

BQE Water – Q3 Largely Surpasses Expectations; Increasing Target Price

Rating
BUY
Unchanged

Target Price
\$80.00
Prev. \$77.00

November 29, 2024

All figures in CAD unless otherwise stated

BQE Water Inc.	BQE:TSXV
Rating	BUY
Target Price	\$80.00
Return to Target	37%

Market Data	
Share Price	\$58.50
Average Daily Volume	1020.0
FD ITM Shares (M)	1.3
Market Cap (\$M)	\$76.6
Cash (\$M)	\$11.0
Debt (\$M)	\$2.0
Enterprise Value (\$M)	\$67.6

FYE Dec 31	2023A	2024E	2025E
Proportional Revenue (\$M)	\$22.7	\$25.7	\$29.1
Revenue (\$M)	\$18.1	\$17.9	\$20.8
Gross Margin (%)	50%	51%	51%
Adj. EBITDA (\$M)	\$4.7	\$7.3	\$8.4
Adj. EBITDA Margin (%)	20%	28%	29%
Net Income (\$M)	\$2.7	\$5.0	\$6.0
EPS (Basic)	\$2.12	\$3.87	\$4.68
FCFF (\$M)	\$0.5	\$3.4	\$5.2

Valuation	2023A	2024E	2025E
EV/EBITDA	14.5x	9.3x	8.1x
P/E	27.6x	15.1x	12.5x
FCF Yield (%)	1%	5%	8%
EV/Sales	3.0x	2.6x	2.3x

Please refer to the applicable disclosures on the back page Disseminated on behalf of BQE Water Inc. Source: Atrium Research, CapitalIQ, Company Documents



BQE Water is a service provider specializing in water treatment and management for mining, smelting, and refining businesses. BQE Water invests in innovation and has developed unique intellectual property through the commercialization of several new technologies at mine sites around the world for organizations including Glencore, Codelco, Jiangxi Copper, Freeport-McMoRan and South32. BQE Water is headquartered in Vancouver, Canada.

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What you need to know:

- BQE posted excellent Q3 financials that beat our expectations across the board as operations services continued its growth trajectory and the technical services and China JV segments reverted to historical levels.
- Proportional revenue came in at \$10.2M (+28% YoY) vs. our estimate of \$8.6M and Adj. EBITDA came in at \$4.6M (+67% YoY) vs. our \$2.7M.
- Management expects continued strong performance from the technical services segment through Q4/24 and Q1/25.

Yesterday after market close, BQE Water (BQE:TSXV, BTQNF:OTC) reported Q3 financials that largely beat our estimates. The standout of the quarter was the 67% YoY increase in Adj. EBITDA, translating to a record 45% margin. All three segments performed exceptionally well, with the prominent operation services revenue up 22% YoY. As management guided last quarter, technical services rebounded to historical levels. BQE remains one of our highest conviction names due to its consistent growth and profitability. **We are maintaining our BUY rating and increasing our target price to \$80.00/share (previously \$77.00/share).**

Key Highlights

- Prop. revenue came in at \$10.2M (+28% YoY) vs. our estimate of \$8.6M. This was comprised of operations services revenue of \$3.9M (+22% YoY, 38% of revenue), technical services revenue of \$2.9M (+244% QoQ, -4% YoY), and BQE's share of JV revenue of \$3.4M (+96% YoY).
- The recurring segment was driven by all North American and Chinese plants being operational while the technical services segment benefitted from several large projects initiated in the quarter.
- Gross margin of 57% vs. our expectation of 54% and 53% in Q3/23 (note that this is reported as operating margin before depreciation).
- Adjusted EBITDA of \$4.6M vs. our estimate of \$2.7M and \$2.7M in Q3/23. This equates to a 45% EBITDA margin, reaching a record high.
- BQE's share of JV net income was \$1.6M compared to our estimate of \$0.4M and \$0.4M last year. The JV with JCC contributed largely to the growth as copper production returned to normalized levels.
- Net income of \$3.7M or \$2.91/share vs. our estimate of \$2.2M or \$1.71/share and \$2.1M or \$1.71/share in Q3/23.
- BQE ended the quarter with \$11.0M in cash and \$2.0M in debt.

	Q3/24A	Atrium Est.	YoY
Proportional Revenue (\$M)	\$10.2	\$8.6	+28%
GAAP Revenue (\$M)	\$6.8	\$6.9	+9%
Gross Margin (%)	57%	54%	+421 bps
Adj. EBITDA (\$M)	\$4.6	\$2.7	+67%
Adj. EBITDA Margin (%)	45%	31%	+1039 bps

Figure 1: Q3 Financials Summary

Outlook

Management outlined that despite the technical services growth, its team was not fully utilized in projects and operations during Q3 and that they expect improvements in the coming quarters. BQE's outlook remains positive, mainly due to growth in technical services. The team expects a lower proportion of revenue from the operations segment during this period due to the revenue mix, seasonality, and annual maintenance. The long-term outlook remains unchanged, with consistent growth and profitability driven by BQE's unique positioning within the industry.

Contract Announcements

On August 29th, BQE reported that it had been contracted to design, supply, install, and commission a new water treatment plant for the closure of the legacy Valley Tailings Facility near Mayo, Yukon. The plant will treat water generated during tailings excavation and consolidation, and discharge treated water into the environment. The plant is expected to be completed in Q2/25 and is anticipated to be used for six years. Read our flash note on the announcement [here](#).

On November 19th, BQE Water announced that it was contracted by PricewaterhouseCoopers in its capacity as receiver of Victoria Gold Corp. to assist with the emergency response and mitigation of environmental impacts at the Eagle Gold Mine in central Yukon. The scope includes recommendations for updates to the existing water management infrastructure to treat contaminants that the original infrastructure was not designed for and to meet applicable discharge targets. BQE will also be responsible for planning and directing the operation of the updated water treatment infrastructure. This contract highlights BQE's reputation and expertise within the industry, having been selected for such a high-profile project.

Both announcements leverage BQE's experience in the Yukon, having signed a contract with the Yukon's Department of Energy, Mines and Resources for the closed Minto Mine in August 2023 as well as serving Hecla's Keno Hill mine.

CEO David Kratochvil Honoured with Clean50 Award

On October 16th, BQE announced that its President and CEO David Kratochvil was the recipient of the Clean50 2025 award in the Clean Technology category for the development of innovative water treatment solutions. The Clean50 Awards are announced annually by Delta Management and the Clean50 organization to recognize 50 individuals or small teams across 16 different categories that have done the most to contribute to the clean economy in Canada over the past two years. Mr. Kratochvil was selected from a pool of over 1,000 well-qualified nominees.

Our Take

Q3 represented another excellent quarter for BQE, surpassing our expectations across the board. The beat was mainly driven by the Chinese JVs, but we were most impressed by the 45% EBITDA margin, showcasing the profitability at scale. We remain confident that BQE can grow on an annual basis, and we now put further trust in management given that their commentary regarding the technical services segment rebounding proved true. We remind readers that technical services revenue is usually a solid leading indicator for operations services revenue over the following years, and as such, the long-term outlook for the recurring segment has improved further. As this segment continues to grow and the market takes notice, we expect BQE shares to re-rate to higher multiples. We will also reiterate that the stellar financials are yet to include a "Company Maker" project which would be a major catalyst to both the financials and stock price.

We are maintaining our revenue estimates for Q4 but are increasing our margin assumptions as seen in Figure 5. Regarding 2025, we are slightly increasing our estimates given the outperformance.

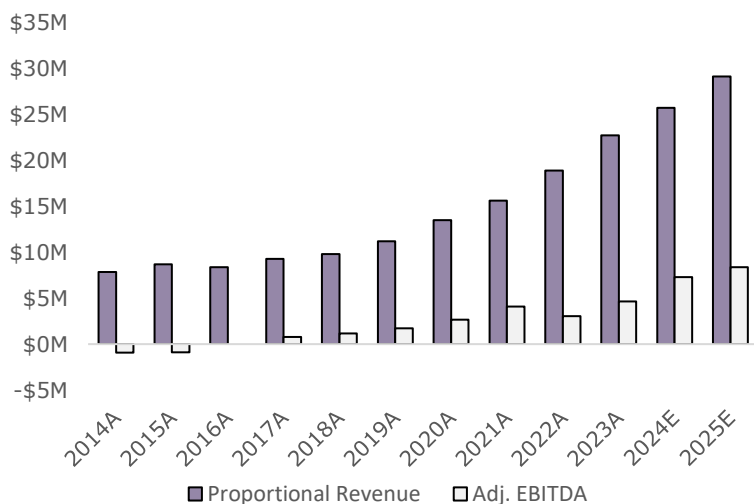


Figure 2: Revenue & EBITDA Growth

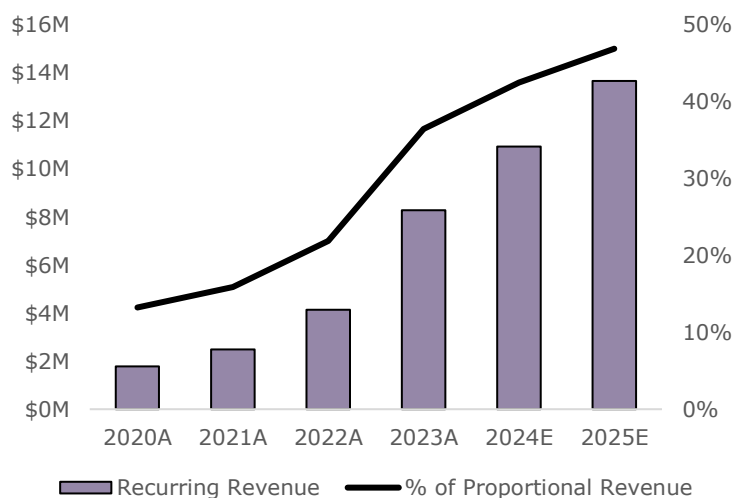


Figure 3: Recurring Revenue Improvement

Valuation

BQE's valuation now sits at 9.3x/8.1x 2024E/2025E EBITDA assuming quite modest growth in 2025 (13%). This compares to engineering service firms at 16.7x/14.3x and water treatment firms at 10.3x/9.6x (all of which have lower growth and margins). We remind readers that we are not modelling any "Company Maker" projects being signed, which can drastically transform BQE's financials. This includes Seabridge's KSM project which received environmental approvals specifically using BQE's water treatment technology (including selenium).

Due to the increased 2025 estimates, we are increasing our target price to \$80.00/share (previously \$77.00/share) based on 11.5x 2025E EBITDA (unchanged). The new target price is equivalent to a ~5.5% FCF yield and 16.0x 2025E earnings.

Company	Ticker	Mkt Cap (\$C)	EV (\$C)	Sales CAGR (2022A-2026E)	EBITDA CAGR (2022A-2026E)	EBITDA Margin 2024E	EV/EBITDA		
							2024E	2025E	2026E
Engineering Services									
WSP Global Inc.	WSP	\$32,131	\$36,355	5%	25%	18%	16.8x	14.2x	13.0x
Stantec Inc.	STN	\$13,813	\$15,882	11%	20%	17%	16.4x	14.7x	13.7x
Atkinsrealis Group Inc.	ATRL	\$13,059	\$14,964	9%	35%	9%	16.9x	13.9x	12.0x
BluMetric Environmental Inc.	BLM	\$27	\$28	N/A	N/A	5%	16.7x	N/A	N/A
Average				9%	27%	12%	16.7x	14.3x	12.9x
Water & Wastewater Treatment									
Veolia Environnement SA	VIE	\$29,757	\$58,694	4%	11%	15%	5.9x	5.5x	5.2x
Xylem Inc.	XYL	\$42,751	\$44,324	15%	25%	20%	18.2x	16.5x	15.0x
Kemira Oyj	KEMIRA	\$4,259	\$4,743	-4%	3%	20%	5.5x	5.6x	5.5x
Consolidated Water Co. Ltd.	CWCO	\$599	\$465	17%	24%	21%	11.6x	10.8x	N/A
Average				8%	16%	19%	10.3x	9.6x	8.6x
BQE Water Inc.	BQE	\$77	\$68	17%	32%	28%	9.3x	8.1x	7.4x

Figure 4: Peer Group Analysis (Source: Capital IQ)

Why We Like BQE

- BQE has a growing stream of recurring revenue. Recurring revenue represented 13% of proportional revenue in 2020 and has grown to 36% in 2023.
- The Company has strong tailwinds in increasingly strict government regulations for water discharge and increasing mining capex globally.
- BQE Water has been steadily increasing its EBITDA margins from negative levels a decade ago to 20% in 2023. Given its asset-light business model, we expect this to continue scaling up.
- BQE has a clean balance sheet with a large cash position and no interest-bearing debt. The Company has not raised equity since 2018 and has three private investors owning 46%.
- BQE's valuation is cheaper than water treatment and engineering service firms.

Catalysts

- Quarterly Financial Results & Increasing Recurring Revenue – Ongoing
- New Contract Announcements (Including "Company Maker" Projects) – Ongoing
- Share Repurchases – 2025

Estimate Revisions

	Q4/24E		2024E		2025E	
	New	Previous	New	Previous	New	Previous
Prop. Revenue (\$M)	\$6.0	\$6.0	\$25.7	\$24.1	\$29.1	\$28.0
GAAP Revenue (\$M)	\$5.2	\$5.2	\$17.9	\$18.1	\$20.8	\$21.3
Gross Margin (%)	49%	46%	51%	49%	51%	50%
Adj. EBITDA (\$M)	\$1.5	\$1.4	\$7.3	\$5.3	\$8.4	\$8.3

Figure 5: Estimate Revisions

Tear Sheet

Market Data	
Ticker	BQE:TSXV
Stock Price	\$58.50
Rating	BUY
Target Price	\$80.00
Upside	37%
Market Cap (\$M)	\$76.6
Cash (\$M)	\$11.0
Debt (\$M)	\$2.0
EV (\$M)	\$67.6

Capital Structure	
Basic Shares Outstanding (M)	1.3
Warrants (M)	0.0
Options (M)	0.1
FD Shares (M)	1.3
FD ITM Shares (M)	1.3

Ownership	
Management & Board	8%
Other Insiders	46%
Retail	46%

Financial Estimates												
	2022A	Q1/23A	Q2/23A	Q3/23A	Q4/23A	2023A	Q1/24A	Q2/24A	Q3/24A	Q4/24E	2024E	2025E
Revenue (\$M)	12.2	2.7	4.2	6.2	5.0	18.1	2.5	3.4	6.8	5.2	17.9	20.8
Proportional Revenue (\$M)	18.9	3.6	5.8	8.0	5.4	22.7	3.4	6.1	10.2	6.0	25.7	29.1
% YoY	21%	1%	12%	40%	21%	20%	-4%	5%	28%	11%	13%	13%
Gross Profit (\$M)	5.1	1.0	2.0	3.3	2.8	9.1	1.1	1.6	3.9	2.5	9.1	10.6
Gross Margin	42%	37%	48%	53%	55%	50%	44%	47%	57%	49%	51%	51%
Adj. EBITDA (\$M)	3.1	(0.1)	1.5	2.7	0.5	4.7	(0.1)	1.3	4.6	1.5	7.3	8.4
Adj. EBITDA Margin	16%	-2%	25%	34%	10%	20%	-4%	22%	45%	25%	28%	29%
Net Income (\$M)	1.2	(0.3)	0.6	2.1	0.2	2.7	(0.5)	0.6	3.7	1.2	5.0	6.0
EPS (Basic)	0.93	(0.27)	0.49	1.71	0.20	2.12	(0.39)	0.44	2.91	0.91	3.87	4.68
FCFF (\$M)	(0.5)	(0.4)	(0.6)	0.6	1.0	0.5	0.3	(1.9)	3.3	1.7	3.4	5.2

Figure 6: Tear Sheet

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RATING	COVERED COMPANIES
BUY	20
HOLD	0
SELL	0

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