

BQE Water – Excellent Q4 Financials; Increasing Target Price

Rating
BUY
Unchanged

Target Price
\$71.00
Prev. \$55.00

April 26, 2024

All figures in CAD unless otherwise stated

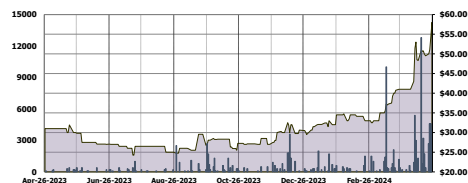
BQE Water Inc.	BQE:TSXV
Rating	BUY
Target Price	\$71.00
Return to Target	22%

Market Data	
Share Price	\$58.00
Average Daily Volume	3310.0
FD ITM Shares (M)	1.3
Market Cap (\$M)	\$76.0
Cash (\$M)	\$7.9
Debt (\$M)	\$1.9
Enterprise Value (\$M)	\$70.0

FYE Dec 31	2023A	2024E	2025E
Proportional Revenue (\$M)	\$22.7	\$24.6	\$27.3
Revenue (\$M)	\$18.1	\$19.2	\$21.4
Gross Margin (%)	50%	49%	49%
Adj. EBITDA (\$M)	\$4.7	\$6.3	\$7.9
Adj. EBITDA Margin (%)	20%	26%	29%
Net Income (\$M)	\$2.7	\$5.0	\$6.0
EPS (Basic)	\$2.12	\$3.96	\$4.79
FCFF (\$M)	\$0.5	\$4.5	\$6.7

Valuation	2023A	2024E	2025E
EV/EBITDA	15.0x	11.0x	8.9x
P/E	27.4x	14.6x	12.1x
FCF Yield (%)	1%	6%	10%
EV/Sales	3.1x	2.8x	2.6x

Please refer to the applicable disclosures on the back page
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 reported Q4 & 2023 financial results yesterday that came in largely ahead of our expectations on revenue.
- Proportional revenue was \$5.4M compared to our estimate of \$4.2M and adjusted EBITDA was \$0.5M compared to our estimate of \$0.6M.
- BQE remains well positioned for another record year in 2024, we are expecting 8% revenue growth and 36% EBITDA growth.
- We are increasing our target to \$71/share based on 11.0x 2025E EBITDA.

BQE Water (BQE:TSXV, BTQNF:OTC) reported Q4 and 2023 financial results yesterday after market close. Q4 marked another excellent quarter for BQE, beating our estimates on revenue and being in line on EBITDA. The beat was driven by the operation services (recurring) segment which grew 114% YoY. We remain highly confident in our investment thesis in BQE which was laid out in our initiation report last month (read [here](#)). **We are maintaining our BUY rating and increasing our target price to \$71.00/share (previously \$55.00/share) on BQE Water.**

Key Highlights

For Q4/23:

- Proportional revenue came in at \$5.4M (+21% YoY) compared to our estimated \$4.2M. This was comprised of operation services revenue of \$2.8M (+114% YoY, 52% of revenue), technical services revenue of \$2.2M (+1% YoY), and BQE's share of JV revenue of \$0.4M (-59% YoY). Q4 is seasonally weaker for BQE so these results are highly impressive.
- Gross margin of 55% vs. our expectation of 45% and 41% in Q4/22 (note that this is reported as operating margin before depreciation).
- Adjusted EBITDA of \$541K (10% margin) vs. our estimate of \$600K and (\$0.1M) in Q4/22.
- Net income of \$249K or \$0.20/share vs. our estimate of \$400K or \$0.29/share and (\$244K) or (\$0.19/share) in Q4/22.

For 2023:

- Proportional revenue was \$22.7M (+20% YoY) vs. \$21.5M expected. This was comprised of \$8.3M operation services (+100% YoY, 36% of revenue), \$9.9M technical services (+23% YoY), and \$4.6M share of JV revenue.
- Gross margin was 50% vs. our estimate of 48% and 42% in 2022.
- Adjusted EBITDA came in at \$4.7M (20% margin) vs. our estimate of \$4.7M and \$3.1M (16% margin) in 2022.
- Net income of \$2.7M or \$2.12/share vs. our estimate of \$2.8M or \$2.22/share and \$1.2M or \$0.93/share in 2022.

	Q4/23A	Atrium Est.	YoY
Proportional Revenue (\$M)	\$5.4	\$4.2	+21%
Reported Revenue (\$M)	\$5.0	\$2.8	+45%
Gross Margin (%)	55%	45%	+1393 bps
Adj. EBITDA (\$M)	\$0.5	\$0.6	N/A
Adj. EBITDA Margin (%)	10%	14%	+1195 bps

Figure 1: Q4 Financials Summary

We would also like to inform investors that BQE will be attending the Planet MicroCap Showcase in Las Vegas from April 30th to May 2nd. BQE will be featured in a Fireside Q&A with Mathieu Martin from Rivemont MicroCap Fund on May 1st at 4:30PM PT. For more information, please visit Planet MicroCap [here](#).

Outlook

Management’s outlook included continued growth from its operation services segment as it reduces its focus on the sale of recovered metals and its selenium products gain traction. Management also highlighted a bad debt write-off from Minto Metals as the mine went into receivership (total bad debt expense of \$0.5M in 2023); however, this led to BQE’s contract with the Yukon Government that will more than cover the bad debts and ideally lead to future contracts. BQE also mentioned that while revenue from its JCC JV was poor in 2023, it expects an improvement moving forward; we remind readers that BQE’s share of revenue from JVs in China peaked at \$8.1M in 2021 vs. \$4.6M in 2023. Lastly, management stated that it has identified multiple opportunities to improve the efficiency of its operating expenses in 2024.

We remind readers that BQE has signed significant contracts over the past few months which will begin generating revenue in 2024 and 2025. This includes its newest selenium removal plant which was commissioned in Q3/23, new contracts for operations services for projects currently under construction, and the commissioning of its third SART plant in China in H1/25.

As mentioned in our preview note, metals prices have significantly increased since our initiation report with gold up 8%, silver up 14%, and copper up 16%. BQE’s China JV is highly levered to the copper price with every 10-cent increase in the copper price resulting in ~\$0.5M in additional annual JV income; copper is up 60 cents since our initiation. We reiterate that we believe we are in the early innings of a mining capex cycle where hundreds of new mines will be opened (especially in battery metals), playing into BQE’s value proposition.

Our Take

2023 represented a stellar year for BQE, posting its largest revenue and EBITDA in company history. EBITDA margins also expanded nicely in 2023 but still have room to improve to reach record levels (26% seen in 2021). Over the last five years, BQE has grown proportional revenue at an 18% CAGR and EBITDA at a 32% CAGR. ROE and ROIC remain at strong levels as well, posting an 18% ROE and 15% ROIC in 2023. We are expecting another record year for BQE in 2024 as its IP becomes increasingly valuable to mines and capital spending increases in the sector. Furthermore, technical services revenue was up 36% in 2023; this serves as a leading indicator for future operations services revenue.

Our estimates move slightly lower for Q1/24 due to the poor performance of the China JVs but move higher for the rest of 2024 and 2025 (see Figure 5). We would also like to highlight that insider Ting Hall recently purchased 231 shares (\$10.9K) in the open market at an average cost of \$47.27/share.

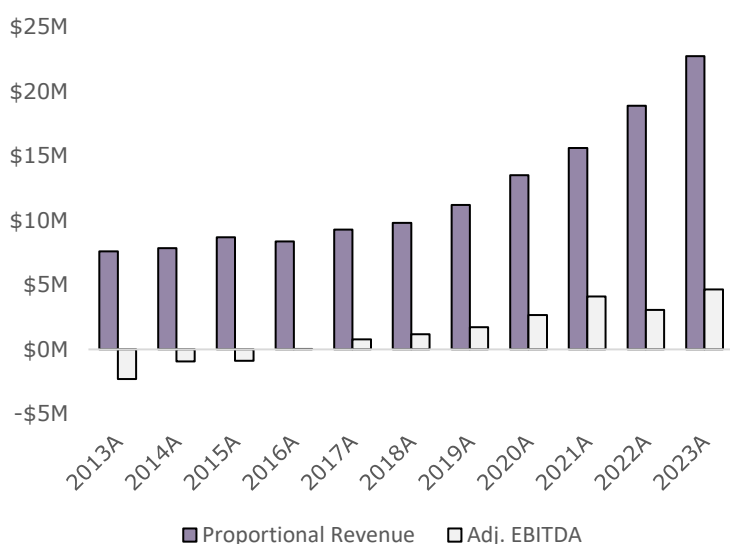


Figure 2: Revenue & EBITDA Growth

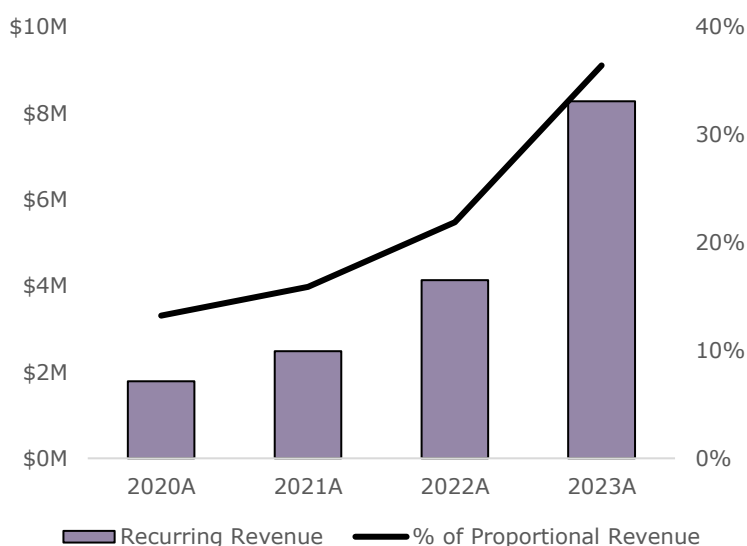


Figure 3: Recurring Revenue Improvement

Valuation

Following the strong performance in BQE stock, the valuation now sits at 11.0x/8.9x 2024E/2025E EBITDA compared to engineering service firms at 13.8x/12.5x and water treatment firms at 11.2x/10.1x. We are increasing our estimates moving forward (Figure 5) but still remain conservative to accommodate the quarterly lumpiness; we remain confident that BQE can grow on an annual basis, especially given the increased copper price and potential to sign “Company Maker” projects. Given the strong quarter and outlook, we are increasing our target multiple to 11.0x (previously 9.0x), increasing our target price to \$71.00/share (previously \$55.00/share). The new target price is equivalent to 14.5x 2025E earnings and a 7.7% FCF yield.

EBITDA Multiple Valuation	
2025E EBITDA (\$M)	\$7.9
<u>EV/EBITDA Multiple</u>	<u>11.0x</u>
Enterprise Value	\$86.7
(+) Cash	\$7.9
(-) Debt	\$1.9
Equity Value	\$92.7
Target Price (Rounded)	\$71.00
<i>Upside</i>	<i>22%</i>

Figure 4: Target Price Calculation

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 quite cheap compared to water treatment and engineering service firms.

Catalysts

- Quarterly Financial Results & Increasing Recurring Revenue – Ongoing
- New Contract Announcements – Ongoing
- Share Repurchases – 2024

Estimate Revisions

	Q1/24E		Q2/24E		2024E		2025E	
	New	Previous	New	Previous	New	Previous	New	Previous
Prop. Revenue (\$M)	\$3.8	\$4.1	\$6.3	\$6.2	\$24.6	\$23.7	\$27.3	\$25.8
Reported Revenue (\$M)	\$2.9	\$2.9	\$4.7	\$4.5	\$19.2	\$17.8	\$21.4	\$19.8
Gross Margin (%)	40%	40%	50%	50%	49%	49%	49%	49%
Adj. EBITDA (\$M)	\$0.6	\$0.6	\$1.8	\$1.7	\$6.3	\$6.2	\$7.9	\$7.2

Figure 5: Estimate Revisions

Tear Sheet

Market Data						Capital Structure					
Ticker	BQE:TSXV					Basic Shares Outstanding (M)	1.3				
Stock Price	\$58.00					Warrants (M)	0.0				
Rating	BUY					Options (M)	0.1				
Target Price	\$71.00					FD Shares (M)	1.3				
Upside	22%					FD ITM Shares (M)	1.3				
Market Cap (\$M)	\$76.0					Ownership					
Cash (\$M)	\$7.9					Management & Board	8%				
Debt (\$M)	\$1.9					Other Insiders	47%				
EV (\$M)	\$70.0					Retail	45%				

Financial Estimates												
	2022A	Q1/23A	Q2/23A	Q3/23A	Q4/23A	2023A	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E	2025E
Revenue (\$M)	12.2	2.7	4.2	6.2	5.0	18.1	2.9	4.7	6.9	4.8	19.2	21.4
Proportional Revenue (\$M)	18.9	3.6	5.8	8.0	5.4	22.7	3.8	6.3	8.5	6.0	24.6	27.3
% YoY	21%	1%	12%	40%	21%	20%	7%	9%	7%	11%	8%	11%
Gross Profit (\$M)	5.1	1.0	2.0	3.3	2.8	9.1	1.1	2.3	3.8	2.1	9.4	10.6
Gross Margin	42%	37%	48%	53%	55%	50%	40%	50%	55%	45%	49%	49%
Adj. EBITDA (\$M)	3.1	(0.1)	1.5	2.7	0.5	4.7	0.6	1.8	2.7	1.3	6.3	7.9
Adj. EBITDA Margin	16%	-2%	25%	34%	10%	20%	15%	28%	32%	21%	26%	29%
Net Income (\$M)	1.2	(0.3)	0.6	2.1	0.2	2.7	0.3	1.4	2.3	1.0	5.0	6.0
EPS (Basic)	0.93	(0.27)	0.49	1.71	0.20	2.12	0.27	1.11	1.82	0.76	3.96	4.79
FCFF (\$M)	(0.5)	(0.4)	(0.6)	0.6	1.0	0.5	1.2	1.0	2.0	0.3	4.5	6.7

Figure 6: Tear Sheet

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RATING	COVERED COMPANIES
BUY	13
HOLD	0
SELL	0

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