricity on behalf of its sole shareholder—the provincial government. And for years now the utility has invested heavily in its grid to fully harvest Quebec's economically viable hydroelectric potential. For proof consider that an average $1.7 billion per year has been expended on Hydro-Quebec's transmission network since 2011, versus a comparatively more modest $0.9 billion spent annually in Ontario. This has powered a healthy work program for Thirau, including the record $61 million contract to build a transmission line for the 1,550-MW Romaine project, and a more recent award for a 735 kV link that will connect the large-scale Chamouchouane-Bout-de-l'Ile project to Hydro-Quebec's network. As we look ahead, there is good reason to expect steady capex from the hydroelectric giant as it prepares to sell more clean power to utilities in the U.S. Northeast. What is harder for us to picture is a scenario where Thirau achieves organic growth in Quebec. Moreover NAPEC would gain little from acquiring a competitor since it already ranks as one of Hydro-Quebec's preferred contractors along with EBC, Arno and Valard (a unit of Quanta Services). We're convinced that any efforts to buy market share would be thwarted by the utility, which has a vested interest in keeping bids competitive.

Exhibit 11: Hydro One Has Recently Underspent Hydro-Quebec in Transmission



Source: Hydro-Quebec, Hydro One Ltd., Raymond James Ltd.

…but sees better growth potential in Ontario

Three considerations lead us to believe NAPEC's prospects for growth in Ontario are superior to those in Quebec. First, the province's stern determination to rapidly phase out coal-fired plants in favour of renewable power projects has curbed investment in transmission and distribution, inevitably setting the stage for a period of catch-up spending. Second, with much of Ontario's electric transmission and distribution infrastructure nearing the end of its service life, we anticipate that entire lines will need to be replaced by 2030. Lastly, Hydro One, which accounts for 98% of the province's transmission network, has vowed to outsource more of its construction and maintenance requirements in an effort to cut costs. To better compete for this new work, NAPEC brought former Hydro One project director Charlie Sauter on board as Executive Advisor. We are confident Thirau will win the right to bid on Hydro One transmission work as early as this spring and, in due course, take share away from Ontario's two leading high-voltage contractors—PowerTel and Valard.

Financial Analysis and Outlook

As part of the strategic plan he unveiled almost two years ago, President & CEO Pierre Gauthier called for NAPEC's top-line to double to $600 million by the end of 2017 and its EBITDA margin to return to a historical range of 7.0% to 8.0%. Among the key factors expected to underpin revenue growth were strong industry tailwinds, particularly in the U.S. Northeast, and an aggressive M&A agenda. Meanwhile profitability was to improve with the addition of higher-margin activities and synergies derived from the restructuring of Riggs Distler and Thirau. As we enter the third and final year of Mr. Gauthier's strategic blueprint, we are optimistic NAPEC will come close to its revenue target on a run-rate basis (assuming it can deliver another PCT-like transaction) and actually exceed its margin expectations. What we can predict with greater conviction is that the path to these objectives will be lumpy. We have been conditioning investors for over decade to judge the performance of contractors over multiple periods, not on the basis of one quarter alone. While much easier said than done, they should measure NAPEC in the same manner.

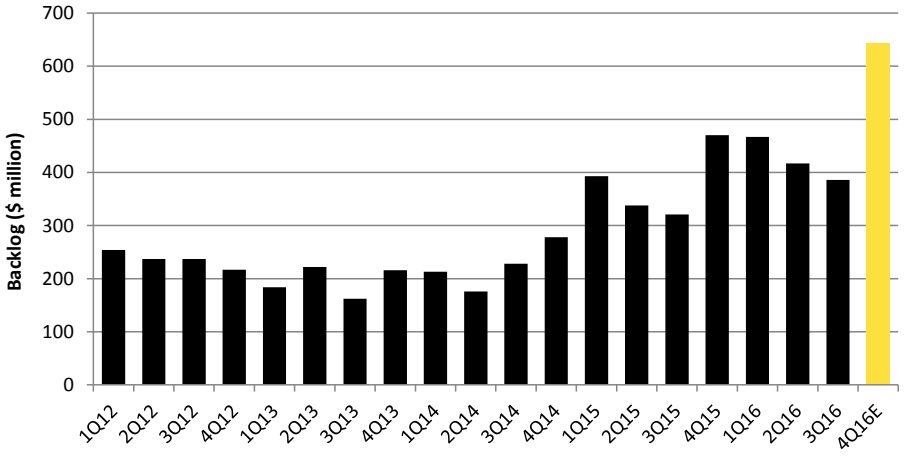
After two years of double-digit revenue growth, NAPEC's momentum moderated somewhat in 2016. Riggs Distler saw lower revenues from mechanical activities while timing issues around the award of Hydro-Quebec's newest transmission line, Chamouchouane, adversely impacted Thirau's business later in the year. However, we still forecast that the company ended 2016 with a top-line of $350 million, marginally higher than the $344 million generated for 2015, on account of modest foreign currency tailwinds and Bemis' incremental contribution.

We expect the benefits of this acquisition also extended to NAPEC's EBITDA margin, which we set at 6.8% for 2016E (versus the 5.9% reported for 2015). The product of these figures effects an EBITDA estimate of $24 million for the year, suggesting a year-over-year gain of 17% that contrasts starkly to the average decline of 31% we project for our three other construction stocks—Aecon, Bird and Stuart Olson. However, we caution that NAPEC's earnings power last year probably wasn't sufficiently high to absorb the additional amortization charges tied to Bemis, hence our expectation for a loss of $0.02 per share in 2016. We should also note that with 1Q16, 2Q16 and 3Q16 already reported, our annual projections imply a top-line of $94 million, EBITDA of $6 million and a loss of $0.01 per share for 4Q16. These are down from respective revenue, EBITDA and EPS figures of $116 million, $7 million and $0.02 reported for 4Q15, when the firm enjoyed unusually strong volumes as well as a favourable revenue mix.

We expect growth to resume after a slow 2016

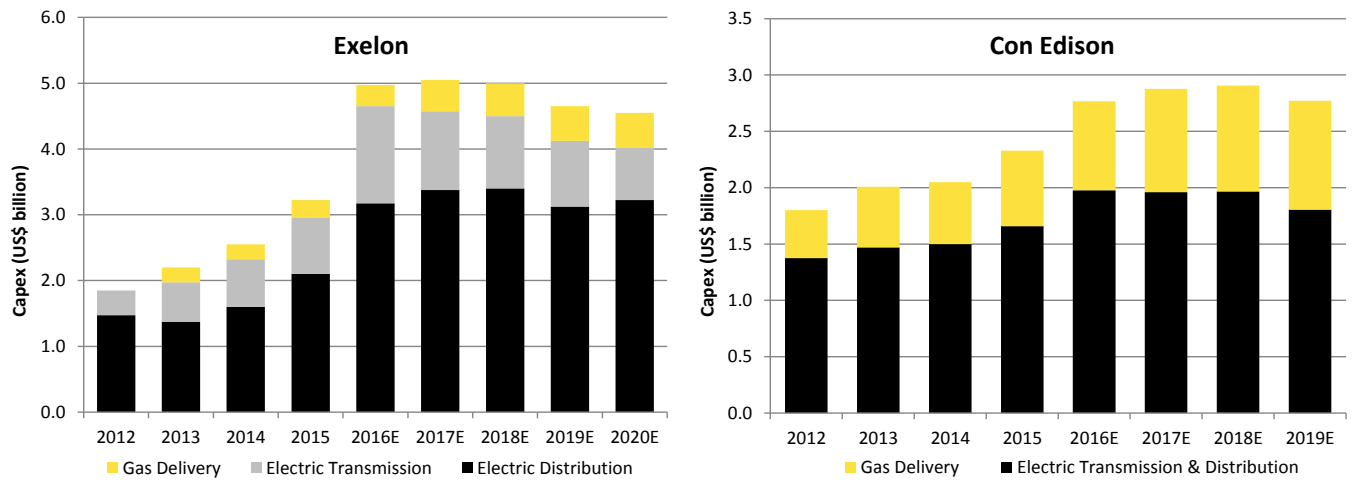
We believe NAPEC's growth will resume in earnest 2017. Our assessment principally rests on the record work program Riggs Distler is contracted to execute in the wake of the PCT acquisition and the robust capital spending plans of its key utility customers well beyond our forecast horizon. We model a revenue increase of 27% for this year, almost evenly split between internal and strategic growth, and an all-organic expansion of 11% next year. While we fully expect NAPEC to strike again, no new acquisitions are embedded in our forecasts for they are virtually impossible to time, let alone quantify. Our revenue estimates for 2017 and 2018 are $446 million and $496 million, respectively.

Exhibit 12: Strong 4Q16 Bookings and the PCT Deal Have Pushed Backlog to Record Highs



Source: NAPEC Inc., Raymond James Ltd.

Exhibit 13: Two Large NAPEC Clients, Exelon and Con Edison, Plan to Invest Heavily in their Electric and Gas Systems Through 2020

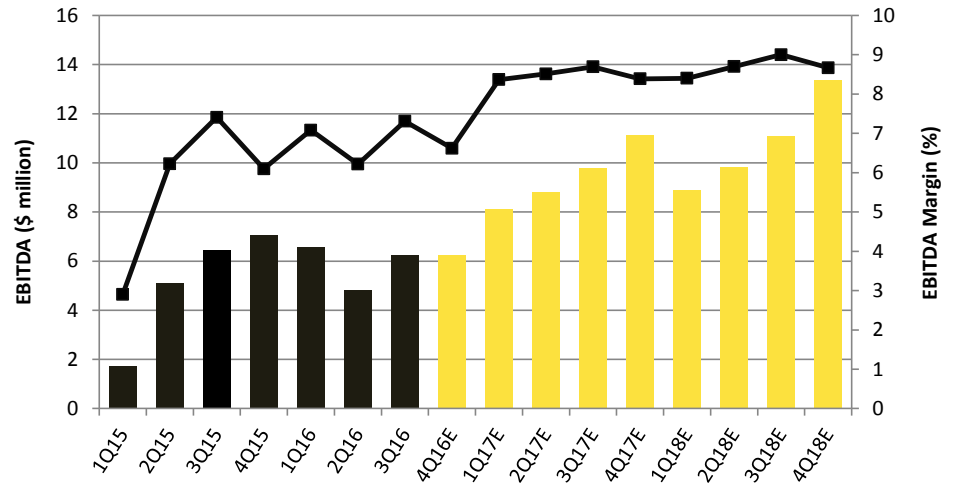


Source: Exelon Corp., Con Edison Co of New York, Raymond James Ltd.

We expect the inclusion of PCT's juicy-margin work to drive a step-up in NAPEC's profitability this year, and operating leverage to bring about further improvements next year. Our EBITDA margin forecast of 8.5% for 2017 notably reflects a gain of 170 bps over 2016 levels, while our estimate of 8.7% for 2018 implies a more modest advance of 20 bps. On a monetary basis our current year EBITDA estimate comes in at $38 million, which is good enough for another sector-leading projected gain of 59% year-over-year. For next year, we forecast an additional EBITDA lift of 14% to $43 million. After deducting $26 million of depreciation and $6 million of interest for both years, layering on an effective income tax rate of 25% and treating all warrants in-the-money, we derive EPS estimates of $0.04 for 2017 and $0.08 for 2018.

The addition of PCT's gas-heavy activities should also benefit NAPEC's profitability this year

Exhibit 14: NAPEC Self-Performs the Vast Majority of its Work, Enabling High Margins

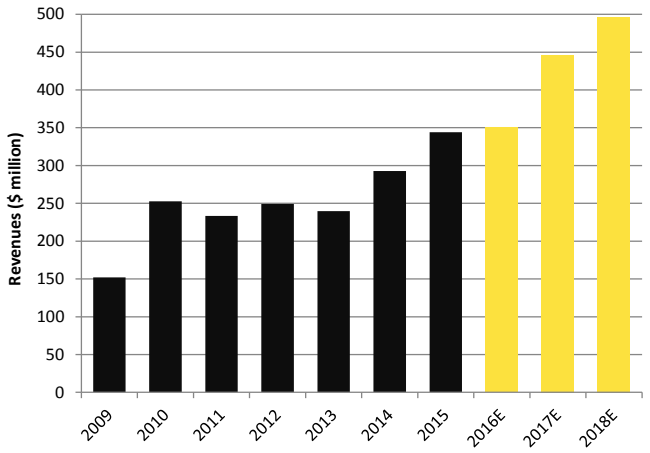


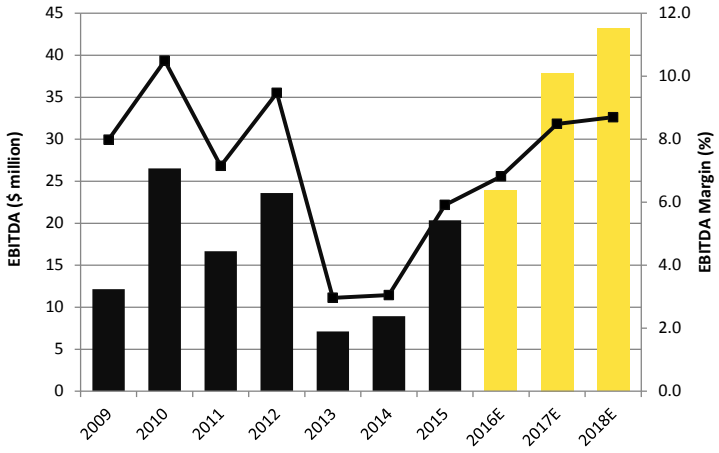
Source: NAPEC Inc., Raymond James Ltd.

Although we would be remiss to call NAPEC's balance sheet strong, we take comfort in the fact it is improving steadily. To wit, we estimate the company finished 2016 with a net debt-to-EBITDA ratio of 2.9x pro-forma PCT, down from 3.5x at the end of 2015 and 4.2x at the end of 2014. With non-cash working capital requirements of $15 million anticipated annually, and projected capital expenditures of similar magnitude, we see NAPEC's leverage dropping to 2.1x EBITDA at the close of 2017, and to 1.7x EBITDA twelve months later. We believe this will provide the contractor with plenty of flexibility to finance future growth through acquisitions.

Exhibit 15: NAPEC Income Statement Summary

Year End December 31; $ millions	2014	2015	2016E	2017E	2018E	% Chg 15/14	% Chg 16/15	% Chg 17/16	% Chg 18/17
Revenues	292.7	344.0	350.2	446.2	496.4	18	2	27	11
Cost of contracts	282.1	314.1	320.8	404.3	446.7	11	2	26	10
Gross profit	**10.6**	**29.9**	**29.4**	**41.9**	**49.7**	183	(2)	42	19
Selling, general and administrative expenses	-	25.8	27.5	30.0	32.5	nm	6	9	8
EBITDA	**11.1**	**20.3**	**23.9**	**37.9**	**43.2**	83	17	59	14
Depreciation and amortization expenses	10.2	13.9	23.0	26.0	26.0	37	65	13	0
Impairment of goodwill	2.2	-	-	-	-				
Finance charges	3.4	4.3	5.0	5.5	5.0	25	17	10	(9)
Foreign exchange loss (gain)	(0.6)	(2.8)	1.0	-	-	nm	nm	nm	nm
Earnings (loss) before income tax	(4.6)	2.1	(4.1)	6.4	12.2	nm	nm	nm	91
Income tax expense (recovery)	(2.3)	(0.2)	(2.3)	1.6	3.0	nm	nm	nm	91
Net earnings (loss)	(2.3)	2.4	(1.8)	4.8	9.1	nm	nm	nm	91
Earnings per share	**($0.03)**	**$0.03**	**($0.02)**	**$0.04**	**$0.08**	nm	nm	nm	82
Weighted average number of shares (mlns)									
Diluted	71.5	76.4	81.8	108.6	113.9	7	7	33	5
Ratios: (%)									
Gross margin	3.6	8.7	8.4	9.4	10.0				
SG&A expenses/revenues	-	7.5	7.9	6.7	6.5				
EBITDA margin (%)	3.8	5.9	6.8	8.5	8.7				
Depreciation and amortization/revenues	3.5	4.1	6.6	5.8	5.2				
EBIT margin (%)	0.3	1.9	0.3	2.7	3.5				
Effective income tax rate	49.9	(11.0)	55.9	25.0	25.0				
Profit margin	(0.8)	0.7	(0.5)	1.1	1.8				





Source: NAPEC, Raymond James Ltd.

Lastly, we note that with over 80% of NAPEC's business conducted in the U.S., changes in the greenback to loonie exchange rate will have some bearing on results—particular the top-line. However, since much of the firm's costs are also denominated in U.S. dollars, the impact of currency swings on earnings is mitigated. Specifically, we estimate an EBITDA gain of 1.5% to 2.0% for every one cent loss in the value of the Canadian dollar against the U.S. dollar (and vice versa).

Exhibit 16: EBITDA Sensitivity to Changes in USD/CAD Rate

USD/CAD FX Rate	0.68	0.70	0.72	0.74	**0.76**	0.78	0.80	0.82	0.84
EBITDA ($ millions)	41.9	40.9	39.9	38.9	**37.9**	36.9	35.8	34.8	33.8

Source: Raymond James Ltd.

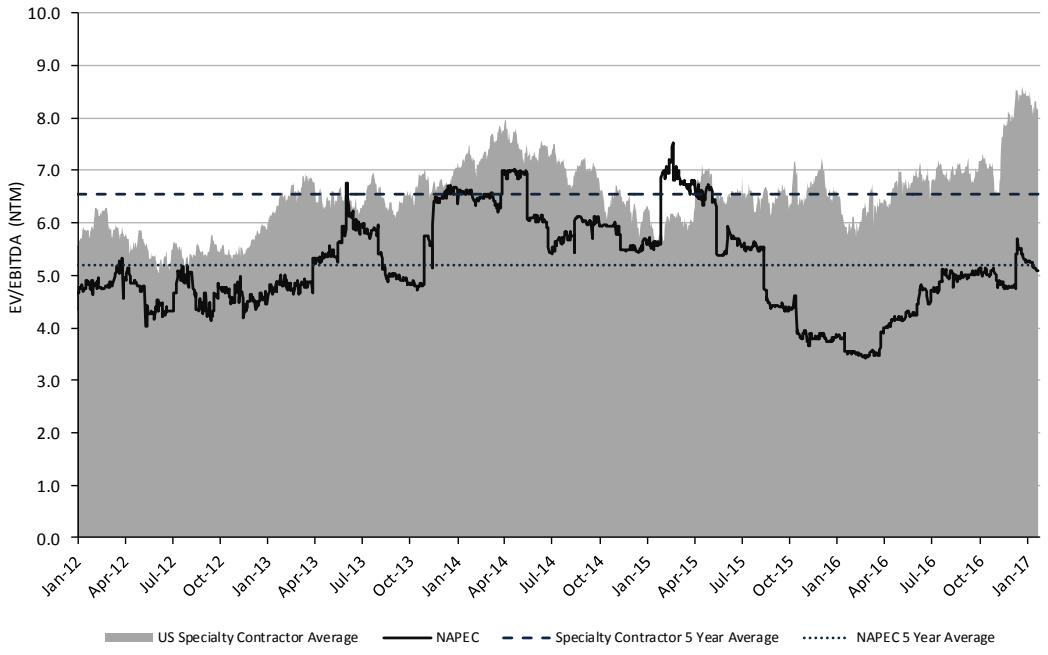
Valuation & Recommendation

With this initiation report, we finally add another contractor to our coverage universe. Our gut tells us the wait will have been well worth it. We see in NAPEC a promising growth company that continues to fly under the radar of most small cap investors. We believe its stock presently carries limited downside risk and tremendous upside as the specialty contractor capitalizes on the growing and dynamic market for electric and gas utility work, and its earnings reach an inflection point later this year. We assign NAPEC an Outperform recommendation and a target price of $1.40, which reflects a potential return of 51% from current trading levels.

The valuation gap between NAPEC and its peers has widened in recent months, creating an attractive entry point for investors

Our target price assumes that the EV/EBITDA multiple using our 2017 estimates will increase from the current 5.0x to 6.0x over the next six to twelve months. This target multiple is within the range of 4.0x to 7.0x the stock has commanded from the market on a forward basis over the past five years, and below the 6.5x that a group of U.S.-based specialty contractors have averaged over the same period. We believe NAPEC will continue to trade at a discount to its peers given its smaller capitalization and limited trading liquidity, but expect the valuation gap to gradually close as the contractor continues to deliver on its operational and strategic objectives. Ironically, the exact opposite has transpired recently, with Quanta Services, Matrix et al. leaving NAPEC in the dust in the wake of last Fall's presidential election. The Trump-inspired market rally has notably opened up the widest valuation gap we have seen between NAPEC and its U.S. peers (which now trade at an elevated average forward EV/EBITDA multiple of 8.2x).

Exhibit 17: Forward EV/EBITDA Multiples NAPEC versus Peer Group (5 Years)



Source: Capital IQ, Raymond James Ltd.

We see NAPEC as a potential takeout target

Longer-term, we believe the stock represents an ideal takeover target for either a large utility contractor with subscale presence in the U.S. Northeast or a diversified firm lacking capacity in NAPEC's service areas (such as when LSE-listed Carillion acquired power line construction and maintenance service provider Rokstad Power in 2014). But in the meantime we expect Mr. Gauthier and his team to fully draw on the support of the Street as well as NAPEC's two anchor investors—la Caisse and FTQ—to deliver on a well-laid out strategic plan. If this sounds familiar, that's because it should. WSP Global has employed a similar strategy for years, to the great benefit of its shareholders. If NAPEC's game plan works as well, investors could be staring at a $2.00 stock price in two years' time. This, at the very least, is what is implicit in our forecasts for the company.

Exhibit 18: NAPEC Theoretical Equity Value

		Assumed EV/EBITDA Multiple								
		4.0x	4.5x	5.0x	5.5x	6.0x	6.5x	7.0x	7.5x	8.0x
2017E EBITDA	30.4	0.43	0.57	0.71	0.85	**0.99**	1.13	1.27	1.41	1.55
	32.9	0.52	0.67	0.82	0.97	**1.12**	1.28	1.43	1.58	1.73
	35.4	0.61	0.77	0.94	1.10	**1.26**	1.43	1.59	1.75	1.92
	37.9	**0.70**	**0.88**	**1.05**	**1.23**	**1.40**	**1.58**	**1.75**	**1.92**	**2.10**
	40.4	0.79	0.98	1.17	1.35	**1.54**	1.73	1.91	2.10	2.28
	42.9	0.89	1.08	1.28	1.48	**1.68**	1.87	2.07	2.27	2.47
	45.4	0.98	1.19	1.40	1.61	**1.82**	2.02	2.23	2.44	2.65

Source: Raymond James Ltd.

Exhibit 19: NAPEC Trades at a Discount to Both its Canadian and U.S. Peer Groups

						P/E			EV/EBITDA					
Company Name	**Ticker**	**Market Price**	**Market Cap (mln)**	**Net Debt (mln)**	**Ent. Value (mln)**	**2015A**	**2016E**	**2017E**	**2015A**	**2016E**	**2017E**	**Net Debt/ Cap (%)**	**Price /Book (x)**	**Div. Yield (%)**
CANADIAN CONSTRUCTION UNIVERSE														
AECON GROUP	ARE.CA	$15.54	$1,090	($58)	$1,032	15.1	24.9	20.0	6.1	7.1	6.6	n.m.	1.2	3.0
BIRD CONSTRUCTION	BDT.CA	$8.63	$367	($191)	$176	8.8	14.3	19.1	2.5	4.0	5.0	n.m.	2.2	4.5
STUART OLSON	SOX.CA	$5.49	$147	$90	$237	14.2	n.m.	22.2	4.7	8.3	6.9	37.9	0.7	8.7
						12.7	19.6	20.5	4.4	6.5	6.2			
U.S. SPECIALTY CONSTRUCTION														
AEGION CORPORATION	AEGN.US	$22.06	$719	$266	$986	17.2	21.8	14.3	8.0	9.4	6.8	27.0	1.3	--
DYCOM INDUSTRIES	DY.US	$76.05	$2,393	$770	$3,163	n.m.	17.3	14.9	11.9	8.2	7.2	24.4	3.9	--
EMCOR GROUP INC	EME.US	$67.42	$4,089	$19	$4,108	n.m.	21.1	19.2	12.7	10.3	9.6	0.5	2.6	0.5
MASTEC	MTZ.US	$36.40	$2,999	$1,007	$4,006	n.m.	20.9	17.4	13.0	8.8	7.7	25.1	2.9	--
MATRIX SERVICE	MTRX.US	$21.70	$576	($18)	$557	16.7	19.1	17.6	n.m.	9.0	7.3	n.m.	1.8	--
MYR GROUP	MYRG.US	$36.65	$589	$38	$627	n.m.	31.6	22.7	7.5	8.5	7.3	6.1	2.4	--
QUANTA SERVICES INC	PWR.US	$34.77	$5,257	$370	$5,628	n.m.	22.6	17.0	12.9	10.1	8.2	6.6	1.6	--
WILBROS GROUP INC.	WG.US	$2.86	$179	$46	$226	n.m.	n.m.	n.m.	n.m.	n.m.	11.2	20.6	1.2	--
						17.0	22.1	17.6	11.0	9.2	8.2			
Blended Group Average						**14.8**	**20.9**	**19.0**	**7.7**	**7.8**	**7.2**			
NAPEC Inc.	**NPC.CA**	**$0.93**	**$97**	**$92**	**$189**	**n.m.**	**n.m.**	**21.1**	**9.3**	**7.9**	**5.0**	**48.9**	**0.7**	**--**

Notes:

1) Estimates for all four Canadian contractors are from Raymond James Ltd.; all other estimates are consensus from Capital IQ.

2) Net debt (cash) positions for Aecon, Bird Construction and Stuart Olson exclude non-recourse project debt and restricted cash balances.

Source: Capital IQ, Raymond James Ltd.

Appendix A: Financial Statements

NAPEC Income Statement

Year End December 31; $ millions	2014	2015	2016E	2017E	2018E
Revenues	292.7	344.0	350.2	446.2	496.4
Cost of Contracts	-	314.1	320.8	404.3	446.7
Gross Profit	-	29.9	29.4	41.9	49.7
SG&A	-	25.8	27.5	30.0	32.5
Operating Expenses	282.1	-	-	-	-
Depreciation and Amortization	10.2	-	-	-	-
Operating profit	0.4	4.1	1.9	11.9	17.2
Finance Charges	3.4	4.3	5.0	5.5	5.0
Foreign Exchange Gain	(0.6)	(2.8)	1.0	-	-
EBT	(4.6)	2.1	(4.1)	6.4	12.2
Total Tax	(2.3)	(0.2)	(2.3)	1.6	3.0
Net Income	(2.3)	2.4	(1.8)	4.8	9.1
EPS - Basic	($0.03)	$0.03	($0.02)	$0.04	$0.08
EPS - Diluted	($0.03)	$0.03	($0.02)	$0.04	$0.08
WA Shares Outstanding - Basic	71.5	76.4	81.8	108.6	113.9
WA Shares Outstanding - Diluted	71.5	76.4	81.8	108.6	113.9
EBITDA Reconcilation					
Net Income (Loss)	(2.3)	2.4	(1.8)	4.8	9.1
Depreciation	10.2	13.9	23.0	26.0	26.0
Finance/Interest Charges	3.4	4.3	5.0	5.5	5.0
Income Tax Expenses	(2.3)	(0.2)	(2.3)	1.6	3.0
Other	2.2	-	-	-	-
EBITDA	11.1	20.3	23.9	37.9	43.2
EBITDA Margin (%)	3.8	5.9	6.8	8.5	8.7
EBIT	1.0	6.4	0.9	11.9	17.2
EBIT Margin (%)	0.3	1.9	0.3	2.7	3.5

Source: NAPEC Inc., Raymond James Ltd.

NAPEC Balance Sheet

Year End December 31; $ millions	2014	2015	2016E	2017E	2018E
Current Assets					
Cash	11.3	4.3	13.7	25.3	33.7
Trade and Other Receivables	67.7	73.3	74.4	100.4	120.0
Costs and Antiticipated Profits in excess of b	10.4	21.7	21.8	21.8	21.8
Current Tax Asset	1.3	1.1	1.5	1.5	1.5
Prepaid Expenses	2.8	4.1	2.7	2.7	2.7
Assets Held for Sale	1.6	1.6	1.6	1.6	1.6
Total Current Assets	95.1	105.9	115.7	153.2	181.2
Non Current Assets					
Property, Plant and Equipment	47.4	65.2	102.2	91.2	86.8
Intangible Assets	33.6	54.5	49.2	49.2	49.2
Goodwill	-	-	-	-	-
Defined Benefit Asset	-	-	-	-	-
Other Non Current Assets	2.4	2.3	0.6	0.6	0.6
Deferred Tax Assets	6.3	4.9	6.4	6.4	6.4
Total Non Current Assets	89.7	126.9	158.5	147.5	143.0
Total Assets	184.8	232.8	274.1	300.6	324.3
Current Liabilities					
Bank Loans	22.8	12.5	23.8	23.8	23.8
Trade and Other Payables	31.6	44.3	35.1	46.4	50.8
Billings in Excess of Costs and Anticipated Pr	4.6	5.0	8.5	8.5	8.5
Provisions	0.5	0.4	0.4	0.4	0.4
Current Tax Liability	1.8	0.1	-	-	-
Current Portion of Long Term Debt	7.3	12.2	14.1	14.1	14.1
Liabilities Associated with Assets Held for Sa	-	-	-	-	-
Total Current Liabilities	68.6	74.4	81.8	93.1	97.5
Non Current Liabilities					
Long Term Debt	27.5	51.3	68.2	68.2	68.2
Defined Benefit Liability	0.2	0.2	0.2	0.2	0.2
Deferred Tax Liability	3.4	1.3	1.4	1.4	1.4
Total Non-Current Liabilities	31.1	52.8	69.8	69.8	69.8
Total Liabilities	99.7	127.2	151.6	162.9	167.4
Shareholders' Equity					
Capital Stock	43.6	50.4	72.6	83.0	93.1
Warrants Reserve	-	0.2	0.2	0.2	0.2
Share Options Reserve	0.7	0.5	0.6	0.6	0.6
Contributed Surplus	0.0	0.4	0.5	0.5	0.5
Accumulated Other Comprehensive Income	5.0	15.9	12.3	12.3	12.3
Retained Earnings	35.8	38.1	36.3	41.1	50.3
Total SE	85.1	105.6	122.5	137.7	156.9
Total Liabilities & SE	184.8	232.8	274.1	300.6	324.3

Source: NAPEC Inc., Raymond James Ltd.

NAPEC Cash Flow Statement

Year End December 31; $ millions	2014	2015	2016E	2017E	2018E
Cash Flow from Operating Activities					
Net Earnings	(2.3)	2.4	(1.8)	4.8	9.1
Depreciation and Amortization	10.2	13.9	23.0	26.0	26.0
Income tax expense (recovery)	(2.3)	(0.2)	(1.8)	-	-
Share Based Compensation	0.3	0.2	0.2	-	-
Finance Charges, Net	3.4	4.3	5.0	5.5	5.0
Bank Charges	(0.5)	(0.6)	(0.3)	-	-
Interest on Bank Loans and Bank Charges	(1.3)	(1.1)	(0.6)	-	-
Income taxes recovered (paid)	0.5	(0.7)	(0.3)	-	-
Changes Before Working Capital	10.6	18.7	23.0	36.3	40.1
Changes in Working Capital	9.9	0.6	(8.7)	(14.6)	(15.3)
Net Cash Flow from Operating Activities	20.5	19.3	14.4	21.7	24.9
Cash Flow from Investing Activities					
Additions to PPE	(4.9)	(12.1)	(17.3)	(15.0)	(15.0)
Proceeds from Sale of PPE	0.5	2.0	0.6	-	-
Additions to Intangible Assets	(2.4)	(0.1)	(0.0)	-	-
Proceeds from Sale of Other Non Current Ass	0.0	0.0	1.8	-	-
Business Acquisitions, Net of Cash Acquired	(0.6)	(22.7)	(36.8)	-	(6.6)
Net Cash Flow From Investing Activities	(7.7)	(32.8)	(51.7)	(15.0)	(21.6)
Cash Flow from Financing Activities					
Variation in Bank Loans	(11.1)	(12.3)	11.4	-	-
Issuance of Long Term Debt	25.0	25.4	24.7	-	-
Transaction Costs Related to Long Term Debt	(0.3)	(0.7)	(0.1)	-	-
Repayment of Long Term Debt	(16.3)	(8.6)	(9.4)	-	-
Interest on Long Term Debt	(1.4)	(2.2)	(2.8)	(5.5)	(5.0)
Proceeds from issuance of shares and warrar	-	7.5	22.1	10.4	10.1
Share and warrant issue costs	-	(0.6)	-	-	-
Net Cash Flow From Financing Activities	(4.1)	8.4	45.9	4.9	5.1
Effect of Exchange Rate on Cash	(0.5)	(2.0)	0.9	-	-
Change in Cash	8.2	(7.1)	9.5	11.6	8.4
Start Cash	3.1	11.3	4.3	13.7	25.3
End Cash	11.3	4.3	13.7	25.3	33.7

Source: NAPEC Inc., Raymond James Ltd.

Appendix B: 2016 Contract Awards

Date	Value	Contract Details
Riggs Distler & Company, Inc.		
Dec-16	US$114 million	- Five year contract extension for construction/maintenance for gas and electricity distribution networks of a major utility in PA - Five year contract extension for construction, replacement, maintenance of a gas distribution network in MD - Contract to rebuild five-mile section of 69 kV electricity transmission line for municipal utility in NJ - Contract to provide road matting and environmental control services for an electricity transmission project in NE
Aug-16	US$44 million	- Contract to install piping associated with a new processing terminal at major refinery in PA - Contract to install electrical equipment at new processing unit at major refinery in PA - One year contract to provide overhead distribution construction and maintenance to major utility in CT - Two contracts for construction of greenfield electrical substations in NJ and PA - Construction for pre-turnaround instrumentation and electrical work at a major refinery in PA
Apr-16	US$64 million	- Three year contract for construction/maintenance of overhead electricity distribution with major Northeast utility. - Five year contract for construction of Advanced Meter Infrastructure for important utility in PA - One year contract extension to provide environmental matting for major utility in U.S. Northeast
Jan-16	US$164 million	- Five year contract for construction & maintenance for gas distribution network of a major utility in PA - Two contracts to install photovoltaic systems in NJ (solar) - Contract with important Mid-West utility (Exelon) to rebuild a 22 mile section of electricity transmission line - Two year blanket contract for construction/maintenance of a major utility service provider in NJ, DE, MD and DC - Two year blanket contract for construction/maintenance for overhead distribution networks in NJ, DE, MD and DC
Thirau Inc.		
Dec-16	$35.5 million	- Contract with Hydro-Quebec for construction of 77 km section of a 735 kV electricity transmission line related to the large-scale Chamouchouane-Bout-de-l'ile Project
Aug-16	$10.1 million	- Two contracts with Hydro-Quebec for work on the Jacques Cartier substation in greater Quebec city - Long-term contract with federal agency for maintenance services on overhead electricity network at Port of Montreal - Contract with Hydro Ottawa for refurbishment of Woodroffe substation in Ottawa
Jan-16	$12.9 million	- Contract with Hydro-Quebec for construction of 230kV line to Gaspesie region wind farm to the transmission network - Contract renewal by Hydro-Quebec, for construction/maintenance of overhead electricity distribution networks in Quebec - Contract with distribution company in Ontario for construction/maintenance of electricity distribution networks

Source: NAPEC Inc., Raymond James Ltd.

Appendix C: List of Potential M&A Targets for NAPEC

					Range of Services				
Region	Company	Head Office	Employees	Offices	Electricity Transmission	Electricity Distribution	Substation	Mechanical	Natural Gas Infrastructure
Mid-West	Miller Construction Co.	Vincennes, IN	170	2	✓	✓			
	Rauhorn Electric	Macomb, MI	110	1		✓			
	Mid-West Electrical	Groveport, OH	125	4	✓	✓	✓		
	INTREN	Union, IL	300	9	✓	✓	✓	✓	✓
	BFD Power Services	Indian River, MI	na	1	✓	✓	✓		
	J.F. Electric	Edwardsville, IL	550	1	✓	✓	✓		
	J. Ranck Electric	Mount Pleasant, MI	200	3	✓	✓	✓	✓	
	PPC Partners	Wilwaukee, WI	515	4	✓	✓	✓	✓	
	Capital Electric	Dayton, OH	125	2	✓	✓	✓		
	Kent Power	Kent City, MI	na	1	✓	✓	✓	✓	
	Newkirk Electrical	Muskegon, MI	400	4	✓	✓	✓	✓	
	N.G. Gilbert	Muncie, IN	na	1	✓	✓	✓		
	Main Lite Electric	Warren, OH	43	1	✓	✓	✓		
Mid-Atlantic	New River Electrical	Cloverdale, VA	900	2	✓	✓	✓		
	W.A. Chester	Lanham, MD	139	1	✓	✓			
	Argos Utilites Corp.	Roanoke, VA	330	1	✓	✓	✓		
	Bancker Construction	Islandia, NY	100	2	✓	✓	✓		✓
	Carr & Duff	Huntingdon Valley, PA	227	2		✓	✓	✓	
	D&D Power	Latham, NY	70	2	✓	✓	✓		
	Miller Bros.	Conshohocken, PA	na	1	✓	✓	✓		✓
	Northline Utilities	AuSable Forks, NY	92	3	✓	✓	✓		
	O'Connell Electric	Victor, NY	550	5	✓	✓	✓	✓	✓
	I.B. Abel	York, PA	100	1	✓	✓	✓	✓	
	Tel-Power	Hollisday, PA	65	2		✓			
New England	Feeney Brothers	Dorchester, MA	na	1		✓			✓
	Central Connecticut Cable	Thomaston, CT	na	1		✓	✓		
	McDonough Electric	Bedford, MA	25	1		✓	✓		
	Grattan Line Construction	N. Billerica, MA	25	1	✓	✓			

Source: Company Reports, Industry Trade Associations, Capital IQ, Raymond James Ltd.

Appendix D: Management & Board of Directors

Pierre Gauthier (President, CEO and Director)
Prior to joining NAPEC in August of 2014, Mr. Gauthier was the Chairman and CEO of Alstom Power and Transportation Canada Inc. from June 2003 and Alstom Inc. in the U.S. from 2008–2013, in total, his career spanned 19 years at Alstom. Prior to joining Alstom, he worked at Gulf Canada Resources Ltd; Gaz Metropolitain and ABB. Mr. Gauthier holds a degree in mechanical engineering from École Polytechnique de Montreal.

Lucy Reny, CFA (Chairman of the Board)
Mr. Reny has been a director of NAPEC since June 2010 and was appointed Chairman in January 2015. Since 2005, Mr Reny has been Vice-President of Power Corporation of Canada, a diversified international management and holding company with interests in numerous companies. He began his career in 1983 at the Caisse de dépôt et placement du Québec, where he worked as a financial analyst in the Asset Management and Equity Markets departments until 1989.

Mario Trahan (CFO)
Mr. Trahan was appointed CFO of predecessor company CV Tech in 2004, after previous promotions within the organization (Controller, and Director of Finance). He holds a bachelor's degree in accounting science from the Université du Québec à Trois-Rivières in 1993 and has been a Certified Management Accountant (CMA) since 1997.

Stephen Zemaitatis Jr. (President, Riggs Distler & Company Inc.)
Mr. Zemaitatis Jr. has been President of Riggs Distler since February 2014, after being promoted from Executive Vice President, a role which he held since 2011. Prior to that he was VP of Overhead Utilities from July 2009 – January 2011 and Operations Manager, Overhead Utilities from 2006–2009. He joined the company in 1998.

Sébastien Delorme (President, Thirau Inc.)
Mr. Delorme was appointed general manager of Thirau Ltée on Jun-1-15. Previously he served as Director of Operations from 2014–2015 and Regional Manager from 2012–2014. Prior to joining Thirau, he was a Project Manager at HMI Construction Inc., a provider of construction related services and products to public and private companies in the energy, heavy industry and environmental sectors.

Charlie Sauter (Executive Advisor, Thirau Inc.)
Mr. Sauter has more than 35 years of experience in the energy industry having worked previously as a Director of Projects for Hydro One and for EMC as President in Ontario as well with Alcan (Rio Tinto) in Québec.

Appendix E: Risks

Customer Concentration Risk
Three customers represented more than 52% of NAPEC's 2015 revenues. If any of these customers should cease doing business or reduce its budget for NAPEC's construction and maintenance services this could materially impact NAPEC's financial results.

Weather Risk
Cold winter weather does slow the pace of NAPEC's construction and maintenance activities, and can adversely impact NAPEC's financial results (notably during the winter months). However, both natural disasters and adverse weather conditions create work for NAPEC's disaster recovery team, with crews dispatched to repair critical infrastructure following these types of events.

Foreign Exchange Risk
Approximately 80% of NAPEC's revenues are denominated in US dollars. As the company reports financial results in Canadian dollars, a strengthening of the Canadian dollar vs. the US dollar would have a negative impact on NAPEC's financial results, whereas a weakening of the Canadian dollar would have the opposite effect.

Contract Pricing Risk
Given the competitive nature of NAPEC's business, should competitors offer discounts or lower pricing this may require NAPEC to lower its pricing to retain its customers and/or remain competitive. This could have a detrimental impact on the company's margin profile.

Human Resources Risk
The ability of the company to hire and retain skilled personnel is a key requirement for its success. Should the company be unable to hire and retain skilled employees this may materially impact its operations.

M&A Risk
Our investment thesis on NAPEC is predicated on the company's ability to make strategic acquisitions. There is no assurance the company will be able to find suitable target candidates and/or integrate them successfully into a consolidated business.

Financing Risk
Our investment thesis on NAPEC surrounds the company's ability to make strategic acquisitions, and as a result the company's ability to access capital.

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
Aecon Group	ARE	TSX	C$	15.54	3	RJ Ltd.
Bird Construction Inc.	BDT	TSX	C$	8.63	3	RJ Ltd.
Fortis, Inc.	FTS	TSX	C$	41.19	3	RJ Ltd.
Hydro One Ltd.	H	TSX	C$	24.20	2	RJ Ltd.
Stuart Olson Inc.	SOX	TSX	C$	5.49	3	RJ Ltd.
WSP Global Inc.	WSP	TSX	C$	44.04	2	RJ Ltd.

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be registered for sale in all U.S. states. NC=not covered.

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High Risk/Growth (H/GRW) Medium to higher risk equities of companies in fast growing and competitive industries, with less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial or legal issues, higher price volatility (beta), and potential risk of principal.

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Underperform (Sell)	1%	5%	0%	15%	0%	5%	0%	0%

* Columns may not add to 100% due to rounding.

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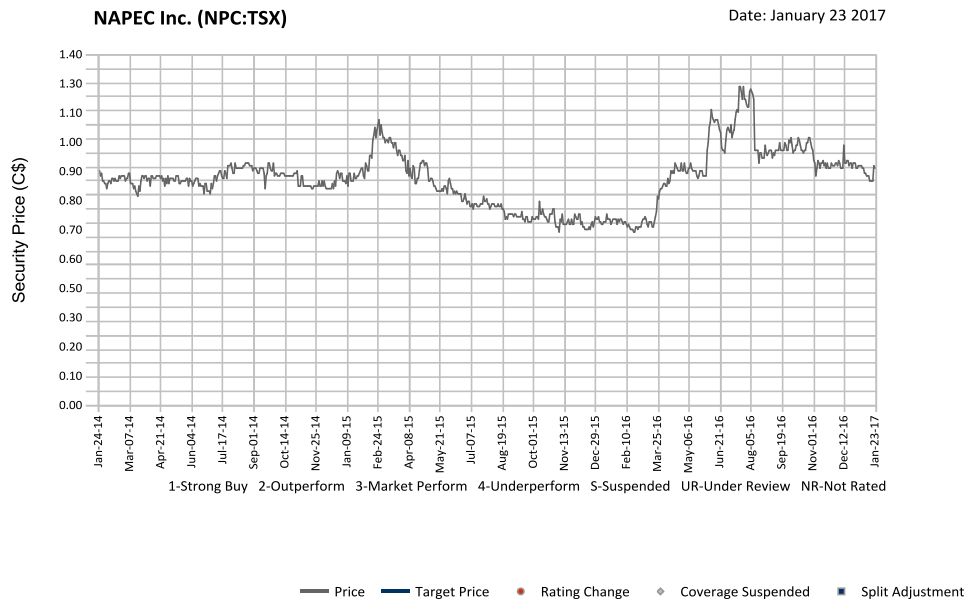

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Risks - NAPEC Inc.

Customer Concentration Risk

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Our investment thesis on NAPEC surrounds the company's ability to make strategic acquisitions, and as a result the company's ability to access capital.

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