

PRODUCTION ENHANCEMENT GROUP (PEG)

WIS-TSX: \$0.50 — SPECULATIVE BUY

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Management Change

Per Share Data (C\$)

Price:	\$0.50	Basic Sh. O/S (mm):	56.2
Target Price (1 yr.):	\$1.20	FD Shares (mm):	72.4
Projected Return:	140.0%	Float (Shares mm):	44.0
52 Wk. High:	\$1.40	Market Cap (mm):	\$28
52 Wk. Low:	\$0.42		

FY December 31	2005A	2006A	2007E	2008E
EPS	\$0.09	-\$0.09	-\$0.06	\$0.06
P/E	5.6x	n/a	n/a	8.3x
CFPS	\$0.12	-\$0.06	-\$0.01	\$0.10
P/CF	4.2x	n/a	n/a	5.0x

Quarterly EPS before special items

Q1		-0.01	-0.01	0.01E
Q2		-0.02	-0.02	0.01E
Q3		-0.02	-0.02E	0.01E
Q4		-0.02	0.00E	0.03E

Target Valuation Parameter

10 x Q3/08-Q2/09 EPS

Note: PEG reports its financials in US\$, while its shares trade solely on the TSX in C\$. P/E and P/CF multiples calculated using converted US\$ price.



Courtesy of BigCharts.com

Upcoming Events

October: Update on the equipment rollout
 November 14: Q3/07 results.

Profile

Production Enhancement Group is a Houston-based oil and gas services company that is incorporated in Alberta and provides essential field services for oil and gas well stimulation through the use of its patented multi-purpose well intervention systems and equipment (WISE) units.

Key Risks

Slower-than-expected equipment rollout or a significant slowdown in oil and gas activity in PEG's core markets could substantially impact its stock price.

INVESTMENT OPINION

Philip Crawford has been terminated as CEO. President Jamie Crawford will take over as acting CEO until a replacement is found. While management changes in general are typically not considered positive and we expect some short-term volatility, we believe that the current senior management team has the depth and experience to operate PEG until a replacement is found. We remain a **SPECULATIVE BUY** with a \$1.20 (10x forward EPS) target price.

ANALYSIS

Management change details: PEG announced that the Board of Directors has terminated the employment of Philip Crawford as CEO, primarily due to the underperformance of the company's share price; however, he will retain his position as Chairman of the Board. Jamie Crawford (currently President of PEG) will assume the responsibilities of CEO until a replacement is found. Philip Crawford owns about 11.4 million shares, or about 20% of outstanding shares, and management indicated that he has no intention of selling a significant amount of his shares in the near future.

Current management team is deep and capable: Although PEG is currently searching for a new CEO, management indicated that it is in no rush since it believes that the current management team is fully capable of running the company. The recently completed \$70 million debt financing should provide the company with the capital required to continue with its equipment rollout in the near term. With this key issue resolved, we believe that the company should focus on rolling out the equipment on time and on budget. We believe that the current management team led by Jamie Crawford has the ability to run the company effectively until a new CEO is found. Don Cobb, who was recently appointed Chief Operating Officer on October 1, 2007, has extensive operational experience in the oil and gas services sector; thus the company should be in good hands, operationally speaking.

Update on financing and equipment rollout: Management indicated that the previously announced \$70 million debt financing has now been completed and it is currently in the process of ordering new equipment. The company is expected to provide a formal update on the status of the equipment rollout in the next few weeks.

Board is serious about performance: On the positive side, it appears that the Board is serious about turning things around and will hold people, even the Chairman, accountable for the company's performance. This should bode well going forward.



	2006A	Q1A	Q2A	Q3	Q4	2007	Q1	Q2	Q3	Q4	2008
Coiled Tubing (PET)	9	10	10	14	17	17	17	17	22	28	28
Pressure Pumping (A to Z)	5	7	7	9	11	11	11	11	11	14	14
Wireline	-	29	29	29	29	29	29	29	29	29	29
Dynastar	-	-	4	4	4	4	4	4	4	4	4
JV Saudi Arabia - CT, SGN2 Lpump	-	-	-	-	-	-	-	3	3	3	3
Total	14	46	50	56	61	61	61	64	69	78	78

Figure 1. Equipment Rollout Schedule
Source. Company reports, Research Capital



RELEVANT DISCLOSURES APPLICABLE TO: PRODUCTION ENHANCEMENT GROUP

LIST OF DISCLOSURE TERMS:

1. This report was prepared by John Chu, Analyst and Jay Bala, Associate. At the date of release of this report John Chu, owns no common shares of Production Enhancement Group.
2. In April 2006 Research Capital Corporation was a member of a syndicate of underwriters for the issue of 10,000,000 common shares of Production Enhancement Group.
3. From January 2007 to April 2007, John Chu and Jay Bala have made one visit to Production Enhancement Group headquarters in Houston, Texas at the expense of Research Capital Corporation.
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