



December 06, 2023

THE LONG PULL: North American Construction (NOA)

NOA is North America's largest heavy equipment and mining services company. As of this writing, they're trading at a \$732M market cap and a \$1.13B EV (CAD). Put simply, NOA moves dirt for large mining and oil companies.

The company has three main competitive advantages that are almost impossible to replicate:

- 1) **Lowest-cost operator with long-term track record**
- 2) **Indigenous partnerships in harsh environments**
- 3) **Largest fleet of expensive, long lead time equipment**

NOA also boasts a ~\$3B revenue backlog or ~3x this year's estimated revenue of \$1.25B. Most heavy equipment service companies have a *max of* 1-2 years of backlog revenue.

Moreover, the company recently completed a transformational acquisition of MacKeller Group. NOA paid ~\$395M for an incremental ~\$145M in 2024 EBITDA. And they did it with attractive financing (82% vendor-backed with only 17% upfront cash).

Further, the MacKeller acquisition diversifies NOA's operations, smooths revenue and earnings, and exposes them to massive critical mineral tailwinds in Canada and Australia.

Here's why you should care. **NOA trades at ~3x 2024 EBITDA and 33% of its replacement cost.**

This business has expanded margins and 5x EPS over the past five years while generating 20-30% ROE, 15% ROIC, and 20%+ EBITDA margins.

NOA should trade at **~5-6x EBITDA or ~\$80+/share within 18-24 months** as the market realizes the supply-constrained nature of heavy mining equipment, the growing demand from end markets, and the low-cost competitive advantages of NOA's business.

How They Got Here

Ten years ago, NOA was a penny stock with 95% customer concentration in one area, the Canadian oil sands. During that time, they generated ~9% operating margins, had 5.5x net debt, and lost ~\$0.50/share annually.

Then, Martin Ferron became CEO in 2012 and turned everything around. He did everything you'd want a new CEO to do. Expanded operating margins from 9% to 20%, reduced net leverage from 5.5x to <2x, authorized a share buyback program, and personally bought over 1M shares.

He accomplished all this during an oil bear market while navigating local fires/natural disasters in the Canadian oil sands environment.

Ferron retired as CEO in December 2021 to assume the board Chairman role. He's still actively involved in the company's operations.

That brings us to today, where NOA enjoys three primary competitive advantages.

NOA's Competitive Advantages

Suppose you're a large mining operator like Teck or AngloAmerican. What would you want in a heavy equipment service provider?

Ideally, you'd like a company that's been around a long time, knows the area well, and has existing partnerships with any indigenous people whose land you're mining.

You'd also want one with all the necessary equipment so you don't have to use multiple providers. And of course, you want the lowest possible price for that equipment and any potential servicing/maintenance costs.

That's NOA in a nutshell.

The company was one of the first equipment operators in the Canadian oil sands in the 70s. It has long-term partnerships with all major Indigenous People's Groups. It's the lowest-cost operator in the space. And it has over 1,100 pieces of equipment.

I want to focus on NOA's low-cost advantage because it's the most unique aspect of its business. It allows them to charge lower prices while generating higher margins.

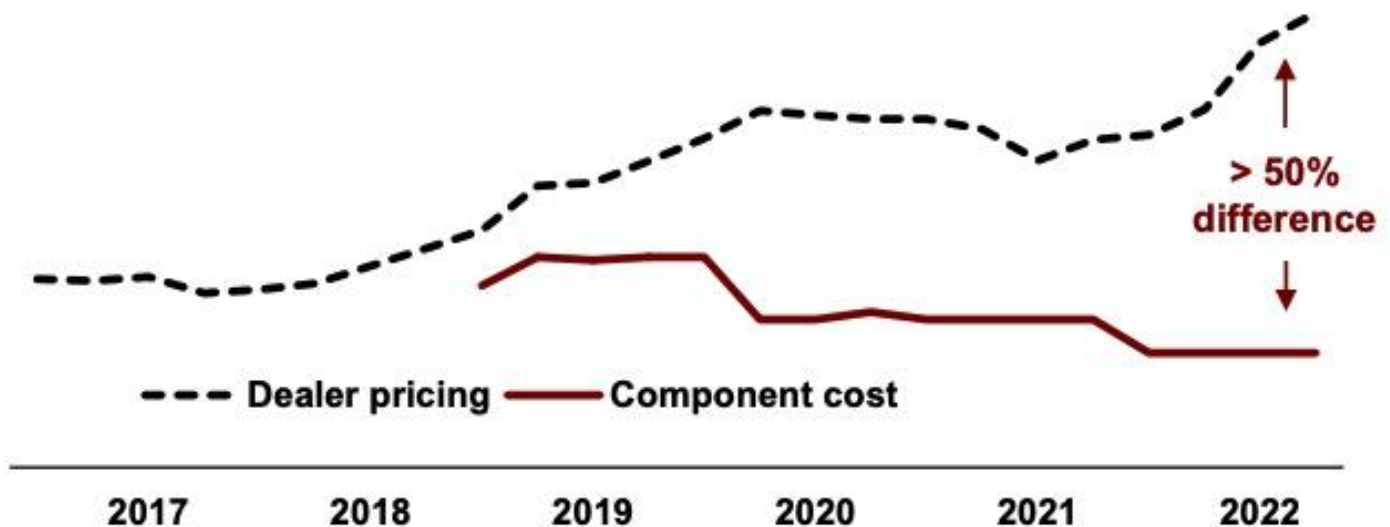
How NOA Created The Lowest-Cost Operations In The Industry

NOA promotes itself as the lowest-cost operator in its industry. They do this by in-housing 90% of equipment maintenance and servicing costs.

Most equipment providers use third-party servicing companies whenever they need to repair an engine, replace a part, or rebuild a vehicle. So, the more you use a third-party provider, the higher your Total Ownership Cost (or TOC). Higher TOCs reduce margins and returns on investment.

NOA highlights this cost difference in their [Q1 2023 earnings presentation](#) (see below).

ILLUSTRATIVE EXAMPLE OF ONE COMPONENT

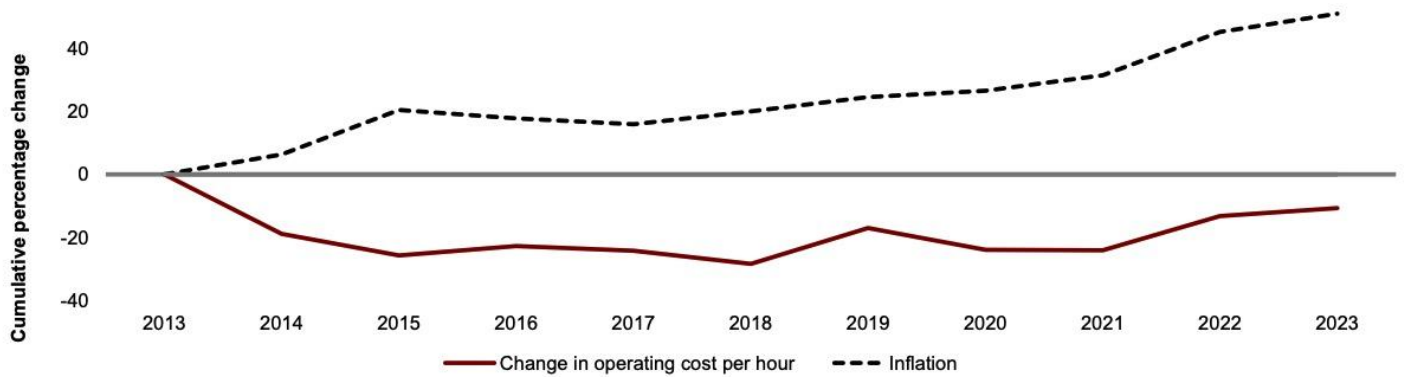


In other words, dealers charge, on average, ~60% more for a part than what it costs NOA to build/repair in-house.

This is a massive advantage in an inflationary environment where OEMs can't make new equipment fast enough, and service companies can't find enough workers to meet capacity.

The result is that NOA has lower equipment operating costs *today* than it did in 2013 (see below).

CATERPILLAR 777 HAUL TRUCK – OPERATING COSTS



Lower operating costs allow NOA to charge lower prices for its services while maintaining industry-leading margins (20%+). Higher margins allow it to earn more money on its equipment at higher utilization rates. Which then allows it to reinvest in more in-house maintenance workers.

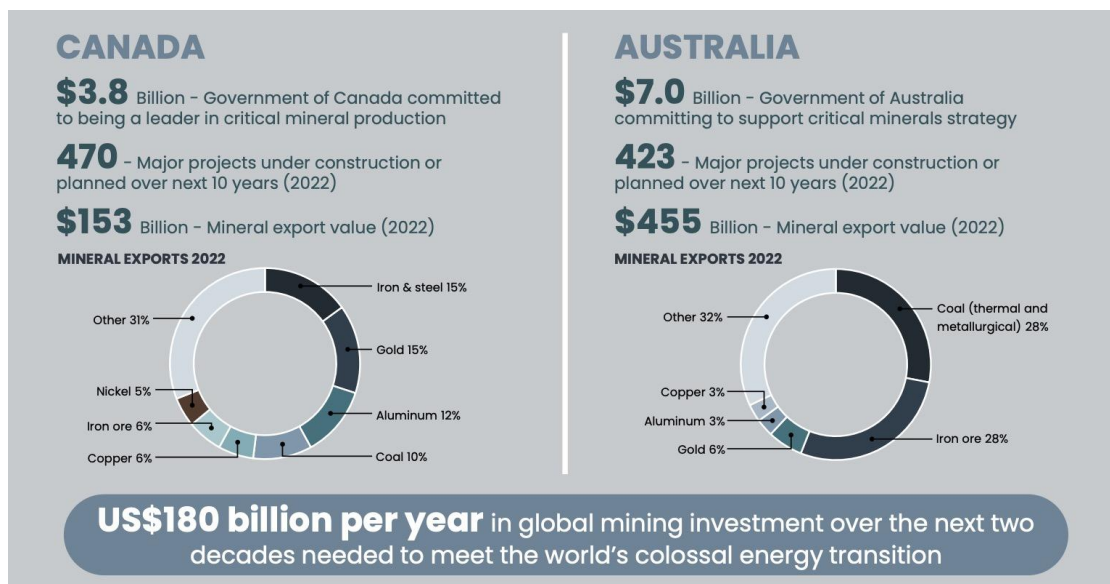
Speaking of equipment, let's discuss NOA's second competitive advantage: its fleet.

Buying North America's Largest Fleet At 33% of Replacement Cost

One thing I love about the NOA thesis is its simple supply/demand. The company has the largest fleet of heavy mining equipment in North America (1,350 equipment assets).

It takes 1-2 years to bring new equipment online at substantially higher prices (cost inputs + labor inflation).

Meanwhile, demand for such equipment is only increasing as Canada and Australia scramble to build domestic critical mineral supply chains.



This supply/demand imbalance allows NOA to charge higher prices for its equipment. What's a mining company going to do? Say no and wait 1-2 years to buy it themselves at even higher prices?

The current supply/demand imbalance also creates a large margin of safety and downside protection. The replacement value of NOA's assets alone is worth \$2.36B (see below).

	NACG & Nuna fleet count	Replacement value (m)
Rigid frame trucks	281	\$1,390
Articulated trucks	76	81
Loading units	268	422
Dozers	164	291
Graders	58	114
Specialty & other	66	65
Total fleet	913	\$2,363

That's ~\$2.58M per heavy equipment.

Suppose MacKeller's 450 equipment assets are worth *half* of NOA's current fleet replacement cost or \$1.29M per asset (which we believe is *very* conservative). That's still an incremental \$580M replacement value for ~\$3B in total replacement value (or ~\$100/share).

Let's discuss the MacKeller deal in more detail.

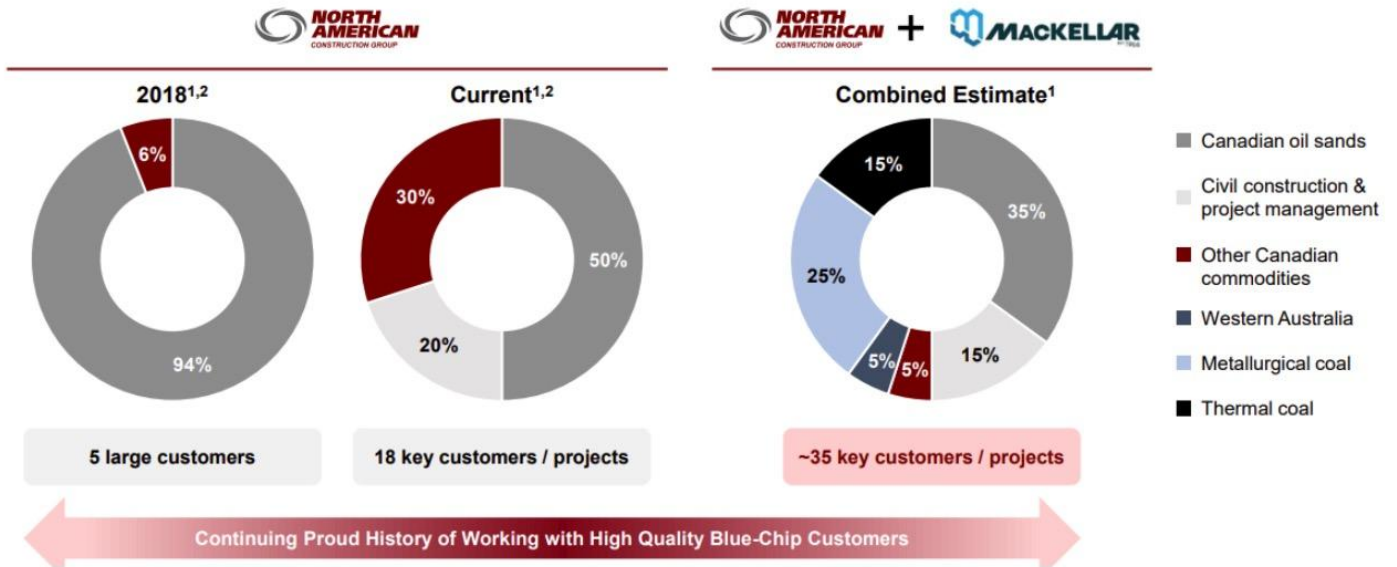
NOA's Transformational Acquisition (MacKeller)

MacKeller transforms the NOA thesis on five main points:

- 1) Diversifies/smooths revenue and earnings streams**
- 2) Reduces currency risk**
- 3) Reduces Canadian oil sands risk**
- 4) Creates a larger company**

5) Adds ~\$2B in backlog

The deal makes NOA a more “institutional friendly” investment. By the end of 2024, the company will generate \$475M in EBITDA, have \$4B+ in cumulative backlog (4 years worth of revenue), and eliminate most (if not all) of its Canadian oil sands seasonality and customer concentration (see below).



Another thing I love about the MacKeller deal is it's instantly accretive to EBITDA and cash flow. Let's do the math.

NOA has a current EV of ~\$1.13B. MacKeller adds another \$395M to that EV for a combined EV of \$1.52B. In return, NOA gets \$145M in EBITDA, \$1.25 in EPS, and \$70M in FCF.

	Combined 2023 Outlook ⁴	Incremental 2024 Impacts ⁵
Combined revenue ²	\$1.15b – \$1.25b	\$450m – \$500m
Adjusted EBITDA ²	\$275m – \$305m	\$130m – \$160m
Adjusted EPS ²	\$2.60 – \$2.80 per share	\$1.10 – \$1.40 per share
Sustaining capital ²	\$140m – \$160m	\$65m – \$85m
Free cash flow ²	\$100m – \$120m	\$55m – \$75m

Finally, let's discuss valuation and potential returns.

NOA Is An \$80 Stock In 18-24 Months

As we mentioned earlier, NOA trades at 3x 2024E EBITDA of \$475M and 3.4x 2024E P/FCF.

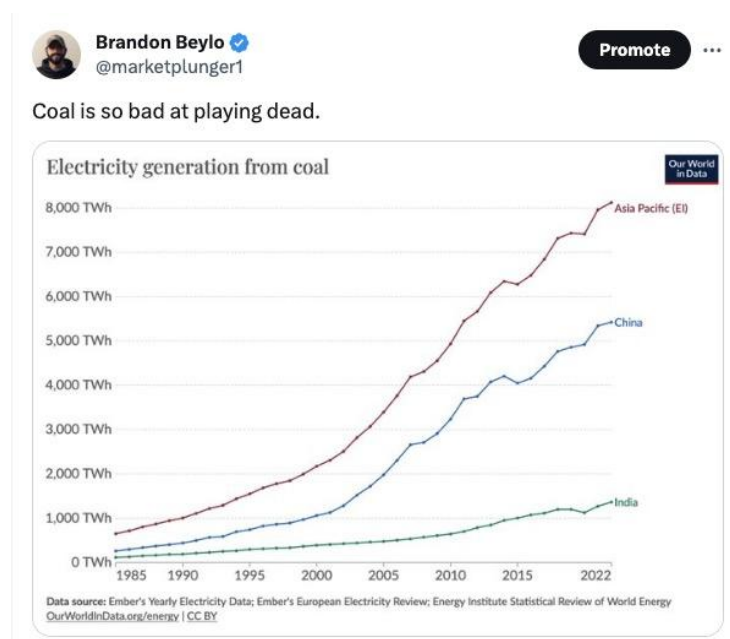
What's an appropriate multiple for this business? Consider the following.

35% of NOA's EBIT comes from Canadian Oil Sands. These are long-life mines with 60+ years of production left.

Breakevens at the oil sands are extremely low (\$15-20/bbl). Companies will still need NOA's equipment if oil doesn't trade below \$40/bbl.

Finally, Canadian oil sands are harsh environments. Nobody operates those environments better than (and for as long as) NOA.

45% of the company's EBIT will come from Australian mining operations, mainly met and thermal coal. And despite popular belief, coal is far from dead.



NOA is also exposed to Green Energy transition minerals like copper, lithium, zinc, and cobalt within Australia.

So you've got long-term secular growth tailwinds, a supply-constrained heavy equipment asset base, and a low-cost operator that can charge lower prices and still generate 20%+ margins.

That's worth 5-6x EBITDA or \$80-\$92/share (200%+ upside).

There are two ways to model downside protection: **replacement cost** and **earnings**.

In a worst-case scenario, assume NOA liquidates its assets at *half* its replacement cost. That gets us \$1.5B. Subtract net debt of ~\$400M, and you have \$1.1B or \$42/share in downside asset protection (150%+ upside).

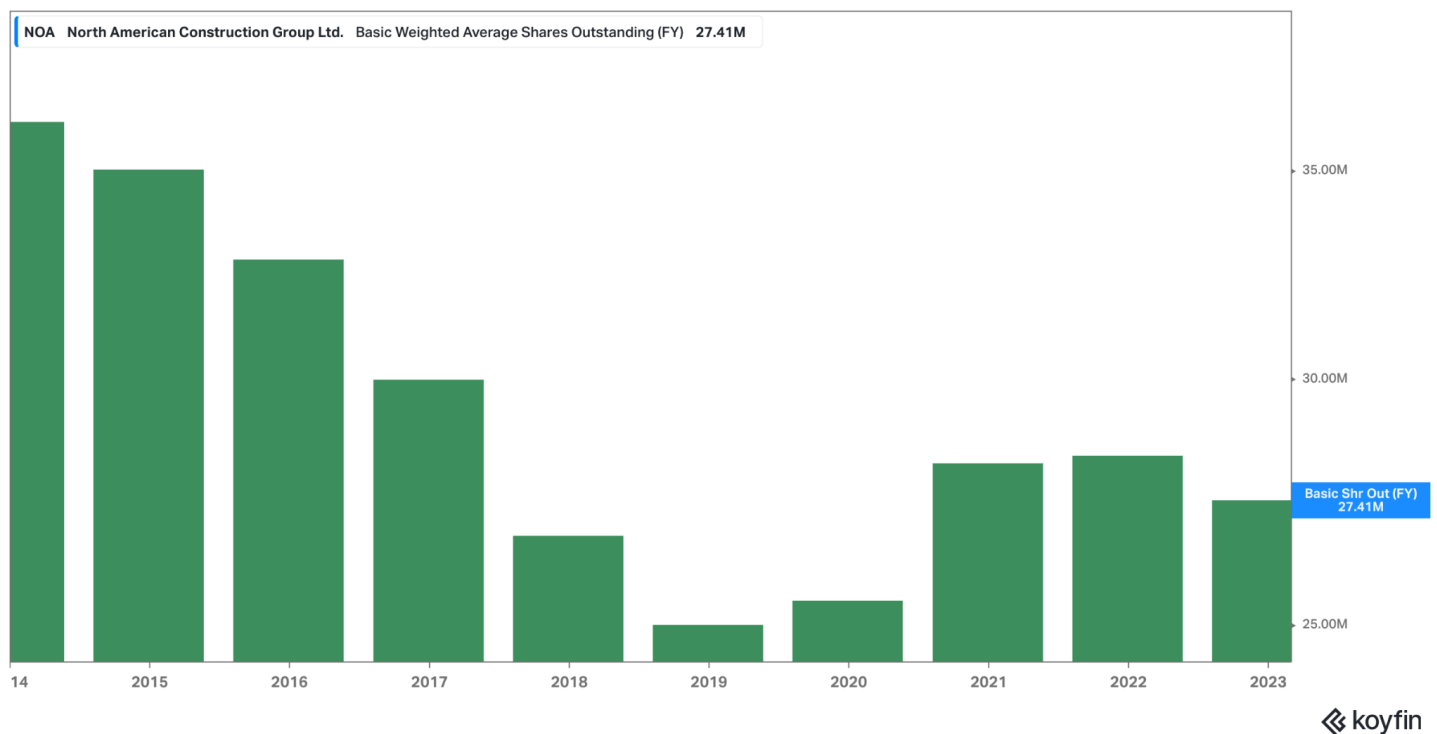
What about an operational downturn?

Let's assume shit hits the fan next year, and revenue declines by 15%, with EBITDA margins compressing from ~24% to 19%. That gets us ~\$1.02B in revenue and \$194M, respectively. A 4.5x EBITDA multiple gets us \$873M in EV and \$473M in market cap for ~\$18/share (40% downside).

Could the above scenario happen? Sure. But it's unlikely. You'd have to believe management will miss revenue and EBITDA estimates by 37% and 60%, respectively.

There's also a third downside protection mechanism: **capital allocation**.

Since 2013, management has reduced the share count from 35M to 26.5M (see Koyfin chart below. Note: Collective members get 20% off Koyfin by joining [here](#)).



In other words, it doesn't matter if the market won't recognize the mispricing. NOA management will do something about it.

Conclusion: NOA Is A Great Business At A Great Price

I hate using the phrase “great business.” But NOA is a great business. It has low-cost advantages in competitively advantaged end markets, enabling it to charge lower prices and higher margins.

The MacKeller acquisition transforms the business into an institutional CUSIP for larger funds/endowments/ETFs that want exposure to critical minerals/energy transition.

Moreover, the company is cheap and trades at 3x 2024 EBITDA and 33% of replacement cost.

Management has a history of doing great things with shareholder capital. If they're not buying back their stock at 3x cash flow, they're acquiring businesses for <1x book value, <3x EBITDA with 80%+ vendor-backed financing and no dilution.

The world needs **more** coal, **oil**, and **critical minerals** than ever in history. To do that, we need more heavy equipment moving big rocks.

NOA is trading like it has minimal-to-declining terminal value when it's the opposite. I love setups like these. We'll look to get long on the next bullish monthly close.