

ADF Group – Hydro Momentum Continues; \$82M in New Contracts

Rating
BUY

Unchanged

Target Price
\$21.00

Unchanged

October 15, 2026

Disseminated on Behalf of ADF Group

All figures in CAD unless otherwise stated

ADF Group Inc.	DRX:TSX
Rating	BUY
Target Price	\$21.00
Return to Target	40%

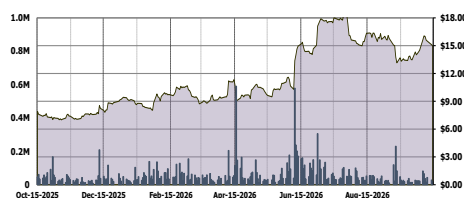
Market Data

Share Price	\$14.96
Average Daily TSX Volume (K)	35.9
FD ITM Shares (M)	28.6
Market Cap (\$M)	\$427.2
Cash & Marketable Securities (\$M)	\$91.4
Debt (\$M)	\$38.8
Enterprise Value (\$M)	\$374.5

FYE Jan 31	FY26A	FY27E	FY28E
Sales (\$M)	\$258.7	\$366.0	\$451.1
Gross Margin (%)	23%	22%	26%
Adj. EBITDA (\$M)	\$43.5	\$55.7	\$93.8
Adj. EBITDA Margin (%)	17%	15%	21%
Net Income (\$M)	\$26.3	\$32.8	\$61.6
EPS (Basic & Diluted)	\$0.93	\$1.15	\$2.17
FCFF (\$M)	\$42.0	(\$0.7)	\$33.0

Valuation	FY26A	FY27E	FY28E
EV/EBITDA	8.6x	6.7x	4.0x
P/E	16.2x	13.0x	6.9x
FCF Yield (%)	11%	0%	9%
P/B	2.7x	2.3x	1.9x

Please refer to the applicable disclosures on the back page
Source: Atrium Research, CapitalIQ, Company Documents



ADF Group Inc. is a North American leader in the design and engineering of connections, fabrication, including the application of industrial coatings, and installation of complex steel structures, heavy steel built-up components, as well as in miscellaneous and architectural metals for the non-residential infrastructure sector.

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What you need to know:

- ADF announced \$82.0M in new contracts, led by a fast-track hydroelectric project in Western Canada, plus hydro work in Quebec, Ontario, and the Atlantic provinces and a recreational project on the U.S. West Coast.
- Fabrication on the Western Canada project begins in March 2027 and runs over nine months, while most of the other Canadian contracts begin in December 2026 and run over 18 months.
- On a pro forma basis, the awards lift ADF's backlog to a record \$775.7M, up from \$693.7M at the end of Q2.

This morning, ADF Group (DRX:TSX) announced \$82.0M in new contracts across Canada and the U.S. The largest is a fast-track hydroelectric project in Western Canada, alongside several hydro contracts in Quebec, Ontario, and the Atlantic provinces, and a recreational project on the U.S. West Coast. On a pro forma basis, these awards lift ADF's backlog to a record \$775.7M, up from \$693.7M as of July 31st. **We are maintaining our BUY rating and target price of \$21.00/share on ADF Group.**

The largest contract covers the fabrication of various steel structures for a hydroelectric project in Western Canada. Under a fast-track schedule, fabrication is set to begin in March 2027 and run over nine months. Fast-track work has historically been a margin driver for ADF, as clients pay a premium for speed and certainty of delivery. In FY25, fast-track orders from Eli Lilly helped drive ADF's record year, with gross margin of 32% and adjusted EBITDA margin of 27%. The remaining Canadian contracts cover the fabrication and delivery of mechanically welded steel structures, LAR's core product. Most of this work begins in December 2026 and extends over the following 18 months.

The U.S. contract is with a repeat client in the recreational sector, for whom ADF recently delivered a major contract in the western U.S. This work is set to begin in the coming months. All three plants (Terrebonne, Métabetchouan, and Great Falls) will be involved in executing today's awards. Our estimates remain unchanged, as contracts like today's are largely already baked into our FY28 forecast, which assumes strong backlog growth and conversion.

Q2 Recap

DRX reported Q2 results last month, with revenue ahead of our expectations and profitability weighed down by non-recurring items (to read our full note, click [here](#)). Some key results that we would like to highlight:

- Revenue \$95.0M, up 79% YoY and ahead of our \$85.8M estimate, with LAR contributing \$48.3M.
- Gross margin of 18.7% (vs. our 23.0% estimate), pressured by higher steel costs, customs duties, LAR's legacy projects, and ~13,000 Terrebonne hours spent fabricating LAR's new plant.
- Adjusted EBITDA of \$8.4M (9% margin) vs. our \$14.7M estimate, and EPS of \$0.10 vs. our \$0.32 forecast. Excluding \$5.9M in DSU/PSU expense, EBITDA would have been \$14.3M, in line with our estimate.
- Order backlog at the end of the quarter reached a record \$693.7M (vs. \$645.8M in Q1), with 64% being Canadian and including \$243.3M from Groupe LAR.

Catalysts

- Quarterly Financial Results – Ongoing
- New Contract Announcements – Ongoing
- LAR Acquisition Integration & Capex Program – Ongoing

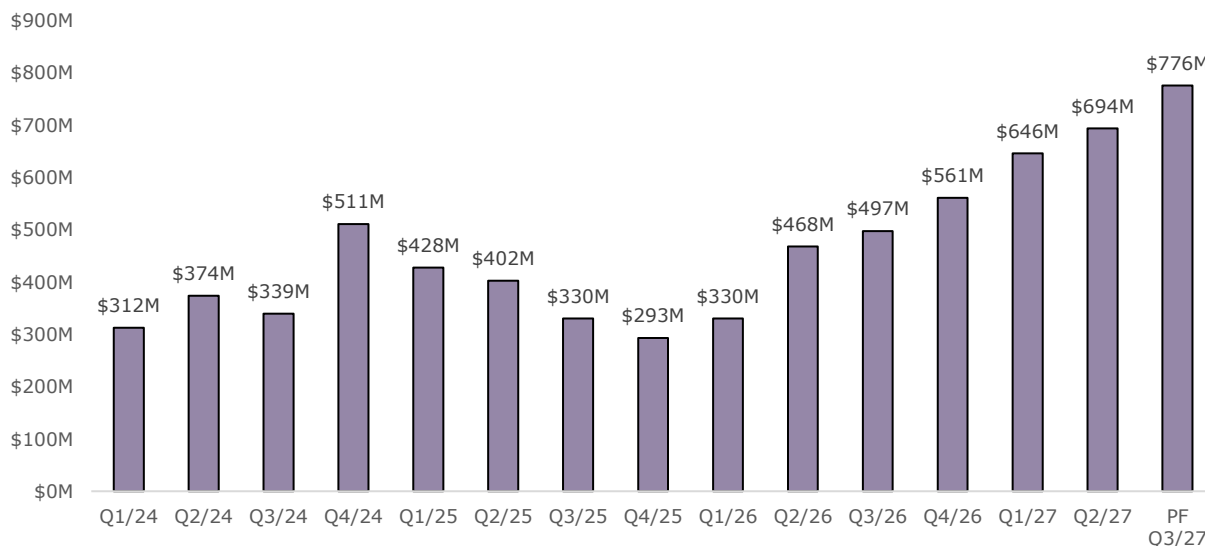


Figure 1: Quarterly Backlog

Steel Fabrication M&A Comp

We missed this back in January but still wanted to flag it, as it is a relevant M&A comparable in the steel fabrication space. On January 16th, IES Holdings (IESC:NASDAQ) closed its acquisition of Gulf Island Fabrication (GIFI:NASDAQ), a steel fabricator serving the industrial, energy, and government sectors, for US\$12.00/share in cash, representing an aggregate equity value of ~US\$192M and an enterprise value of ~US\$152M (including ~US\$40M of cash). The deal brought Gulf Island's craft workforce, specialty services, and 450,000 SF Houma, Louisiana fabrication campus into IES's Infrastructure Solutions segment.

The transaction was completed at roughly 14x run-rate 2025 EBITDA and 8x 2024 EBITDA, well above where ADF currently trades at 6.7x FY27E and 4.0x FY28E EBITDA.

Infrastructure Thematic Report

Yesterday, we released an infrastructure thematic report, Small-Caps Taking Advantage of Infrastructure Themes, covering public infrastructure spending, the Build Canada program, data centres, grid modernization, power & energy security, and nuclear energy. DRX was highlighted as one of our top small-cap beneficiaries, with exposure to public infrastructure, Build Canada, grid modernization, and nuclear. Our infrastructure peer group trades at an average of 10.0x/8.3x 2026E/2027E EBITDA. Read the report [here](#).

Why We Like ADF

- ADF has a solid track record of growing revenue through its history; however, we believe it has entered a multi-year growth phase given the tailwinds in its key markets and expanded facility capacity. While growth has been bumpy because of the U.S. tariffs, we believe there is still large growth ahead.
- The Company's topline growth is supported by significant tailwinds in government infrastructure spending and non-residential construction growth.
- ADF has acquired LAR Group, which has diversified its revenue further into Canada and into the growing hydroelectricity market.
- ADF has a clean balance sheet, with a cash position of \$91.4M in Q2. This allows the Company to take on larger-scale projects and weather the tariff situation.
- ADF is a family-owned business with Jean, Pierre, and Marise Paschini holding 42% of the shares outstanding and >80% of the voting rights. As such, management is highly incentivized to optimize returns and not dilute shareholders.

Tear Sheet

Market Data

Ticker	DRX:TSX
Stock Price	\$14.96
Rating	BUY
Target Price	\$21.00
Upside	40%

Market Cap (\$M)	\$427.2
Cash (\$M)	\$91.4
Debt (\$M)	\$38.8
EV (\$M)	\$374.5

Capital Structure

Basic Shares Outstanding (M)	28.6
Warrants (M)	0.0
Options (M)	0.0
FD Shares (M)	28.6
FD ITM Shares (M)	28.6

Ownership

Management & Board	42%
Marshall Barwick Inc.	6%
Retail & Institutions	52%

Financial Estimates

	FY 25A	Q1/26A	Q2/26A	Q3/26A	Q4/26A	FY 26A	Q1/27A	Q2/27A	Q3/27E	Q4/27E	FY 27E	FY 28E
Revenue (\$M)	339.6	55.5	53.0	71.4	78.8	258.7	99.3	95.0	85.4	86.3	366.0	451.1
% YoY	3%	-48%	-29%	-11%	2%	-24%	79%	79%	20%	9%	41%	23%
COGS (\$M)	232.4	43.3	42.1	51.7	61.9	199.0	75.2	77.2	66.6	66.4	285.5	336.1
Gross Profit (\$M)	107.2	12.2	11.0	19.7	16.9	59.8	24.0	17.8	18.8	19.8	80.4	115.0
Gross Margin	32%	22%	21%	28%	21%	23%	24%	19%	22%	23%	22%	26%
Adj. EBITDA (\$M)	91.3	10.4	3.7	18.4	11.1	43.5	18.5	8.4	13.8	14.9	55.7	93.8
Adj. EBITDA Margin	27%	19%	7%	26%	14%	17%	19%	9%	16%	17%	15%	21%
Net Income (\$M)	56.8	8.7	0.9	10.3	6.4	26.3	12.0	3.0	8.5	9.3	32.8	61.6
EPS (Basic)	1.84	0.30	0.03	0.36	0.22	0.93	0.42	0.10	0.30	0.32	1.15	2.17
FCFF (\$M)	47.6	24.3	(18.8)	1.6	34.9	42.0	2.8	31.6	(31.9)	(3.2)	(0.7)	33.0

Figure 2: Tear Sheet

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HOLD: The stock is expected to generate returns of 0-20% over the next 24 months.

SELL: The stock is expected to generate negative returns over the next 24 months.

NOT RATED (N/R): Atrium does not provide research coverage on the respective company.

COVERED COMPANIES

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